



Registered Company No. 4091100  
Registered Charity No. 1084952  
(Registered with the Homes and Communities Agency No. LH 4309)

## **EAST THAMES GROUP LIMITED**

# **REPORT AND FINANCIAL STATEMENTS**

**31 March 2014**



# **East Thames Group Limited**



## **Report and Financial statements for the year ended 31 March 2014**

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**Report and Financial statements for the year ended 31 March 2014****Board Members, Senior Staff, Auditors and Bankers****Board**

Chairman	Tina Tietjen
Senior Independent Director	Marianne Skelcher
Treasurer	Andrew Newell (Resigned as board member 31 <sup>st</sup> March 2014) Duncan Beardsley (Appointed as board member 1 <sup>st</sup> October 2013)
Other Members	Ashley West Shirley Watson (Resigned 1 <sup>st</sup> September 2014) Sheila Lewis (Resigned 6 <sup>th</sup> September 2013) Mehban Chowdery (Resigned 6 <sup>th</sup> September 2013) June Barnes

**Senior Staff**

Group Chief Executive	June Barnes
Director of Development and Property	Geoff Pearce (resigned 1 <sup>st</sup> January 2014) Trevor Burns - Interim (appointed 1 <sup>st</sup> January 2014)
Director of Corporate Resources	Simon Bass
Director of Communities and Neighbourhoods	Pamela Gardner (resigned 25 <sup>th</sup> October 2013) Olu Olanrewaju (appointed 2 <sup>nd</sup> January 2014)
Registered Office	29-35 West Ham Lane Stratford London E15 4PH
Auditors	Grant Thornton UK LLP Kingfisher House 1 Gilders Way St James Place Norwich Norfolk NR3 1UB
Bankers	Barclays Bank plc Business Banking 1 Churchill Place London E14 5HP

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# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Message from Group Chairman, Tina Tietjen

It's been the year that housing has made headlines. Our industry has finally found its way to the front pages. The story is simple. In London and Essex where we work, there are too few homes, and they cost too much for average earners. The impact on people, communities and the economy is significant and sobering.

As a housing association we set out to build homes at the right price in the right places which can boost local communities - homes that people want to live in and which we can continue to successfully manage for decades to come. We're still doing this and we are rightly proud of the quality of our new housing developments, but it's not always easy.

Just as our sector as a whole has faced a barrage of changes to regulation, funding, welfare and housing policy, we too have been making big changes. The changes have been right for our business but have not been without their disruption.

Since our transformation programme (Improving East Thames) started, we have reduced our operating costs by nearly £9m and set out our 30-year financial strategy. We want to continue to develop new homes and in the medium term we have the funds available to complete our five year development programme of 2,500 homes. We have also increased our operating surplus, maintained strong income collection and ensured consistent levels of funding for our care and support business in an increasingly tight and competitive market.

We've also been making important improvements to our governance and strengthening controls. In April last year we were disappointed to have our governance rating downgraded by the social housing regulator. The primary issue was related to our rent accounts where we had overcharged rent for about 150 households. We immediately apologised and refunded those residents affected and have since put in place more stringent processes to ensure compliance with regulation.

June Barnes, our current Chief Executive, is retiring in September after a long career in housing and 15 years as Chief Executive at East Thames. She has grown the Group significantly in that time, been a passionate leader and an unwavering advocate of social housing and regeneration. I would like to thank her for her tireless work and commitment. We have appointed Yvonne Arrowsmith as our new Chief Executive and the Board and I are looking forward to working with her to continue delivering our mission of making a positive and lasting contribution to the neighbourhoods where we work.



Tina Tietjen  
Group Chairman

## **Report and Financial statements for the year ended 31 March 2014**

### **Message from Group Chief Executive, June Barnes**

**Our philosophy has always been to do more than just housing and to help people improve their neighbourhoods and lives.**

In 2013 we put in place a new strategic plan which sets out our ambitions for the next three years. Our most important priority is to help our residents cope with welfare reform and the changes which will affect their lives. Our second aim is to support the regeneration of east London and Essex, an area where we have focused our work for the past 35 years. Lastly, and underpinning the first two, is our aim to better manage our business and sustain growth.

One of our most important achievements this year has been to support the 700 East Thames residents directly affected by welfare reform. We've reached these, plus a further 660 residents with our welfare benefit advice; supported and incentivised 58 residents to downsize to a smaller home; and targeted our employment support at residents affected by welfare reform.

Our employment programmes and the support they receive from our partners have continued to make a huge difference. In total we helped 221 people back into work through our various work programmes, including our construction courses, mentoring and work experience scheme and a programme specifically for young east Londoners funded by Barclays Bank.

Naturally managing our homes to a high standard is always the number one priority for our residents. At the start of the financial year we entered into a new long term strategic partnership with Interserve Facilities Management. We have a very clear vision for how this service will work, increasing our planned maintenance programme and offering a range of enhanced services for residents.

The first year of this service has involved a lot of work and we had some early problems which meant residents waiting longer than usual for a repair appointment, and a larger number of missed appointments than normal. We have invested a lot of time and resources in the second half of this year to get this service right and have started to see improvements as a result. In the coming year we will be enhancing our planned programme and other services as we had planned.

Our work to regenerate east London and Essex has seen us complete 500 new homes and start another 402. We finished the £220m regeneration of the Ocean Estate in Tower Hamlets and started work to regenerate New Union Wharf estate in Tower Hamlets. We also opened two new care schemes: Grove Farm in Redbridge for residents with mental health support needs and our brand new retirement community, Dreywood Court in Gidea Park, Havering. The homes have been well received by new residents with satisfaction levels over 85% and we've been delighted to have this work recognised by the industry with wins at the National Housing Awards, The Sunday Times British Homes Awards, Build Quality Awards and Inside Housing's Top 50 UK Affordable Housing Developments.

This will be my final message as Chief Executive of East Thames, as I will be retiring at the end of September 2014. I would like to thank the East Thames Board and our fantastic team of staff, both past and present, who have helped shape the organisation. East Thames is an organisation driven by values and a commitment to making people's lives better. I am extremely privileged to have led this organisation and to have worked with so many other people and organisations who share a commitment to making east London and Essex better places to live.

  
**June Barnes**  
**Chief Executive**

## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review

#### About East Thames

East Thames Group is one of the largest providers of affordable housing in east London and Essex. Our core activities are the development and management of affordable housing. We own and manage more than 14,000 homes in east London and Essex.

Our mission is to make a positive and lasting contribution to the neighbourhoods in which we work.

We do this by:

- Providing affordable homes for people in east London and Essex. This includes social rented homes and a range of affordable rented and home ownership options.
- Building quality new homes in east London and Essex and improving neighbourhoods.
- Providing care and supported accommodation for people with more intensive needs, including young people who want to improve their life chances, elderly people, people with mental health needs and learning disabilities and women fleeing domestic violence.
- Offering a range of programmes to help people get back into work or training, as well as initiatives to strengthen communities.

We know that providing a safe and well maintained home is the most important part of our work, but our philosophy has always been to do more than just housing and to help people improve their neighbourhoods and their lives.

In 2013, we put a new three year strategic plan in place to support the delivery of the Group's mission to make a positive and lasting contribution to the neighbourhoods in which we work. The plan has been developed by identifying the needs of our residents and customers, understanding the priorities of our partners and funders and our analysis of the challenges and opportunities within our sector. The plan sets out three key strategic objectives for the period from 2013 – 2016:

Strategic aim 1: helping residents cope with a difficult external environment

Strategic aim 2: supporting the regeneration of east London and Essex

Strategic aim 3: Improving our capacity to manage our business and sustain growth

Over the next few pages, you'll find a summary of our achievements against these strategic aims.

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Strategic Report including the Operating and Financial Review (continued)**

#### **Strategic aim 1: helping residents cope with a difficult external environment**

Supporting our residents and customers, and providing reliable and valued services, has always been our number one priority. Many of our residents have been affected by welfare reform, unemployment in our local area remains higher than the London average and the need for quality landlord services remains ever present. Over the past year, some of our key achievements have included:

- Helping our residents deal with changes to welfare benefits which were implemented in April 2013. Since then our focus has been on helping our residents access additional benefits and grants. We have provided advice and financial support to help residents downsize. In addition, we are now automatically referring residents who are out of work and in rent arrears to our employment and training team.
- Helping 221 local people find jobs through our employment and training programme. This year we have delivered 944 employability workshops and training sessions and set 96 people up with mentors from local businesses.
- Working closely with partners including Barclays Bank and the London Borough of Barking and Dagenham to deliver employment support to people who need it the most, including young people not in employment, education or training, women in social housing and people who have been given a mental health diagnosis.
- Helping 748 older people build their social, emotional and physical health through the Stay Well Healthy Living Network. We receive funding from Newham Council to co-ordinate the network and work with local community centres and groups to organise activities and classes to help older people remain independent and healthy for longer.
- 21 - The number of young people who have received counselling from psychology students as part of our partnership with the University of East London.
- 80% - The percentage of social enterprises based at our business facility Starting Point which are still delivering a service in the borough 12 months after leaving.
- 140 - The number of women we have supported to find work or training through our Women in Social Housing project, run in partnership with Catalyst Housing and London Councils.
- 48 - The number of apprenticeships we have set up with small and medium businesses in east London as part of the Barclays funded Bridges into Work project
- 87% - The percentage of people who say their lives have improved after taking part in our community activities and training.
- 20% - The percentage of residents who are satisfied with our complaints process
- 68% - The percentage of residents who are satisfied with our repairs service
- 79% - The percentage of residents who moved on successfully from our care homes

Our performance in handling complaints has been affected by the increased level of dissatisfaction with the repairs service this year, which we know is the number one priority for many of our residents. The partnership is in the early stages and the service has dipped in its first year. This is not unusual for new maintenance contracts which can take a while to fully settle in.

We have worked extremely closely with Interserve to improve the service and improve our response to residents' complaints. We are already starting to see improvements in a number of key areas and the number of complaints is reducing. Interserve has committed significant additional resources to help deal with the backlog of work, whilst improving the way it manages new work coming through each day. There is great value in the long term strategic relationship we have designed, not least in supporting our future asset investment decisions and planned programmes. Our partnership approach will enable us to achieve desired efficiencies and will ensure the long term quality of our homes and neighbourhoods for current and future generations.

## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

#### Strategic aim 2: supporting the regeneration of east London and Essex

The demand for quality, affordable homes remains strong in east London and Essex and we have continued to deliver developments which have supported local neighbourhoods to thrive. Our strong partnerships, especially with local authorities have been integral to this and we will continue to work with partners to do all we can to build fantastic homes. In the past year, some of our key achievements have included:

- Successfully completing a £220m regeneration programme on the Ocean Estate in Stepney. The four year project created more than 800 new homes and refurbished more than 1,000 council homes. In early 2014, we secured planning consent for an additional residential development on the estate.
- Being appointed to work in partnership with Barking and Dagenham Council on the regeneration of the borough's largest housing estate, Gascoigne. The project is expected to deliver over 1,400 – 1,500 new homes.
- Starting work on the regeneration of New Union Wharf estate on the Isle of Dogs. This is an East Thames estate and the investment will see 189 homes replaced with 399 modern, energy efficient homes, available for social rent, shared ownership, and outright sale.
- Securing planning permission for a residential led development on the Chobham Farm site in Stratford. The first phase of the development, which began in Spring 2014, will deliver 173 residential units. Once complete Chobham Farm will create a new family neighbourhood of more than 1,000 high quality homes.
- Completing three years' work transforming disused, derelict garage sites in Havering into 59 family homes.
- Launching a range of new developments including:
  - Grove Farm in Redbridge which consists of 112 affordable homes and a care scheme for those with mental health needs
  - Hammond Court in Waltham Forest which replaced a rundown 1970s estate with 43 new homes
  - Watermark, the third and final phase of our Papermill Place development in Walthamstow consisting of 82 homes
  - Fairwater in Tower Hamlets which saw 36 run down apartments replaced with 56 brand new homes for rent, shared ownership and sale
  - Dreywood Court, a new retirement community in Havering which offers 98 high quality homes along with support services for residents aged 55 and over.
- Achieving recognition for our development and regeneration work at a number of industry awards including: the National Housing Awards, The Sunday Times British Homes Awards, Build Quality Awards and Inside Housing's Top 50 UK Affordable Housing Developments.
- 500 - The number of new homes we completed during 2013/14 in Tower Hamlets, Waltham Forest, Havering and Redbridge.
- 271 - The number of new homes we started during 2013/14.
- 85% - The percentage of residents satisfied with our new homes.
- 80% - The percentage of homes at Fairwater on the Isle of Dogs which were reserved within one week of the development's launch.
- 17 – The number of people who went into full time employment after completing our construction skills training course, Construct your Career.

# East Thames Group Limited

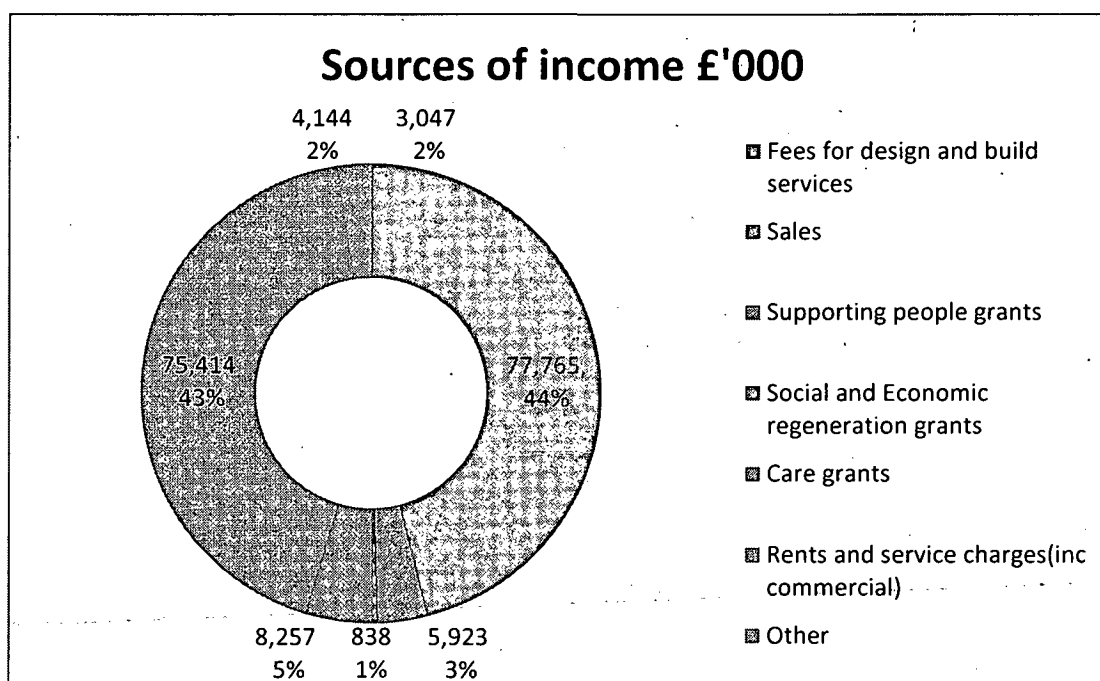
## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

#### Strategic aim 3: Improving our capacity to manage our business and sustain growth

This last year has seen us build on the success of our transformation programme which came to an end at the beginning of 2013/14. We have strengthened our bottom line and have been able to plough our surpluses back into the business, investing in new homes and services for our customers. Over the past year, some of our key achievements have included:

- Achieving a surplus of £17m, the best in the Group's 35 year history, after implementing cost reduction measures initiated by the transformation programme. The outstanding performance of our estate regeneration of Ocean Estate in East London also contributed to this year's financial success.
- Implementing a new value for money strategy which sets out our long-term approach to providing services and investment in neighbourhoods in a sustainable way.
- Achieving the Investors in People Bronze Award in recognition of the Group's good practice in people management and development. The award demonstrates our commitment to staff engagement, quality people management and continuous improvement. The Bronze award is achieved by only 5% of Investors in People accredited organisations.
- Maintaining our Best Companies 'Ones to Watch' status for a second year in a row. All staff members were asked to take part in the survey, answering questions on topics such as leadership, development opportunities and wellbeing. East Thames achieved an overall staff satisfaction score of 639 out of 1,000, a small improvement on last year's results.
- 3.4% - Our rent arrears as a percentage of our total rental income.
- 282 - The number of new homes sold. 172 of these were for outright sale, 110 were for shared ownership.
- 101 - The number of shared owners who have staircased, 90 of whom staircased to 100% meaning they now own their home and pay no rent.
- £4.2m - Surplus generated through shared ownership sales.
- £25.4m - Surplus generated through outright sales.
- £2.6m - Total income lost due to void properties.



# East Thames Group Limited

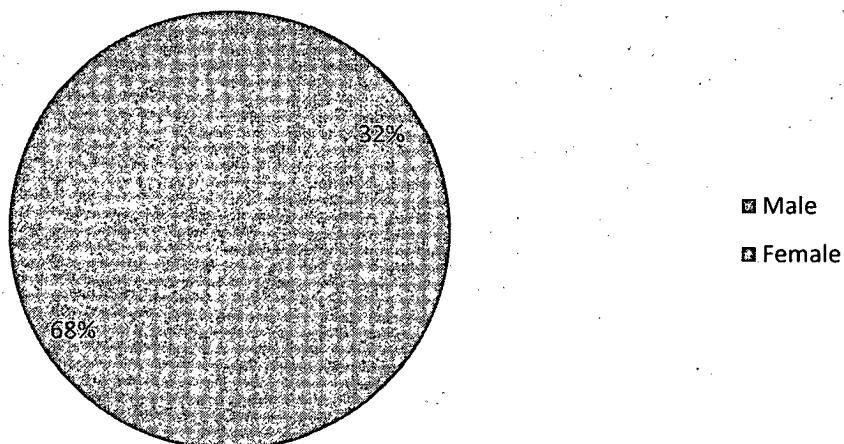
## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

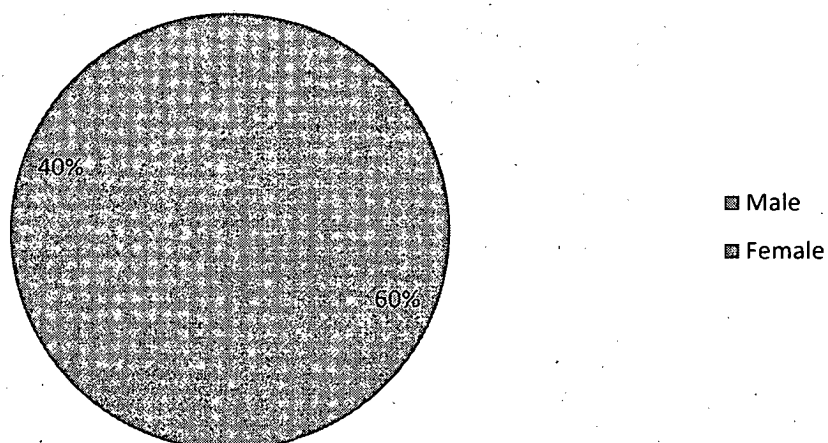
#### Our people

East Thames is a people business; people are at the heart of our work and are our most important resource, so it's vital for us to invest in our staff. It's also important for us to make East Thames a great place to work, for everyone, which is why we're committed to equality, diversity and the continuous development of our staff.

#### Gender split of East Thames staff



#### Gender split of East Thames leadership team

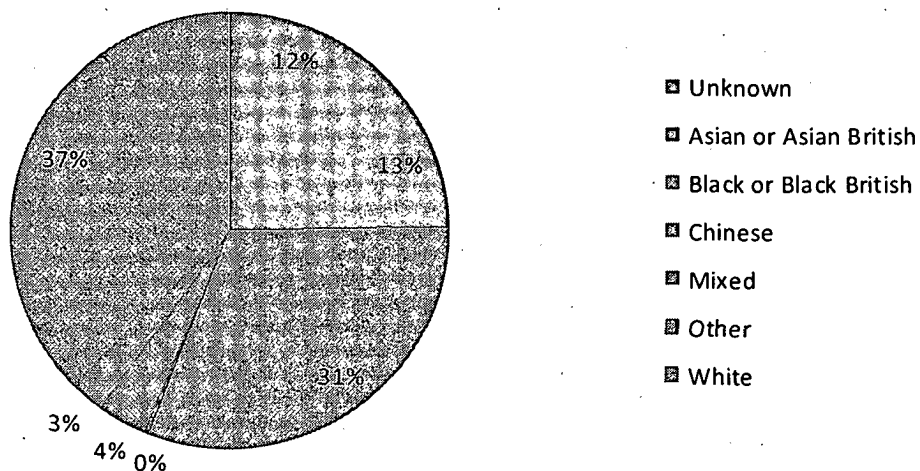


# East Thames Group Limited.

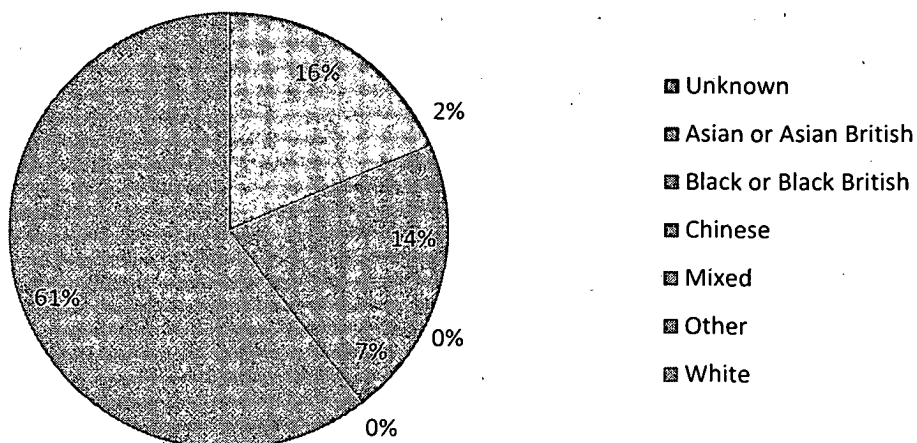
## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

#### Ethnicity of East Thames staff



#### Ethnicity of East Thames leadership



## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

#### Corporate social responsibility

As an organisation we are determined to make a positive and lasting difference and to see local people reach their full potential. It's important for us that we lead by example and we take an active role in supporting our local communities. That's why we supplement the donations and funding we receive with additional money, taken from our annual surpluses. In 2013/14, in addition to £768k of external grant funding, East Thames contributed £1.35m to fund the delivery of programmes which support employment, social enterprise and community cohesion.

Our desire to make a difference in our local communities is a sentiment that's shared by our staff: in our most recent Best Companies survey, 86% of staff said they believe we make a valuable contribution and 76% said we have a social conscience.

#### *Making our partnerships work for everyone*

In 2013/14 we revised our framework agreement with contractors, architects and consultants to include a new employment and training clause. The clause enables us to stipulate employment support for local people provided as part of the contract.

We work particularly closely with building contractors to secure work experience and apprenticeships for our residents and other local people.

- In 2013/14 we completed our regeneration of the Ocean Estate in Stepney Green, Tower Hamlets. With our help, our construction partners employed 35 apprentices on the Ocean Estate site. We also helped 55 unemployed people in the borough achieve construction qualifications through our Construct your Career programme.
- As part of our regeneration of the Gascoigne Estate in Barking, we set up a partnership with a local school, Eastbury Comprehensive, to enable our staff to share knowledge with staff and students. Members of staff from across the business attended the school's careers fair in January 2014 to talk to the students about careers in HR, marketing, IT and care and support as well as giving the pupils a chance to see our plans for the regeneration of their estate.

#### *Work experience at East Thames*

Experience is invaluable for people who are looking for work, particularly when they've been unemployed for some time. As well as working with partners to provide work experience we provide placements at our own offices. Last year 77 local people completed two week work experience placements at East Thames, as part of our Routes to Work programme, with seven of them subsequently offered full time roles at East Thames.

Further employment support includes our participation in Tower Hamlets graduate programme. Last year five graduates completed a six month paid placement with us as part of this programme, with one graduate joining East Thames permanently as a policy officer.

Finally, we also offer long term volunteering. All the participants are provided with extensive support, many then go into our Routes to Work programme and some have been offered permanent roles at East Thames. Last year we placed 22 volunteers across the business, at our head office and in our care schemes. We give all volunteers free training and professional support, and pay their travel expenses.

#### *Donations*

The group made no charitable or political donations in the year (2013: £nil).

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

#### Business and financial review

##### Financial review

In 2013/14 East Thames achieved its best surplus to date following a solid outright sales performance, allied to a similarly strong set of figures for shared ownership sales. Performance of our underlying core activities was also above the previous year, although a number of one-off events, along with a change to the policy relating to treatment of grant on components, meant that the underlying position was not fully comparable with previous years. The post-tax Group surplus was £17.0m (2012/13: £0.4m) on a group turnover of £175.4m (2012/13: £109.4m).

The following table is a summary of the results for the last five years:-

Group highlights- five year summary for the year ended 31 March	2014	2013 Restated*	2012 Restated*	2011 Restated*	2010 Restated*
	£'000	£'000	£'000	£'000	£'000
Income and expenditure					
Group turnover	175,388	109,373	93,842	96,292	107,434
Turnover on continuing activities(inc joint venture, exc sales)	108,100	99,613	97,255	91,945	92,830
Turnover on properties for sale	77,765	15,005	1,619	5,800	14,604
Less: Turnover from joint venture	(10,477)	(5,245)	(5,032)	(667)	-
Cost of sales	(47,309)	(10,748)	(1,365)	(5,033)	(14,953)
Housing depreciation	(8,845)	(7,140)	(5,962)	(5,682)	(5,449)
Operating costs	(71,612)	(71,864)	(69,966)	(69,402)	(68,840)
<b>Operating surplus</b>	<b>47,622</b>	<b>19,621</b>	<b>16,549</b>	<b>16,175</b>	<b>18,192</b>
Share of operating surplus/(deficit) in joint venture	5,334	3,277	4,024	653	(17)
Net interest payable excl joint venture	(26,643)	(21,745)	(18,159)	(19,781)	(18,995)
Breakage costs	(9,097)	-	-	-	-
Share of joint venture interest	(3,596)	(3,356)	(3,214)	(650)	-
Income distribution from joint venture	400	-	-	-	-
Surplus on sale of assets	5,541	2,932	2,441	4,820	3,976
<b>Surplus before tax</b>	<b>19,561</b>	<b>729</b>	<b>1,641</b>	<b>1,217</b>	<b>3,156</b>
Tax	(2,524)	(342)	(38)	(56)	(171)
<b>Surplus for the year</b>	<b>17,037</b>	<b>387</b>	<b>1,603</b>	<b>1,161</b>	<b>2,985</b>
<b>Balance sheet</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Housing properties at valuation	966,663	915,313	809,725	767,430	744,865
Other tangible fixed assets	26,469	28,219	36,768	38,223	40,348

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

Group highlights- five year summary for the year ended 31 March	2014	2013 Restated*	2012 Restated*	2011 Restated*	2010 Restated*
Investments	24,790	25,495	18,799	14,837	16,342
Net current assets/(liabilities)	48,810	61,676	21,853	(24,963)	5,582
<b>Total assets less current liabilities</b>	<b>1,066,732</b>	<b>1,030,703</b>	<b>887,145</b>	<b>795,527</b>	<b>807,137</b>
Long term creditors	553,316	578,162	515,205	440,937	473,451
Provisions and other long term liabilities	515	1,041	648	576	633
Reserves	512,901	451,500	371,292	354,014	333,053
<b>Total funding</b>	<b>1,066,732</b>	<b>1,030,703</b>	<b>887,145</b>	<b>795,527</b>	<b>807,137</b>
<b>Accommodation figures: Total housing stock owned or managed at year end</b>	<b>14,011</b>	<b>13,390</b>	<b>12,743</b>	<b>12,828</b>	<b>12,828</b>
Operating margin – social housing lettings	31.4%	29.8%	27.1%	20.3%	24.2%
Operating margin - all activities	27.2%	17.9%	17.6%	16.8%	16.9%
Interest cover - excluding asset sales	133.2%	91.6%	91.1%	81.8%	95.8%
Interest cover - including asset sales	148.7%	105.1%	104.6%	106.1%	116.7%
Cash interest cover - including asset sales after adding back housing depreciation	173.5%	136.6%	137.4%	134.9%	145.4%
Net gearing	49.9%	54.0%	55.0%	51.5%	55.6%
Operating cost per property managed for social housing lettings	£4,713	£4,669	£4,921	£5,538	£5,324

\*The restated balances represent:

- The impact of adopting component accounting
- The impact of a change to the accounting policy on allocation of social housing grant to components. See Note 34 for detail

\*Accommodation figures have been restated to only include units of accommodation in management resulting in changes to costs per property managed.

### Development and performance of the Group's business during the financial year

The pre-tax surplus for the year was £19.6m compared to £0.7m in the previous year. Aside from excellent sales results, the numbers also reflect the first year of our new maintenance partnership, which resulted in lower costs as well as a reduction in the volume of activity of our care and support arm and an increase in housing depreciation.

We have benefited during the year from a number of factors that have led to a much better performance than in previous years. East Thames' two year transformation programme, the Improving East Thames (IET) programme, which commenced in 2011, concluded early in the year and has resulted in significant costs being removed from the Group's cost base. We had targeted a £9.3m reduction by the end of the financial year and have achieved £8.8m of this. The shortfall reflects a combination of further savings yet to be achieved, alongside additional

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Strategic Report including the Operating and Financial Review (continued)**

costs arising from growth in the number of units owned and managed, as well as additional costs in new areas which had not been anticipated when the initial target was set. Our plans for 2014/15 look to further savings. In tandem, we are investigating how to achieve staff productivity by upgrading the tools used on a daily basis. This area was deferred under the transformation programme and it is now time to reconsider the benefits and opportunities that this will bring.

We manage the Group activities as separate business streams with back office and support activities provided centrally in order to deliver consistency of service and efficiencies arising from economies of scale. Development and performance of the key business streams over the year was as follows:

#### ***Social housing***

- General housing (including intermediate rented units) saw its operating surplus increase by £2.0m in the year, primarily caused by a large drop in planned maintenance and the revenue element of major repairs. This is due to lower costs arising from the partnership with Interserve, as well as the need to assess and evaluate our stock portfolio as part of our forthcoming revised asset management strategy. The increase, has however, been partly offset by the increase in depreciation also noted earlier. Routine maintenance was up by £1m mainly due to additional dilapidation costs following the back to back sale of a leased scheme where the freeholder went into administration. Welfare reform has only had a marginal impact this year due to the measures taken to work with residents to signpost them to those support arrangements which do still remain in place, as well as our own employment initiatives. Stock under management has grown by 3.2% (248 units) reflecting the success of our development programme.
- Care and support (consisting of foyers, supported housing and residential care homes) saw income up by £0.7m with broadly similar costs, resulting in a surplus up from £0.9m last year to £1.7m this year. The number of units was slightly down on the previous year, reflecting the challenging market within which these services are operated.
- Shared ownership and 'rent now, buy later' properties have seen a slight increase in the number of units under management, evident in rental income broadly similar to the previous year. Service charge costs increased as did a number of other cost headings, mainly on the 'rent now, buy later' units.
- Affordable rent has seen an increase in units under management of 52% although the actual income and spend growth reflects when the units were actually handed over in this and previous years. This is a small and growing income stream and so timing differences may have a material effect in early years.

#### ***Other social housing activities***

These are broadly comparable with the previous year, other than in respect of first tranche shared ownership sales which have had an excellent year with 110 units sold, reflecting a combination of a strong housing market and an excellent product. Regeneration and development services saw a drop from a £1.7m surplus to a £0.4m deficit due to a reduced level of development spend in the 2013/14 year. In addition, we wrote off £1.7m in impairment charges in 12/13 with no corresponding costs this year.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

#### *Non-social housing activities*

The main changes here reflect our excellent performance in outright sales, where 172 units were sold, and the absence of any need for an impairment provision on our investment property portfolio.

#### *Overall group performance*

We have used the following key measures to manage our financial position this year. In future we will expand these, with further detail on the proposed key measures provided in our statement on value for money later in the report. The key measures are:

- operating margin, which measures overall profitability of our business
- cash interest cover, which measures our ability to service our loans from operating cash flow
- gearing, which measures how much we have borrowed relative to the value of our assets

The results for the year, alongside the five year results as a whole, show a generally continuous improvement in operating margin since 2011 and interest cover and gearing since 2012. The results reflect the impact of the transformation programme, alongside other value for money initiatives and growth in the number of units owned and under management since 2012.

#### *Operating margin*

A surplus of £19.9m was achieved from outright sales (2012/13:£1.5m) and £3.4m from first tranche sales of shared ownership properties (2012/13: £0.2m).

The operating surplus from social housing lettings increased from £24.3m in 2012/13 to £27.5m in 2013/14. The underlying margin on recurring operational activities (excluding depreciation) also increased to 35.1% from 32.9%. Turnover from all types of social housing lettings was up by £5.7m whilst operating costs increased by £2.6m. Of this, £2.0m was due to a change in policy to cease allocating housing grant to components, leading to a higher depreciation charge. This is covered further in note 34 to the accounts. Planned maintenance costs were down from £4.9m to £1.5m in the year, mainly due to our new maintenance contractor undertaking an initial stock condition assessment of our housing estate in order to develop a complete asset management strategy. We anticipate seeing expenditure increase in subsequent years once this assessment is complete. In the meantime, spend this year has been largely limited to Decent Homes investment and Statutory Compliance.

Management costs per unit (excluding housing depreciation) were 3.5% greater than 2012/13 reflecting a combination of much higher insurance premiums, legal costs and council tax on empty properties, more than offsetting the impact of the transformation programme and our work on improving value for money in this area. Operating costs per property managed for social lettings increased by 0.9% from the previous year, as shown in the table above.

#### *Cash interest cover*

Cash interest cover of 173.5% has shown a very large increase over the previous year (136.6%) reflecting the high level of sales alongside the impact of the cost saving measures noted above.

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Strategic Report including the Operating and Financial Review (continued)**

#### ***Gearing***

Gearing has reduced from 54.0% to 53% and is significantly below both our internal target of 65% and the limit imposed by our lenders of 70%. Note that the lenders' covenants are based on East Homes results. East Homes gearing as at 31<sup>st</sup> March 2014 was 53%.

#### ***Other factors***

Other factors influencing the results for the year were as follows:

- Interest payable amounted to £26.6m, an increase of £4.9m compared with the previous year, reflecting the development programme and the effect, after one full year, of the restructured financing put in place in 2012/13.
- A £9.1m charge was incurred in order to restructure £110m of swaps removing the cancellable element and thus providing much greater certainty over future interest rates.
- A surplus on asset sales of £5.5m (2012/13 £2.9m), largely from shared ownership leaseholders acquiring further equity in their home.

#### ***The position of the company at year end***

- Total assets less current liabilities were £1.1bn at the year end, marginally above the previous year end.
- Housing assets are shown at valuation with the impact of revaluation amounting to £44.1m, mainly reflecting the addition of 248 new affordable homes and 98 other units.
- The total amount invested in new affordable homes was £61.4m (2012/13:£84.2m), partly funded by social housing grant receipts of £10.1m (2012/13:£25.6m) and utilisation of £1.6m of the recycled capital grant fund, the balance being funded from operational cashflow and receipts from housing property sales.
- The recycled capital grant fund stood at £10.6m (2012:13:£8.2m),
- The strong cashflow in excess of immediate investment needs also resulted in a reduction in net debt of £26.3m during the year.
- Net current assets were £48.8m (2012/13: £61.7m), a decrease of £13.1m over the previous year. This variance reflects a large reduction in stock held for sale to £30.0m (a decrease of £14.7m over the previous year) and debtors (down from £29.3m to £10.6m) and an increase in cash of £22.3m. Creditors were £1.8m up at £42.5m. The reduction in stock reflects our continuing investment in mixed tenure programmes, including shared ownership and homes for sale, to support our continued investment in affordable homes. A number of schemes, including the Ocean Estate on Stepney, were handed over and have sold well with values exceeding expectations.
- Revenue reserves have increased from £14.2m to £33.5m after accounting for the change in accounting policy regarding housing grant noted above and explained further in note 34.
- We sold our former offices in Tramway Avenue, achieving a net surplus on disposal of £0.3m.
- Our investment in Triathlon Homes, the affordable housing element of the former Athletes Village, increased in overall value to the Group from £3.0m to £5.0m. During the latter part of the year, properties started to be handed over resulting in both sales of shared ownership properties and lettings of social and intermediate rent units. This is a long term investment and one that will create a positive return for the Group.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

#### Value for money

Value for money has been a long-standing imperative for East Thames as we have sought to maximise our provision of affordable and quality services whilst maintaining our development capacity at a time of great housing need. For us, value for money means delivering the objectives set out in our 2013-16 strategic plan for the best possible cost and maximum benefit.

#### *Our strategic approach to value for money*

A year ago, we started a comprehensive review to drive real change in our strategic approach to value for money and to ensure it is at the heart of everything we do. In our value for money statement, published on our website in September 2013, we were clear that we needed to improve our understanding of what value for money means for us and for our customers.

We committed to:

- Conduct a wide consultation exercise with residents, stakeholders and staff to better understand their perceptions of value for money as well as their needs and priorities.
- Set priorities for improvement in relation to cost, quality and performance and develop metrics and targets to measure our success.
- Update our value for money strategy and develop an action plan to drive the change.

These objectives have all been met. As part of the strategy review, we carried out a self-assessment of our business practices against value for money criteria. This information, together with a detailed analysis of our financial and benchmarking position, enabled our Board to set four top level value for money priorities and associated metrics for the next three years.

These are:

1. Deliver consistent and reliable services to increase customer satisfaction with our services.
2. Reduce our operating cost per social housing unit by increasing our productivity.
3. Reduce our overhead costs per unit.
4. Increase the return on our property assets.

These priorities are the headlines only. Using feedback from residents, staff and stakeholders we have developed a comprehensive action plan, which sets out the improvements we want to deliver; for example to make value for money an integral part of our business planning and continuous improvement processes and to engage colleagues and residents in our objectives. You can view the strategy and action plan on our website at [www.east-thames.co.uk/financial-statements](http://www.east-thames.co.uk/financial-statements).

#### *Assessment of our achievements*

We are measuring the success of our value for money initiatives against a range of objectives, shown on the following pages, as well as in the context of our strategic aims. You will find our achievements against each of the strategic aims on pages 6 to 8.

#### The performance of our property assets - Financial return on our stock

We have carried out an assessment of the returns on our stock. Understanding the operating margins helps us decide how to invest in specific tenure types and allows us to identify areas for review and areas that present further value for money improvement opportunities. We will continue to prepare this assessment in future years to provide comparative analysis.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

#### 2013/14 operating returns

Tenure type	Valuation <sup>1</sup>	Book value <sup>2</sup>	Turnover	Operating surplus	Operating margin	Gross yield	Net yield
	£m	£m	£m	£m	%	%	%
Housing accommodation	633.8	301.8	49.1	18.7	38.1%	7.7%	2.9%
Foyers	31.6	9.1	3.8	0.9	23.2%	12.2%	2.8%
Supported housing	63.8	18.2	12.7	1.3	10.4%	19.9%	2.1%
Residential care homes	4.6	4.8	4.9	(0.5)	(10.9%)	104.6%	(11.4%)
Shared ownership	174.3	139.1	15.1	5.6	36.9%	8.8%	3.2%
Affordable rent <sup>3</sup>	17.3	16.1	1.8	1.5	83.4%	10.5%	8.7%
<b>Total social housing lettings</b>	<b>925.4</b>	<b>489.1</b>	<b>87.4</b>	<b>27.5</b>	<b>31.4%</b>	<b>9.5%</b>	<b>3.0%</b>
Commercial property	19.6	19.2	0.9	0.1	12.4%	4.5%	0.6%
<b>Total social housing and commercial</b>	<b>945.0</b>	<b>509.5</b>	<b>88.3</b>	<b>27.6</b>	<b>31.2%</b>	<b>9.4%</b>	<b>2.9%</b>

1 – Existing use value for social housing properties; Open market value for commercial properties

2 – Historic cost

3 – This tenure type is growing from a low base and the high operating margin is expected to decline in future years

Note: market rent properties do not comprise a material part of the portfolio

As this is the first time we have undertaken this exercise we are still assessing the lessons to be learned. The work being undertaken on our asset management strategy will also inform future returns, with emphasis on properties with high maintenance costs and those with a high open market value. Given our stock location, and its relatively low market value in London terms, we anticipate focusing on stock with high maintenance costs.

#### The performance of our property assets - Social return on our stock

The provision of social and affordable housing is central to our business. A key measure of our success is the Social Dividend, i.e. the difference between market rents and the rents paid by our tenants. At the end of March 2014 our average gross rent per property (inclusive of service charge) was £131 a week compared to an equivalent market rent of £263 a week. This saving for our tenants of almost 50% of market rents amounts to circa £70m of Social Dividends in the year to March 2014. The level of saving amounts to an annual return of over 13% of the grant funding we receive for these homes.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

#### Social return by tenure type and location

Tenure	Number of units	Social benefit as % of grant based on local housing allowance	Social benefit as % of grant based on median market rent
Social rents	7,827	11.8%	16.1%
Affordable rent	201	3.8%	6.5%
Intermediate rent	403	2.8%	6.2%
Sheltered housing	396	3.5%	5.6%
'Rent now, buy later'	401	1.7%	5.0%
Supported housing	1,355	1.9%	4.0%
	<b>10,583</b>	<b>9.3%</b>	<b>13.1%</b>

Location	Number of units	Social benefit as % of grant based on local housing allowance	Social benefit as % of grant based on median market rent
London Borough of Tower Hamlets	1645	14.0%	22.1%
London Borough of Newham	4,456	11.3%	15.1%
London Borough of Waltham Forest	1712	10.0%	12.2%
London Borough of Redbridge	1128	4.9%	8.1%
London Borough of Barking and Dagenham	657	3.6%	5.0%
Other including Essex	985	2.8%	4.2%
	<b>10,583</b>	<b>9.3%</b>	<b>13.1%</b>

#### The performance of our property assets - Asset management

2013/14 was the first year of East Thames' strategic partnership with Interserve. During this year, Interserve's routine maintenance work and a number of stock condition surveys have helped Interserve to develop a good understanding of our stock. The stock condition surveys carried out to date have provided us with up to date data on approximately 50% of our stock. We are aiming to have data on 100% of stock by the end of 2015/16. This will inform our planned maintenance programme and asset management plans going forward.

Other decisions made in 2013/14 have helped us to make better use of our stock:

- Our property options appraisal panel has identified properties from our residential portfolio which are no longer fit-for-purpose and are uneconomic to maintain; it is anticipated that the disposal of these 12 units will enable us to raise £3m net proceeds. We see this as an interim approach whilst we develop and implement our new asset management strategy from 2014/15.
- We are continuing to implement the conversion and disposal of Rent to Buy (formerly called 'rent now, buy later') units and intermediate market rent units through the shared ownership sales programme, to reduce void loss and provide opportunities for people wishing to become homeowners. In 2013/14, we converted 13 vacant rent to buy units to shared ownership, thus generating a £533k surplus, exceeding our target of £290k. We have plans to convert an additional 25 units following a robust options appraisal.

Investing in our stock and improving the balance between planned and reactive maintenance is a key priority for us. From 2014/15 we will build on our property strategy by establishing an

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

asset management strategy. We will also implement the model and systems we need to make more sophisticated decisions about how we use our existing stock.

We understand value for money is not just about achieving robust financial returns and increasing efficiency. East Thames is committed to its mission and social purpose to make a difference to the neighbourhoods in which we work. This is why we invest in our communities and in supporting our residents. In 2014/15, we are reviewing our social and economic regeneration strategy with a view to better target our interventions and assess their impact. To do so, we will be adopting the Housing Association Community Trust (HACT) toolkit for measuring social impact. In future, we will incorporate an analysis on social value in our value for money self-assessment and regularly report to stakeholders on social value and environmental impact.

### Efficient business and improvement plans – Comparing our costs and performance

We use benchmarking information from Housemark to understand the performance and cost of delivering our services and compare these with other organisations. As shown in the examples below, this has helped us identify where we vary from the best performers and to understand why.

We have not yet completed the comparison of our 2013/14 costs with Housemark, but we know that our record of achievement in relation to value for money over the past year has been mixed.

**Table 1: 2012/13 costs per unit compared with G15**

Indicator	East Thames 2012/13	East Thames 2011/12	G15 2012/13 upper quartile	G15 2012/13 median
Total cost per property of housing management	£502	£505	£481	£547
Total cost per property of major works and cyclical maintenance	£991	£1,025	£1,194	£1,461
Total cost per property of responsive repairs and void works	£934	£861	£800	£815
Overhead costs as percentage of turnover	16%	15.9%	10%	11.6%

**Notes:**

Total cost per property include direct costs, third party costs and overheads

2011/12 and 2012/13 data was increased by 3.2% to reflect the inflation uplift as recommended by Housemark

## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

**Table 2: 2013/14 performance compared with G15**

	East Thames 2013/14	East Thames 2012/13	East Thames 2011/12	G15 2012/13 upper quartile	G15 2012/13 median
Current tenant arrears*	3.86%	3.83%	3.85%	3.83%	4.56%
Percentage of evictions due to rent arrears*	0.20%	0.36%	0.27%	0.29%	0.31%
Void loss as a percentage of rent*	0.99%	0.48%	0.54%	0.61%	0.81%
Number of days to re-let properties*	48	35	31	28	32
Percentage of units with a valid gas certificate	99.72%	99.99%	99.99%	99.9%	99.81%
Percentage of repairs completed on time	76%	91.1%	95.1%	97.7%	95.9%

**Notes**

\*across general needs properties and housing for older people

Based on 2012/13 information shown in the tables above, we have successfully kept total housing management costs per property below the G15 median, this is the result of continuous efficiency savings realised in past years. In some areas our performance has been strong:

- Rent collection and rent arrears continue to show excellent performance. At 3.4%, current rent arrears across all tenures have gone down in 2013/14 despite the impact of welfare reform and particularly the bedroom tax.
- Our customer contact centre's performance has also been strong in 2013/14 with 88% calls answered in 20 seconds and 84% of telephone enquiries handled at first point of contact.

In other areas such as voids and lettings, complaints and handling of antisocial behaviour, our performance has declined. We are tackling these as priority areas as part of a wide ranging 'Good to Great' improvement initiative.

- The focus on voids stems from our value for money priority to make the best use of our assets and reduce re-let times and void loss. At the end of 2013/14 our void loss stood at 0.99% for general needs properties and housing for older people. We aim to reduce this and bring it back in line with performance achieved in 2012/13 when we were in the G15 upper quartile.
- Our complaints handling process is also being reviewed to improve the customer experience, incorporate a quality assurance framework and support the business in learning lessons from complaints.
- From research carried out in September 2013 with our residents, we know that dealing with antisocial behaviour is among the most important services to customers, so in February 2014 we started a review of these services. Our aim is to achieve 55% satisfaction with handling of antisocial behaviour cases by the end of 2014/15.

The procurement of maintenance services and the selection of Interserve to deliver an end to end service for all maintenance areas have resulted in a significant reduction of our maintenance costs per property. The service is in its first year and, as is usual for new maintenance contracts, performance has slipped as the new partnership has settled.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

- We have concentrated on establishing day-to-day services which are critical to our residents such as cleaning, ground maintenance and responsive repairs, as well as statutory compliance, which is a vital service to us as a landlord. This has resulted in delays in starting the programme of planned and major works, and so we did not meet our target to achieve 100% compliance with the Decent Homes Standard. In 2013/14 99% of our homes met the standard (104 units did not); we are committed to getting this back up to 100% by the end of March 2015.
- From December 2013 to April 2014, the partnership implemented a recovery plan to address underperformance. The recovery plan delivered good levels of performance on statutory compliance and call handling, as well as a reduction in the number of complaints, although these remain at a high level. A more robust and fundamental approach is now being developed both by Interserve and East Thames to deliver significant improvements to the service delivery and improve the customer experience.

#### Efficient business and improvement plans – Overheads as a percentage of turnover

Our overheads tend to be high when compared with other organisations, but we are taking steps to reduce these:

- In 2013/14, we restructured our finance team which will result in £140k of savings per year and better support to internal customers. We have also re-implemented our accounting system to enable more granular analysis of our business streams.
- In the last quarter of 2013/14 we let the fifth floor of our corporate offices in West Ham Lane which will generate an additional rental income of £240k per year from 2014/15. We have also reorganised and rationalised space elsewhere in the building to enable the fourth floor to be let as well.
- We commenced a project to improve our IT and are now in the early stages of planning to modernise our IT systems. This is intended to ensure all staff members have the right IT tools they need to do their job. This work reflects the fact that our 18 month transformation programme, which came to an end in 2012/13, concentrated on financial and other efficiency savings, rather than those achievable through better IT. Alongside the development of a continuous improvement strategy, this will lead to further efficiency savings in 2014/15 and onwards.

#### Efficient business and improvement plans – Trends on operating margins

As part of the work underpinning our value for money strategy and future financial and operational planning, we have looked at our operational performance compared with other organisations. This analysis has demonstrated the importance of comparing like-for-like activities. For example, the overall margin across all of our social housing lettings is 31.2% whereas on our general needs housing alone it is 38.1%. This latter figure is comparable with many other organisations in the sector and suggests that overall margin levels are as much a reflection of the mix of business undertaken as cost control in absolute terms.

For 2014/15 we have budgeted an improvement in gross margin from non-sales activity of 2.9%, being the combined impact of a number of improvement objectives.

#### Efficient business and improvement plans - Efficiency initiatives

We have achieved £8.8m of the targeted £9.3m savings under our 18 month transformation programme. The total programme identified cumulative savings of £11.2m by the end of 2014/15 and while this is a challenging target we remain focussed on achieving this improvement to our cost base. Our 30-year plan shows that both our return on assets and our operating margin are expected to improve in the coming years. We also expect to identify

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

further opportunities for improvement as a result of comparing our performance with that of other G15 members.

#### Continuous improvement

From residents' perspective, value for money is intrinsically linked to the service they receive. In the survey we conducted in September 2013, our residents told us that they want improved quality of service in the areas that matter to them: repairs and maintenance, neighbourhood management services and, for our more vulnerable residents, support services. We are committed to improving the performance of our services and in turn resident satisfaction.

Our independently led Housing Scrutiny Panel play a critical role in providing the customer perspective that helps us to deliver improvements to our services. In 13/14, they reviewed the customer experience of the Choice Based Lettings system and lettings process, as well as customers' experience of service charges. Their recommendations are now being implemented by the relevant teams.

Resident involvement and scrutiny mechanisms help us improve and, in 2013/14, we made 14 changes as a result of resident involvement initiatives. Examples include: changes to the content and layout of our resident newsletter; the selection of kitchens and fixtures to be used for major works; and the information to be provided to residents on service charges.

In 2014/15 we are going to review our continuous improvement strategy to identify the tools and methodologies that will help us deliver continuous improvement, build internal capability and identify a plan of future service reviews. We see this as the main tool to develop future efficiency targets and support the delivery of our value for money priorities.

#### Board assurance

Value for money is intrinsic to all discussions with the Board and the Board gains assurance on value for money through a range of regular activities and reports. We see the development of this self-assessment as a critical opportunity for the Board to satisfy itself that East Thames has formed an accurate view of current performance and that it adequately demonstrates commitment to meeting the regulatory standard.

#### **Principle risks and uncertainties**

<b>Key risks</b>	<b>Nature of risk</b>	<b>Mitigation and management</b>
<b>Welfare reform</b>	The under-occupation penalty ("bedroom tax"), universal credit and the benefit cap are likely to affect rent collection, arrears and operating cash flow. The social effect of the reforms will impact on social and economic activities, regeneration and housing management.	Detailed review of impact on customers, training staff, employing dedicated welfare benefit advisors, modifying rent collection procedures and information technology. Programme of communication and training for customers, staff and Board members. Re-assessed social and economic programmes. Business plan includes provision for risk of additional loss.
<b>Further reductions of public spending</b>	Additional cuts in revenue and capital funding will restrict the ability to build and grow the business and to build new homes. Adverse effect of any change to	Developing new initiatives to reduce the reliance on capital funding. The "Improving East Thames" programme was designed to improve operational efficiency and create the financial

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

Key risks	Nature of risk	Mitigation and management
	rent policy will impact on business plan and valuations.	capacity to develop more homes.
<b>Impact of FRS 102</b>	FRS 102 will have a major impact on the presentation of the accounts of all Registered Providers. These changes will require communication and explanation to protect our stakeholder relationships, including those with lenders.	We have made an initial assessment of the impact of FRS 102 on the business plan and on financial capacity. This will be an on-going action as the SORP is being finalised.
<b>Housing market</b>	New properties for shared ownership and outright sales are exposed to adverse change in the property market. The Group's business plan could be adversely affected by a material and sustained downturn in the property market.	Prudent values are included in scheme appraisals and are supported by independent professional advice. Close monitoring of actual and planned sale programmes is undertaken. We have identified alternative use plans in the event that expected values fail to materialise and / or sales are delayed and include alternative scenarios as part of our work on the 30 year plan.
<b>Economic conditions</b>	Increase in RPI or CPI would normally have a favourable impact on the business plan. The cap on the annual increase in welfare benefits would result in a sub-RPI increase in rents combined with a RPI increase in costs.	Business plan subject to extensive scenario modelling for a wide range of economic conditions. Of the total debt portfolio, 83% is hedged against adverse movements in interest rates. The section of this report on capital and treasury policy describes more fully how interest rate risk is managed.
<b>Maintenance</b>	The appointment of a new maintenance contractor may not lead to immediate improvement in service delivery which may lead to detriment to reputation and reduction in Board, staff and resident confidence.	We have reviewed our contract management and plan to improve our capacity and capability as an intelligent client. Working with our contractor we have developed robust improvement plans to address areas of risks to the delivery of the partnership objectives.
<b>Regulatory changes – limiting investment</b>	Ring-fencing of social housing assets, combined with further reductions in grants and / or restrictions on affordable/ social rents would restrict capacity to invest in new homes.	The Board has considered mechanisms to ring-fence and protect social housing assets whilst maintaining a programme of regeneration and development. All scheme appraisals consider and model the risk of ring fencing and changes to the rent regime.
<b>Regulatory position - general</b>	The Group's G3 regulatory judgment rating does not improve.	A Rent Project has completed and the Group is now compliant with the HCA Rent Standard. Further improvements have been made through the Governance & Internal Controls and Finance

## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

Key risks	Nature of risk	Mitigation and management
		Improvement projects, including a thorough review of the HCA Regulatory Framework.

#### The year ahead – meeting the challenges and responding to the risks

In addition to the new strategic plan for 2013-16, the Board has also approved a new financial plan for the same period. The new plan reflects the impact of welfare reform on our communities, the condition of the UK economy and the coalition government's policies to stimulate investment in new homes. The plan maintains our focus on the regeneration of east London and Essex and recognises that we are a social enterprise, a business and a charity. This means that our plans are designed to deliver the mission in a business like way, making best use of our resources, focussing on value for money and efficiency and paying close attention to risk.

The financial plans we have in place to support the strategic plan have benefited from the efficiency savings achieved to date and we aim to make further savings via our value for money strategy. Our strategic plan, and the financial plan underpinning it, emphasise the continued need for investment in new homes, whilst also recognising the need to protect social housing. The business plan has been modelled under a number of alternative economic scenarios including a composite of such scenarios, and takes into account the strategic risks and uncertainties faced by the business, including being prepared for the impact of the new financial report standard FRS 102.

In the forthcoming year the business will build on the success of earlier years, by embedding the new maintenance contract, consolidating changes to the customer service delivery model, further improving the system of internal controls and governance and continuing the delivery of the successful development programme.

#### Capital structure, treasury policy and compliance with lenders covenants

##### *Capital structure*

As at 31 March 2014 total Group drawn debt was £545.8m, which equated to gross borrowings of £542.2m after deducting £3.6m of unamortised issuance costs. The drawn debt of £545.8m represented 79% of total facilities of £683.3m. The undrawn facilities of £137.5m were fully secured and available for drawdown. At 31 March 2014 there was cash of £50.8m giving total available liquidity of £188.3m. The Group operates a conservative cash investment policy, and cash is generally invested with the Group's key relationship banks.

Of the total drawn facility of £545.8m, 47% or £256.9m is funded through bonds with the remainder through bank debt. The bond finance primarily consists of a secured £250m Sterling bond maturing in June 2042 at a coupon of 5.486%. This bond was issued in June 2012 by East Finance plc and the proceeds were immediately on-lent to East Homes Limited. This financing provides East Homes Limited and the Group with a much stronger and diversified funding position, allowing it to meet its near term funding requirements.

Of the £542.2m of borrowings:

1. East Treasury Limited has borrowed £287.3m and directly on-lent it to East Homes Limited. This comprised term loans of £288.9m (before unamortised issuance costs of £1.6m) to leave undrawn revolving facilities of £137.5m. The drawn term loans included £50m of loans with Lender's Option Borrower's Option (LOBO) which are subject to periodic re-pricing by the lender.

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Strategic Report including the Operating and Financial Review (continued)**

2. East Finance plc has borrowed £250m (before unamortised issuance costs of £2.1m) through a bond issue and directly on-lent this to East Homes Limited.
3. East Homes has borrowed £6.9m of debt directly, in addition to the loans borrowed from East Treasury Limited and from East Finance plc (which are borrowed by East Homes Limited on the same terms as lent to East Treasury Ltd).

The weighted average maturity of the £545.8m drawn debt is 25 years, or 20 years if the LOBO loans are cancelled at the first re-pricing dates.

All loan facilities are secured using properties owned by East Homes Limited. The three bank loan facilities and the £250m Sterling bond are secured through the Prudential Trustee Company Limited. The remaining £6.9m of debt arranged by East Homes Limited is directly secured in favour of the lenders. In addition East Homes Limited has provided property security in favour of hedge counterparties as collateral for mark-to-market valuations on interest rate swaps.

The main objectives of the treasury policy are to ensure that the Group has sufficient cash to fund its operational activities and new investments; compliance is maintained with lenders' covenants, risks to the Group's financial resources are mitigated, the Group is protected from adverse interest rate volatility and that those financial resources are applied prudently.

#### ***Interest Rate Risk Management***

The treasury policy on interest rate management seeks to protect the Group from adverse interest rate volatility and to provide an appropriate level of certainty to the interest costs. The target is for 70% of the group's debt to be at fixed interest rates whilst recognising that it may be necessary to operate at either above or below that level on a shorter term basis. The policy allows the prudent use of approved financing and investment instruments within the portfolio.

The policy allows for a significant proportion of debt to be hedged by way of a combination of fixed interest instruments and stand-alone interest rate swaps. In February 2014 the Group decided to further reduce its exposure to future interest rate rises by eliminating £110m (notional) of ISDA cancellable swaps (or swap options, being swaps that can be cancelled at the counterparties' option). The Group was able to buy-back cancellation options that were previously granted to counterparty banks for a cash sum of £9.1m. This cost is shown as an exceptional interest charge in the results for the year to 31 March 2014. Following this option buy-back, the Group is left with only one £15m cancellable swap that is embedded into a bank loan.

At 31 March 2014, £215m of the drawn loan portfolio of £545.8m was hedged by way of interest rate swaps and other arrangements. These hedges give rise to a mark-to-market value that recognises the change in market interest rates since inception of the hedge as well as the value of the option component of the cancellable swaps.

At 31 March 2014 the mark-to-market exposure on £130m notional of fixed interest rate swaps amounted to £24.2m. All these swaps were secured by charging East Homes Limited properties. A further £65m of interest rate fixes are embedded in bank loans. These embedded fixes carried a mark-to-market liability of £13.6m, which are not recognised in the financial statements. As interest rates increase it is anticipated that this mark-to-market value will reduce. Lender's Option Borrower's Option (LOBO) loans amounted to £50m. No property security is required for the mark-to-market values of the fixed rate obligations embedded in these transactions.

At 31 March 2014 the weighted average cost of debt, inclusive of margins and hedging activities was 5.1% (2012: 4.7%).

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Strategic Report including the Operating and Financial Review (continued)

#### **Loan covenant compliance**

Loan covenants under the Group's bank loans and the Sterling bond are all based on the results of East Homes Limited. These covenants generally relate to interest cover, gearing and asset cover. These are monitored monthly and reported to lenders annually. The Group was in compliance with all covenants throughout the year ended 31 March 2014. The results below are based on the most stringent of the individual bank covenant tests.

Covenant (East Homes only)	Actual	Covenant
Gearing: percentage of borrowings to total assets	53%	≤70%
Interest cover (annual): total interest as a percentage of net surplus	143%	≥95%
Interest cover (three year rolling): total interest as a percentage of net surplus	142%	≥105%

#### **Going concern**

The Group's business activities, financial position and factors likely to affect its future are set out in this strategic report. The Group has committed and drawn long term debt facilities, undrawn long term loan facilities (at 31 March 2014: £137.5m) and cash (at 31 March 2014 £50.8m) which provide resources to support the development programmes. Operating cash flow is positive and we maintain sufficient liquidity to manage short term working capital requirements. The Group's business plan, sensitised for key risk factors outlined in the operating and financial review, shows that debt facilities can be repaid whilst also continuing to comply with lenders' covenants.

As at 31 March 2014, the Parent company Balance Sheet showed a net current liabilities position of £1,445k (2012/13: £1,494k). This was a direct result of one bank account being in an overdraft position. However, there is a set-off arrangement in force with our Barclays' bankers which provides a notional offset all of our account balances. The net cash position as at 31 March 2014 was positive.

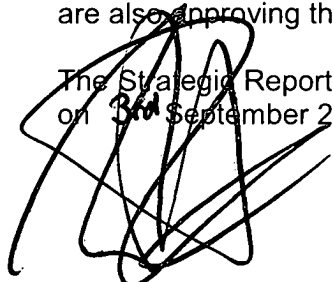
The Board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, being at least twelve months after the date on which the report and accounts are signed. For this reason, the Board continues to adopt the going concern basis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

#### **Statement of compliance**

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

In approving the Strategic Report including the Operating and Financial Review, the directors are also approving the Strategic Report in their capacity as directors of the company.

The Strategic Report including the Operating and Financial Review was approved by the Board on 3rd September 2014 and signed on its behalf by:



Tina Tietjen  
Group Chairman



Duncan Beardsley  
Treasurer

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Report of the Board**

The Board of East Thames Group Limited is pleased to present its report together with the audited financial statements of East Thames Group Limited (the company), a company limited by guarantee, and East Thames Group (the group) for the year ended 31 March 2014.

#### ***Principal activities, business review and future developments***

Details of the group's principal activities, its performance during the year and factors likely to affect its future development are contained within the Strategic Report including the Operating and Financial Review, which precedes this report.

#### ***Compliance with our adopted governance code***

During 2013/14 East Thames Group adopted the National Housing Federation Code of Governance as its preferred code and complied with it. During the year, however, we carried out a review and from 1 April 2014 we adopted the UK Corporate Governance Code – (UK CGC). Going forward this change reflects the fact that the Group as a whole consists of a number of different legal entities and the Board feels that this is now a more appropriate code for our operating environment. We believe that this change in code also allows us to re-emphasise that good corporate governance is key to our future success.

We will continue to monitor new good practice around corporate governance and will consider adopting changes where they are appropriate for the Group. Given the new code was adopted after the year end we are not required to report on this. However, in terms of transparency, we have already undertaken a review of compliance with the UK Corporate Governance Code and fully comply with this except for the following provisions:

- Where organisations should report that they are a going concern in their annual and six monthly published accounts (UK CGC Provision C1.1.3). East Thames is not required to publish six monthly accounts so this is not applicable. We do however remain a going concern and did during the whole of the reporting period.
- Where organisations are required to consult and have an ongoing relationship with shareholders (UK CGC Provisions D2.4; E1.1 and E1.2). East Thames has a closed shareholding membership and therefore this is not applicable. We do however engage with our major stakeholders on an on-going basis.

#### ***Board effectiveness***

We undertake an annual review of Board effectiveness through a series of individual Board Director appraisals. These consist of a Board effectiveness questionnaire, 360 degree feedback on the performance of individual Board Directors and any identified development needs. Every three years, this annual review is externally facilitated. The last externally facilitated review was undertaken in 2012 by Altair Limited. This review was generally positive and generated a number of suggestions for improvement which were taken forward. A key element was a reduction in the number of Board Directors which was achieved in April 2014 when our Integrated Board reduced from 17 to 10.

We are conscious of the need to continually develop our knowledge and skills so we can respond to our operating environment. Board development sessions this year have focused on:

- Our Homes and Communities Agency Regulatory Framework and particularly requirements around the rents and value for money standard.
- The move to the UK Corporate Governance Code as our code of governance and what this means for the Board.
- Treasury instruments.

During the coming year we will be reviewing delegations and terms of reference as part of our new Board structure and continue our drive to improve the quality of agenda and Board papers

## Report and Financial statements for the year ended 31 March 2014

### Report of the Board (continued)

to focus on the key strategic issues. We will also be undertaking a number of team building initiatives as we have new members to both the Board and the executive team.

#### ***Risk***

Our Board away day in January 2014 focused on risk and particularly the development of a formal risk appetite statement. Work is ongoing to gauge the risk appetite of the Board and of the level of risk currently undertaken by the business. We aim to have this work completed by the summer of 2014.

#### ***Chief Executive and management***

This is Chief Executive, June Barnes' last year before retiring in September 2014. She has made a significant contribution around governance in the last year, especially in leading our governance and internal controls improvement project.

The Board continues to support and challenge management on significant strategic matters and has reviewed its role in the context of our new governance code.

During the year we reviewed our committee structure and extended our Integrated Board approach to smaller subsidiaries within the Group. The Integrated Board receives feedback from these committees at every meeting along with a formal annual report during the course of the year.

Over the following pages we describe our corporate governance framework in more detail. We hope you will find this interesting and helpful in understanding our commitment to good governance.

### **Governing East Thames**

The East Thames Group Board is responsible for the success of the Group, providing strategic leadership, monitoring delivery of its objectives and managing its risk. It ensures that the right people and resources are in place in order to deliver our strategic aims and to benefit the communities in which we work. Our delegated authorities are under review currently however the Board has established a formal schedule of matters reserved for the Board which require its approval. The principal reserved matters are:

- Strategy
- Internal controls and risk management
- Authorisation of significant development schemes or those of a strategic nature
- New business areas or decisions to close existing business areas
- Remuneration policy
- Treasury policy and fundraising
- Appointment and removal of Non-Executive Directors; the Chief Executive and the Company Secretary

The East Thames Board also has responsibility for health and safety. The Group has adopted detailed health and safety policies and has systems and training programmes in place to monitor the implementation and management of the policies.

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Report of the Board (continued)**

The Integrated Board has delegated certain responsibilities to a number of Group-wide committees. The minutes of committee meetings are considered by the Integrated Board on an ongoing basis and an overview presented by the respective committee Chairman at each meeting. In addition there is a requirement for a formal annual report from each committee to the Board.

Terms of reference for the Boards and committees along with full details of all committee members, including career background and external appointments are available on our website.

**Internal controls and risk management:** The Board is responsible for the Group's system of internal control. This has been designed to manage, rather than eliminate, the risk of any failure to meet our business objectives. It can only provide reasonable assurance, not absolute assurance, against material loss or misstatement. The Board's approach to risk management is supported by an oversight structure which includes the Risk Management and Audit Committee. Our risk management process has been in place for a number of years and can be summarised as a process which:

- Identifies risk to the business
- Assesses and quantifies risk in terms of probability and impact
- Develops plans to mitigate risks and reassess these on an ongoing basis
- Reports risk and mitigation to the relevant committee and Board.

**Assurance:** The committee and the Board have reviewed the effectiveness of the Group's internal controls system. This is undertaken by a review of internal controls statements based on the COSO principles, completed by Assistant Directors / Operational Directors as well as Executive Directors.

These are reviewed at our Group operations and Group executive meetings prior to a summary report being considered by the committee. This summary report also includes the view of the Chief Executive and the Head of Internal Audit on the system of internal controls in place.

**Whistleblowing:** The Group Risk Management and Audit Committee oversees the Group's whistleblowing policy which enables employees to raise issues on a confidential basis. The committee ensures that independent investigations of any whistleblowing incident are undertaken. There were no cases reported to the committee during the reporting year.

### ***Entity structure***

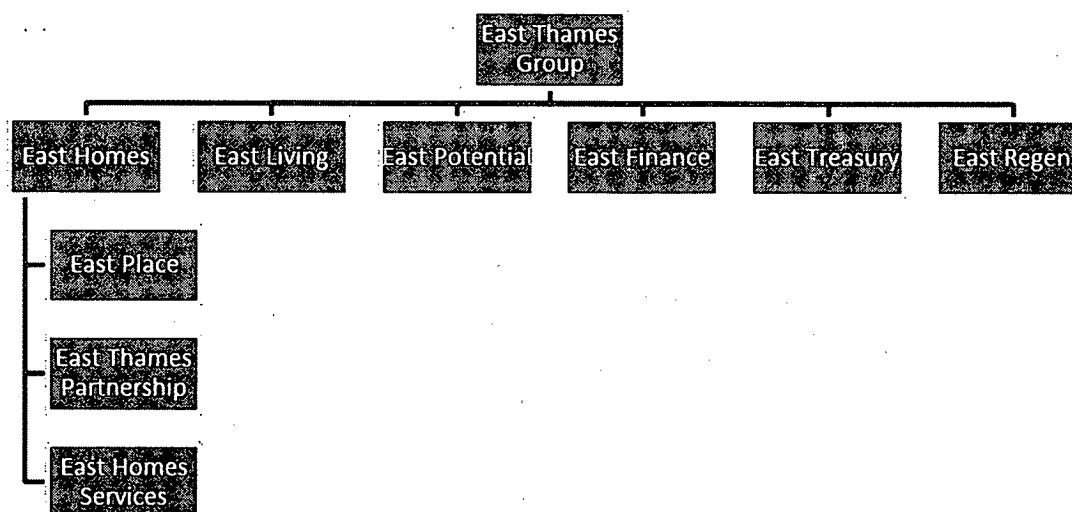
**East Thames Group** is a registered provider of social housing, a registered charity and a company limited by guarantee. It is the strategic arm of the overall Group, setting overall strategic direction for its nine subsidiaries. The Group also provides governance, human resources, marketing and communications, ICT, business support, internal audit, risk and compliance and financial services to each of its subsidiaries to ensure consistency of approach and to achieve effective economies of scale. All subsidiaries are wholly controlled and/or owned and mutual agreements ensure their independence.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Report of the Board (continued)

Operational subsidiaries in the Group are as follows:



**East Homes** is a registered provider of social housing, which owns and/or manages more than 14,000 homes. It is the largest multi-tenure landlord operating across east London and Essex. It is a resident-focused organisation that offers a wide range of affordable housing options. East Homes provides a 'one-stop shop' that offers low-cost rental accommodation, intermediate rent and home ownership options. Its aim is to be the leading provider of quality affordable homes for rent and sale in east London and Essex. East Homes is a charitable registered society under the Co-operative and Community Benefit Societies Act 2014.

**East Living** is a charitable registered society under the Co-operative and Community Benefit Societies Act 2014 and provides supported living and registered care services at more than 80 care schemes and foyers. It also provides floating support to approximately 100 people in their own homes. People benefiting from East Living's services include people with mental health needs, people with learning disabilities, older people, women fleeing domestic violence, vulnerable young people and people living with HIV/Aids.

**East Potential** is a social and economic regeneration charity which works to empower local people to create a brighter future for themselves and make a contribution within their communities. It does this through a broad range of community programmes for young people, families and adults, employment and training services, arts and culture initiatives, and health and sustainable living projects. It aims to raise aspirations, promote community pride and cohesion, and give people a chance to succeed.

As well as the operational subsidiaries listed above, East Thames Group has the following non-charitable subsidiaries:

**East Place** (a subsidiary of East Homes) - a private limited company specialising in homes for outright sale and market rent, and running various property management companies.

**East Thames Partnership** (a subsidiary of East Homes) – a private limited company which delivers housing for sale.

**East Homes Services** (a subsidiary of East Homes) – a private limited company which provides services to East Village and other East Homes estates.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Report of the Board (continued)

**East Treasury** – a private limited company which advises on treasury activity across the Group.

**East Regen** – a private limited company and development company which undertakes development activity on behalf of East Homes.

**East Finance** - a public limited company established in 2012 to act as the recipient for bond finance.

### Board composition and roles

The Boards of East Thames Group, East Homes, East Living and East Potential operate within an overlapping Board structure known as the Integrated Board. Under this arrangement there are a number of core Directors who sit on each Board. This arrangement allows for a 'one group' approach to be undertaken but within the confines of our established entity structure.

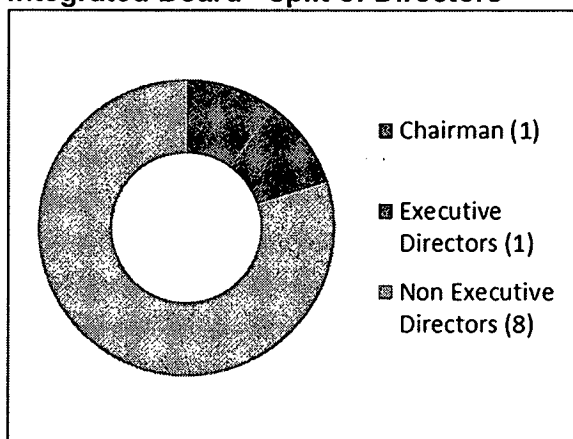
The Integrated Board comprises the Chairman, one Executive Director and eight independent Non-Executive Directors.

The Chairman, Tina Tietjen, is responsible for leading the Integrated Board, its effectiveness and governance. She sets the Board leadership tone for the company and ensures the relationship between the Board and management remains strong as well as with our key stakeholders.

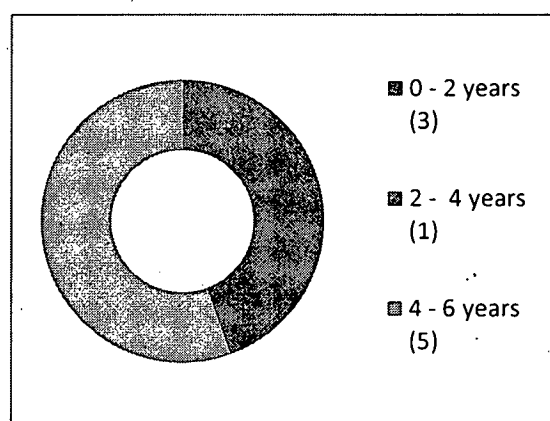
The Chief Executive, June Barnes, is responsible to the Board for the day to day operations of the Group; for recommending strategy and for implementing this once agreed by the Board. The role of Non-Executive Directors is to constructively challenge the executive and monitor delivery of the agreed strategy within the frameworks agreed by the Board. During the course of the year the Board, on the recommendation of the Governance and Remuneration Committee, adopted independence criteria. The independence of all Board Directors will be reviewed annually. However as at 1 April 2014 all Non-Executive Directors met our independence criteria and had done for the preceding year.

The Senior Independent Director, Marianne Skelcher, is available to discuss any concerns which Non-Executive Directors or the Group Executive cannot resolve through normal channels, i.e. with the Chairman or Chief Executive. No such concerns were raised in the year.

**Integrated Board - split of Directors**



**Integrated Board - length of service**



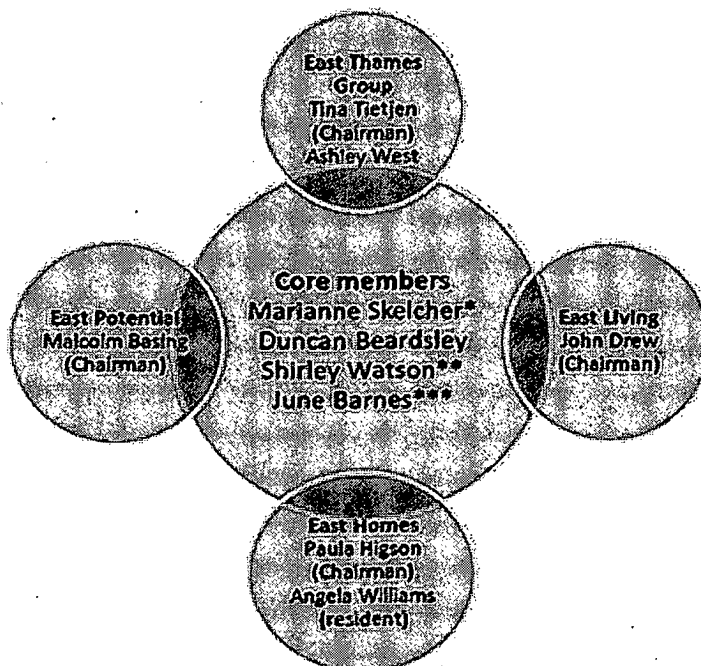
# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Report of the Board (continued)

The length of service for Non-Executive Directors is six years. This can be extended annually, by up to three years in exceptional circumstances. Two Non-Executive Directors will retire in September 2014.

### The Integrated Board



\* Retires September 2014 and will be replaced by Larissa Joy

\*\* Retires September 2014 and will be replaced by James Scott

\*\*\* Retires September 2014 and will be replaced by Yvonne Arrowsmith

### Board membership

Board member	External Appointments	Boards	Attendance
<b>Tina Tietjen</b> Remuneration: £16,000 Tina is the independent Chairman of the Board and a member of the Governance and Remuneration Committee. She was appointed in September 2010.  Recently awarded an OBE for her services to the transport industry, Tina has a wealth of experience in the public, private and voluntary sectors, and also provides consultancy services on leadership and change management. Tina was previously Chairman of the Air Transport User Council and Women's Voluntary Service Council. Tina is also a consultant with Business in the Community.	None	East Thames Group	5/5

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Report of the Board (continued)

Board member	External Appointments	Boards	Attendance
<b>Ashley West</b> Remuneration: £8,250 Ashley is an independent Non-Executive Director and Chairman of the Group Risk Management and Audit Committee. He was appointed in March 2010.  Ashley has held a number of senior finance positions in the private sector, including Kingsway Group plc and J Henry Schroder Limited. He was also formerly Chairman of MHS Homes in Kent.	<ul style="list-style-type: none"> <li>Chairman of Medway Community Estates</li> <li>Chairman of DW Group Holdings</li> <li>Deputy Chairman of Dartford, Gravesham and Swanley CCG</li> </ul>	East Thames Group	5/5
<b>Marianne Skelcher</b> Remuneration: £8,250 Marianne is a Senior Independent Director, independent Non-Executive Director and Chairman of the Governance and Remuneration Committee. She was appointed in September 2008.  Marianne is a self-employed organisational development consultant and executive coach. Marianne is a fellow of the Chartered Institute of Personnel and Development and was previously Group Director of Human Resources, Bromford Group.	<ul style="list-style-type: none"> <li>Director of PDA Limited</li> <li>Trustee of Birmingham Women's NHS Foundation Trust</li> </ul>	East Thames Group	4/5
		East Homes	4/6
		East Living	4/5
		East Potential	4/5
<b>Duncan Beardsley</b> Remuneration: £8,250 Duncan is an independent Non-Executive Director, Chairman of the Treasury Committee and therefore a Director of East Treasury, East Finance and East Regen. He was appointed in October 2013.  Duncan previously served as Group Treasurer for Hammerson plc and has over 25 years of corporate finance and treasury experience including treasurer at The Rank Organisation plc	<ul style="list-style-type: none"> <li>Director of Aceshow Management Limited</li> <li>Director of Gardners Charity</li> </ul>	East Thames Group	2/2
		East Homes	3/3
		East Living	3/3
		East Potential	3/3
		East Treasury	3/3
		East Finance	3/3
		East Regen Ltd	3/3
<b>Shirley Watson</b> Remuneration: £8,250 Shirley is an independent Non-Executive Director. She is Chairman of the Development and Property Committee and a Director of East Place and East Thames Partnership. She is also a member of the Group Risk Management and Audit Committee. Shirley was appointed in	<ul style="list-style-type: none"> <li>Director of Engineering Construction Industry Training Board (ECITB)</li> </ul>	East Thames Group	4/5
		East Homes	5/6
		East Living	4/5
		East Potential	4/5
		East Place Ltd	4/4

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Report of the Board (continued)

Board member	External Appointments	Boards	Attendance
<p>August 2011.</p> <p>Shirley is a civil engineer with over 30 years consultancy experience in both residential and construction projects. Currently self employed as a business management consultant, she has held several Director level positions including at NHBC and most recently, with consultant WSP, first as Director of Business Improvement, then Head of UK Property.</p>		East Thames Partnership Ltd	5/6
<p><b>June Barnes</b> June is an Executive Director and the Chief Executive. She is also a member of the Treasury Committee and therefore a Director of East Treasury, East Finance and East Regen. She was appointed to the Integrated Board in August 2011.</p> <p>June has been Group Chief Executive at East Thames for 15 years. In that time she has doubled the number of homes from 7,000 to 14,000 and increased the income base from £35million to over £100million.</p>	<ul style="list-style-type: none"> <li>• Board member of the Institute for Sustainability</li> <li>• Director of Stratford Renaissance Partnership</li> </ul>	East Thames Group	6/6
		East Homes	7/7
		East Living	5/5
		East Potential	5/5
		East Treasury	5/5
		East Finance	5/5
		East Regen	5/5
<p><b>Paula Higson</b> Remuneration: £8,250 Paula is an independent Non-Executive Director, Chairman of East Homes and Chairman of the Customer Experience Committee. She is also a member of the Governance and Remuneration Committee and a member of the Development and Property Committee and therefore a Director of East Place and East Thames Partnership. Paula was appointed in May 2013.</p> <p>Paula has 15 years of experience at Board level including two years as the Chief Operating Officer/Interim CEO at NHS Direct and five years as the Senior Director of Managed Migration at the UK Border Agency. She has delivered major change programmes in both of these roles and currently manages a coaching, mentoring and consultancy firm, Paula Higson Associates.</p>	<ul style="list-style-type: none"> <li>• Director of Paula Higson Associates Limited</li> <li>• Director of Firm Foundations For Children and Adolescents CIC</li> </ul>	East Homes	5/5
		East Place Ltd	4/6
		East Thames Partnership Ltd	4/6

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Report of the Board (continued)

Board member	External Appointments	Boards	Attendance
<p><b>Angela Williams</b> Remuneration: £4,000 Angela is an independent Non-Executive Director, a resident member of the East Homes Board and a member of the Customer Experience Committee. She was appointed in March 2011.</p> <p>Angela is a Newham resident and currently works with the London Borough of Newham as a street scene enforcement officer.</p>	None	East Homes	4/6
<p><b>John Drew</b> Remuneration: £8,250 John is an independent Non-Executive Director and Chairman of East Living. He is a member of the Customer Experience Committee and the Governance and Remuneration Committee. He was appointed in May 2013.</p> <p>John spent four years as the Chief Executive of the Youth Justice Board of England and Wales and eight years as the Director of Housing and Community Services/Director of Social Services at the London Borough of Redbridge. He has extensive experience of both adult social services and children's social care and has lived and worked in east London for over 25 years.</p>	None	East Living	3/3
<p><b>Malcolm Basing</b> Remuneration: N/A Malcolm is an independent Non-Executive Director and Chairman of East Potential. He is also a member of the Customer Experience Committee and the Governance and Remuneration Committee. He was appointed in May 2012</p> <p>Malcolm has a strong background in a range of senior marketing, management, financial and trading positions worldwide.</p>	<ul style="list-style-type: none"> <li>Chairman of Newedge, UK Financial LTD</li> <li>Independent Non-Executive Director of Merrill Lynch.</li> </ul>	East Potential	3/5

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Report of the Board (continued)

#### Former Integrated Board members

The members listed below stood down during the course of the year either due either to normal retirement or as part of our board reduction programme.

Board member	Date resigned	Boards	Attendance
Sheila Lewis	September 2013	East Thames Group	3/3
		East Homes	4/4
		East Living	3/3
		East Potential	3/3
Mehban Chowdery	September 2013	East Thames Group	1/3
		East Homes	1/4
		East Living	1/3
		East Potential	1/3
Andrew Newell	March 2014	East Thames Group	4/5
		East Homes	4/6
		East Living	4/5
		East Potential	4/5
		East Treasury Ltd	5/5
		East Finance	5/5
		East Regen Ltd	5/5
Joanna Holmes	May 2013	East Homes	2/2
		East Place Ltd	0/1
		East Thames Partnership Ltd	0/1
Terry Price	March 2014	East Homes	5/6
		East Place Ltd	4/4
		East Thames Partnership Ltd	5/6
		East Treasury Ltd	4/5
		East Finance Ltd	4/5
		East Regen Ltd	4/5
Philip Fearn	December 2013	East Homes	2/5
Dominic Jebb	February 2014	East Homes	1/5
Debbie Sorkin	May 2013	East Living	1/2
		East Place Ltd	0/1
		East Thames Partnership Ltd	0/1
Alec Dick	March 2014	East Potential	4/5

## East Thames Group Limited

### Report and Financial statements for the year ended 31 March 2014

#### Report of the Board (continued)

Integrated Board	Committee	Primary Function	Integrated Board Members	Independent Committee Members	Executive Directors	No. of Meetings in 2013/14
	Group Risk Management and Audit Committee	To oversee the risk management and internal controls frameworks on behalf of the Board, to oversee financial reporting for the Group and to be the main interface for the internal and external auditors.	<ul style="list-style-type: none"> <li>Ashley West (Chairman)</li> <li>Duncan Beardsley</li> <li>Shirley Watson</li> </ul>	<ul style="list-style-type: none"> <li>Steve Prince</li> <li>Asif Bhatti</li> <li>Malcolm Zack</li> </ul>	None	5
	Treasury Committee	To oversee treasury matters and to make recommendations on debt financing to the Board. The committee also acts as the Board for East Treasury, East Finance and East Regen.	<ul style="list-style-type: none"> <li>Duncan Beardsley (Chairman)</li> <li>June Barnes</li> </ul>	<ul style="list-style-type: none"> <li>Calum Mercer</li> <li>Brian Mulholland</li> </ul>	<ul style="list-style-type: none"> <li>Simon Bass, Director of Corporate Resources</li> </ul>	5
	Governance and Remuneration Committee	To oversee human resource and governance issues and ensure that these are at the forefront of best practice; to recommend remuneration policy and pay to the Board; and to ensure compliance with the Homes and Communities Agency's Regulatory Framework and our adopted Codes of Governance and of Conduct. To oversee the appointment of new Non-Executive Directors and committee members.	<ul style="list-style-type: none"> <li>Marianne Skelcher (Chairman)</li> <li>Tina Tietjen</li> <li>John Drew</li> <li>Malcolm Basing</li> <li>Paula Higson</li> </ul>	None	None	3
	Development and Property Committee	To oversee development and asset management activity for the Group. The committee has delegated authority to agree schemes on behalf of East Homes within set financial and/or unit numbers. The committee also acts as the Board for East Place, East Thames Partnership and the East Homes Development Committee.	<ul style="list-style-type: none"> <li>Shirley Watson (Chairman)</li> <li>Paula Higson</li> </ul>	<ul style="list-style-type: none"> <li>Terry Price (retired June 2014)</li> <li>James Scott</li> <li>Nick Berry</li> </ul>	<ul style="list-style-type: none"> <li>Simon Bass, Director of Corporate Resources</li> <li>Trevor Burns, Director of Development, Sales and Asset Management</li> </ul>	5
	Customer Experience Committee	To oversee service performance to our residents; to understand the customer journey and to act as the main interface between the Board and the elected resident Housing Scrutiny Panel.	<ul style="list-style-type: none"> <li>Paula Higson (Chairman)</li> <li>John Drew</li> <li>Malcolm Basing</li> <li>Angela Williams</li> </ul>	<ul style="list-style-type: none"> <li>Two resident members (currently vacant)</li> </ul>	<ul style="list-style-type: none"> <li>Olu Olanrewaju, Director of Communities and Neighbourhoods</li> </ul>	7

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Report of the Board (continued)

Committee Members	Committee	Attendance
<b>Calum Mercer</b> Remuneration: £3,250 Calum is the Chief Executive of Million Homes Million Lives and former Executive Director (Finance) for Circle Housing Group. He was appointed in September 2013.	Treasury Committee	3/3
<b>Brian Mulholland</b> Remuneration: £3,250 Brian is Finance Director for Coutts Bank and former Head of Global Capital Planning for the RBS Group. He was appointed in September 2013.	Treasury Committee	2/3
<b>Asif Bhatti</b> Remuneration: £3,250 Until recently Asif was Head of Internal Audit at John Lewis Plc. He is now director of Internal Audit and Risk for the Whitbread Group Plc. He was appointed in January 2014	Group Risk Management and Audit Committee	1/1
<b>Steve Prince</b> Remuneration: £3,250 Steve is a former local authority employee. He was appointed in March 2010.	Group Risk Management and Audit Committee	2/5
<b>Nick Berry</b> Remuneration: £3,250 Nick is a chartered surveyor and is Fund Manager for Mountgrange Investment Management. He was appointed in May 2013	Development and Property Committee	3/3
<b>James Scott</b> Remuneration: £3,250 (donated to East Potential) James is Director of Planning and Regeneration at Urban and Civic and formerly a Senior Executive with Lend Lease. James will be taking over as Chairman of the Committee and will become a member of the Integrated Board in September 2014.	Development and Property Committee	3/3

### Key governance and risk committees

The key committees in terms of governance and risk are the Governance and Remuneration Committee and the Group Risk Management and Audit Committee. Set out below is the activity undertaken by these two committees in 2013/14.

#### *The Governance and Remuneration Committee*

The committee considered the following matters during 2013/14:

- Our move to the UK Corporate Governance Code and a line by line compliance exercise
- A review of our compliance with the Homes and Communities Agency Regulatory Framework
- Review of independence criteria for Non-Executive Directors
- The establishment of a Senior Independent Director role and review of all Board Director role profiles

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Report of the Board (continued)

- Engaging with our executive search consultant to recruit new Non-Executive Directors and committee members.
- Agreeing a new pay and grading structure for staff
- Commissioning an independent review of Non-Executive Director remuneration

All Board and committee appointments are currently undertaken through an external candidate search company, Saxton Bampfylde. Saxton Bampfylde is also engaged for the appointment of Executive Directors. All Board and Committee appointments are made on an open and transparent basis. Appointment panels are generally made up of the Group Chairman and members of the Governance and Remuneration Committee or lead Board Member for a particular area plus one executive member. During 2013/14 eight non-executive appointments were made to Boards and committees across the Group.

**Diversity:** The Board is committed to recruiting Directors from different backgrounds and with different perspectives, skills and knowledge. We believe diversity contributes to a high performing Board. In the context of making the best appointments possible we take decisions which aim to improve our gender and ethnicity mix and, where possible, ensure that Board members have a connection to the areas in which we work. Targets have been set as follows:

- 50/50 for gender. As at 1 April 2014 we exceeded our target for women on the Board with the Integrated Board being 60% female and 40% male.
- 30% BAME. As at 1 April 2014 10% of the Board was BAME. This had decreased to 10% during the year with the retirement of a Non-Executive Director.
- 25% with a local connection (living or working in our area of operation). As of 1 April 2014 30% of the Board worked or lived in our area of operation.

**Conflicts of interest:** The Group operates a policy to identify and, where appropriate, manage existing or potential conflicts of interest. With the introduction of our overlapped Board membership structure it was agreed to specifically permit conflicts between companies within the Group as allowed under section 180 of the Companies Act 2006. The Governance and Remuneration Committee will in future monitor conflicts of interest on an ongoing basis and receive a report annually. There were no specific conflicts of interest which arose during the course of the year.

### ***The Group Risk Management and Audit Committee***

The committee met five times during the course of the year. Its agenda included:

- The 2012/13 review of the effectiveness of internal controls
- The 2012/13 financial statements.
- Review of our internal controls framework and adoption of the COSO model, further details of which are given later in this report
- Review of the risk management strategy and policy and ongoing review of corporate risks
- Ensuring that effective value for money and risk appetite initiatives are established within the Group

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

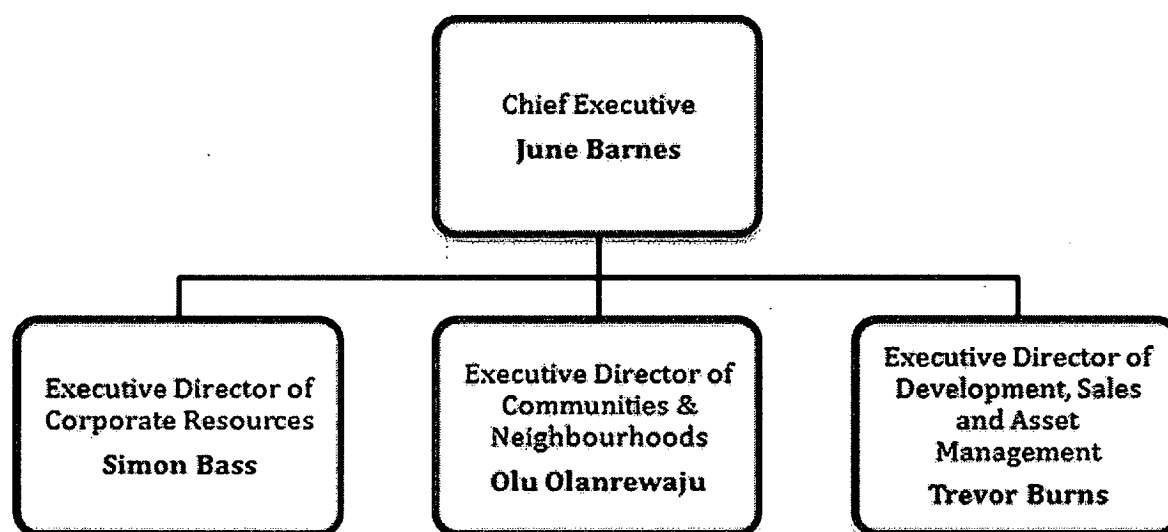
### Report of the Board (continued)

- The results of internal audit reviews; management action to address identified weaknesses and progress on meeting agreed deadlines
- The result of the external audit; management action to address identified weaknesses within the key issues memorandum and progress in meeting agreed deadlines
- Audit plans for both internal and external audit
- Performance of the company's auditors
- Ongoing reporting around fraud, theft and bribery.

Meetings of the committee were attended by Executive Directors and the Company Secretary, who acts as secretary to the committee. In addition, the Head of Internal Audit attends each meeting and the external auditor, Grant Thornton UK LLP, attends on occasion throughout the year.

### Senior team

The Group Executive consists of the Chief Executive and other members of the Group's senior management team. They act as executives within the authority delegated by the Board.



During the financial year, Pamela Gardner resigned as Director of Communities and Neighbourhoods in October 2013. Olu Olanrewaju took up the role as Interim Director of Communities and Neighbourhoods in the same month before becoming the permanent Director of Communities and Neighbourhoods in December 2013. Geoff Pearce, Director of Development and Property left the Group in December 2013. Trevor Burns taking up the role of Interim Director of Development in January 2014 and succeeded to the role permanently in August 2014. Simon Bass, Director of Corporate Resources and June Barnes, Chief Executive served throughout the year.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Report of the Board (continued)

The Group Chief Executive and other Executive Directors (other than Interim Directors) are employed on permanent contracts of employment with a notice period of six months. The Executive Directors participate in either the Social Housing Pension Scheme or other available pension schemes on the same terms as all other eligible staff. The aggregate remuneration package of all Executive Directors is included in note 10 to the accounts.

Senior staff member	Boards and committees
<p><b>June Barnes</b> Chief Executive</p> <p>June has been Chief Executive at East Thames for 15 years. In that time she has doubled the number of homes from 7,000 to 14,000 and increased the income base from £35million to just over £100million.</p> <p>A trained town planner and member of the Chartered Institute of Housing, June has previously worked for a number of housing bodies focussing on housing development and regeneration, housing services and resident involvement. She has an active interest in creating sustainable communities and has been particularly concerned about how to create sustainable higher density housing developments.</p> <p>June is a Board member of The Institute for Sustainability, Stratford Renaissance Partnership, Urban&amp;Civic plc and also serves on the London Mayor's Design Advisory Group.</p>	<p>East Thames Group East Homes East Living East Potential East Treasury East Finance East Regen</p>
<p><b>Olu Olanrewaju</b> Executive Director of Communities and Neighbourhoods</p> <p>Olu joined East Thames in October 2013 as Interim Director of Communities and Neighbourhoods and took on the role permanently in December 2013. He has a wide remit including all the Group's landlord services, customer service, care and support, and repairs delivery.</p> <p>Olu has previously served as a member of East Thames' Board, first as Chairman of East Homes, then as Vice Chairman of the Group. He has two decades of experience in housing, including senior roles at several housing associations. He is also on the Board of a small housing charity and is a trustee at Common Purpose.</p>	<p>Customer Experience Committee</p>
<p><b>Trevor Burns</b></p> <p>Trevor has recently been appointed Executive Director of Development, Sales and Asset Management at East Thames, after carrying out the role on an interim basis for eight months. Trevor joined East Thames as Assistant Director of Development in January 2009.</p> <p>Trevor has worked in the social housing sector for over 25 years, both developing and managing a range of award winning housing and regeneration projects. He has a particular passion for regeneration and supported housing where customer service plays a key role in creating an exciting new place to live.</p>	<p>Development and Property Committee</p>

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Report of the Board (continued)

<p><b>Simon Bass</b> Director of Corporate Resources Simon joined East Thames at the start of 2013 to lead our Corporate Resources directorate. He is responsible for overseeing the finance and treasury functions as well as a wide range of support services and business improvement activities.</p> <p>A trained auditor and chartered accountant, Simon has worked in the public, private and charity sectors, specialising in finance, corporate resources and business change. He is an associate member of the Association of Corporate Treasurers, Treasurer of Praxis Community Projects and Chair of Praxis Enterprises CIC.</p>	<p>East Thames Partnership East Treasury East Regen East Place East Finance</p>
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### Internal controls assurance

The Board has overall responsibility for ensuring that there is a robust system of internal control across the Group and for reviewing its effectiveness. The system of internal control is designed to manage risk and to provide:

- Reasonable assurance that strategic objectives will be achieved
- Reasonable assurance that there will be no material misstatement or loss.

During 2013/14 we reviewed our internal controls framework and have adopted the COSO model. This is a principle based approach to internal controls based on five overarching components:

1. **The Control Environment** – The control environment is the organisational structure and the culture embedded in the organisation which allows business processes, tasks, policies and procedures to be carried out to meet objectives. As part of this we look to
  - Demonstrate commitment to integrity and ethical values
  - Exercise oversight responsibility
  - Establish structure, authority and responsibility
  - Demonstrate commitment to competence
  - Enforce accountability
2. **Risk Assessment** – Risk assessment involves identification and analysis of risk and also includes fraud risk. Risks include internal and external events or circumstances that may occur and adversely affect the Group. Once risks are identified, management consider their impact; the likelihood of them happening; and how they can be managed. As part of this we look to:
  - Specify suitable objectives
  - Identify and analyse risk
  - Assess the risk of fraud
  - Identify and analyse significant change

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Report of the Board (continued)

3. **Control Activities** – Internal control activities are tools, policies and procedures deployed to mitigate risks in order to achieve objectives. Control activities help identify, prevent or reduce risks. Control activities occur throughout the organisation at all levels and in all functions and include items such as approvals; authorisations; verifications; reconciliation; documentation; separation of duties; and safeguarding of assets. As part of this we look to:
  - Select and develop control activities
  - Select and develop general controls over technology
  - Deploy thorough policies and procedures
4. **Information and Communication** – Information and communication is related to information security, data quality, data protection and how information is communicated internally and externally. As part of this we look to:
  - Use relevant information
  - Communicate internally
  - Communicate externally
5. **Monitoring Activities** – Monitoring activities involves ongoing evaluation and monitoring of risks and control processes. The organisation also assesses any internal control deficiencies identified and communicates internally/externally. As part of this we look to:
  - Conduct ongoing and/or separate evaluations
  - Evaluate and communicate deficiencies

The key elements of the system of internal controls include:

- (a) A comprehensive and regularly updated 30 year business plan covering all activities which is subject to periodic independent review. The Group prepares an annual budget and publishes regular management accounts and financial forecasts which are considered by the Group Executive team and the Board.
- (b) A comprehensive system and set of processes to identify, manage and mitigate strategic and operational risks. This system has been embedded into the operational culture of the business. The effectiveness of the system is reviewed by the Group Risk Management and Audit Committee (GRMAC). The Board is involved in both the identification and management of strategic risks and receives reports on both strategic and summarised operational risks. The Group Executive team leads on the system and has oversight of operational risks which have been identified, reviewed and managed throughout the business.
- (c) Appraisal and consideration of investment in new property or regeneration schemes by the Group Executive, Development and Property Committee and, where required, the Board.

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Report of the Board (continued)**

- (d) Oversight of the investment in strategic change programmes.
- (e) Full compliance with the NHF Code of Governance. This was our governance code during 2013/14. As of 1 April 2014 we have adopted the main provisions of the UK Corporate Governance Code.
- (f) A comprehensive system to manage health and safety and statutory compliance risk. The Board receives at a minimum, an annual report on health and safety and at each Board meeting receives “comply or explain” key performance indicators.
- (g) A comprehensive set of regularly reviewed and updated policies, procedures and delegated authorities covering all major policy/operational areas.
- (h) An anti-fraud policy covering the prevention, detection and reporting of fraud. All suspected frauds are recorded in the fraud register and are investigated in line with the anti-fraud policy. The Group has an anti-money laundering policy and has appointed a money laundering reporting officer.
- (i) A comprehensive system of performance reporting which is considered by the Board, Customer Experience Committee and Housing Scrutiny Panel on a “comply or explain” basis.

The Board obtains assurance on the systems of internal control through receiving reports and a comprehensive system of audit and assurance that includes:

- (j) Scrutiny by GRMAC, which meets at least four times each year and on behalf of the Board:
  - Reviews the systems of risk management and internal control
  - Plans the work of internal audit
  - Receives internal audit reports
  - Reviews incidents of fraud reporting annually on these to the Board
  - Reviews the work of external audit and considers the audit findings report of the external auditor
  - Considers the annual reports on internal controls provided by the Group Chief Executive and Head of Internal Audit, and reports its findings to the Board. This report is based on comprehensive declarations by all Assistant Directors, Operational Directors and Executive Directors on the internal controls operating in their areas based on the COSO principles above.
- (k) A combined programme of risk-based and core internal audit activity. The programme is considered and approved by GRMAC for the Group. The Head of Internal Audit meets regularly with the Chairman of GRMAC. Internal audits are undertaken by the internal audit team together with external expertise for specialist audit areas.

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Report of the Board (continued)**

- (l) Commissioning specialised assurance during the year either as part of planned system improvements or where a particular control risk has been identified.
- (m) Recommendations from the Group's external auditors over systems of controls which are considered by GRMAC.
- (n) The Board of East Treasury Ltd (and East Finance plc in relation to the public bond) considering treasury strategy, policies and procedures annually.
- (o) Procedures for the recruitment, development, retention and training of suitably qualified staff.

The Board has considered the system of internal control and the annual report from the Group Risk Management and Audit Committee.

In April 2013 the Group received a regulatory downgrade from the social housing regulator, the Homes and Communities Agency (HCA). This was due to a small number of tenants paying rent higher than the target rent at the date that rent convergence should have been achieved (31 March 2012 for general needs dwellings and 31 March 2013 for supported housing dwellings). This was deemed to be a failure of the HCA rent standard. We have reviewed our systems and implemented improvements. An external review has concluded that we are now compliant with the rent standard. We have been working hard to strengthen controls around such issues and hope that a review of our judgement will be undertaken in autumn 2014.

The Board has concluded that there are no weaknesses in internal controls sufficient to lead to material misstatement or loss.

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Report of the Board (continued)**

#### **Statement of the responsibilities of the Board for the report and financial statements**

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

Company Law requires the Board to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company Law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and the surplus or deficit of the Group 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 accounting estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards and the Statement of Recommended Practice (SORP) Accounting by Registered Housing Providers Update 2010, have 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 company will continue in business.

The Board is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and Group and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the Directors is aware:

- There is no relevant audit information of which the company's auditors are unaware; and
- The Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

#### **External auditors**

Grant Thornton UK LLP have expressed their willingness to continue in office and will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006.

#### **Public benefit statement**

The Board confirm that they have referred to the guidance contained in the Charity Commission's general guidance on public benefit when reviewing the Group's aims and objectives and in planning future activities and setting the grant making policy for the year.

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Report of the Board (continued)**

The report of the Board was approved by the Board on <sup>3<sup>rd</sup></sup> September 2014 and signed by order of the Board:



Henry Potter,  
Company Secretary

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Independent Auditor's Report to the Members of East Thames Group Limited (Registered No. 4091100)**

We have audited the financial statements of East Thames Group Limited for the year ended 31 March 2014 which comprise the consolidated income and expenditure account, the consolidated statement of total recognised surpluses and deficits, the note of historical cost surpluses and deficits, the reconciliation of movement in Group's funds, the consolidated balance sheet, the consolidated cash flow statement, the parent income and expenditure account, the parent balance sheet 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).

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charitable company'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 charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of the Responsibilities of the Board for the report and financial statements set out on page 47 the board is responsible for the preparation of the financial statements which 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.

#### **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/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 March 2014 and of the Group's and of the parent company's surplus or deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2012; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, the information given in the Strategic Report including the Operating and Financial Review and the Report of the Board for the financial year for which the financial statements are prepared is consistent with the financial statements.

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

**Independent Auditor's Report to the Members of East Thames Group Limited (Registered No. 4091100) (continued)**

### **Matters on which we are required to report by exception**

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company's 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.



Tobias Wilson  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Norwich  
12 September 2014

# East Thames Group Limited

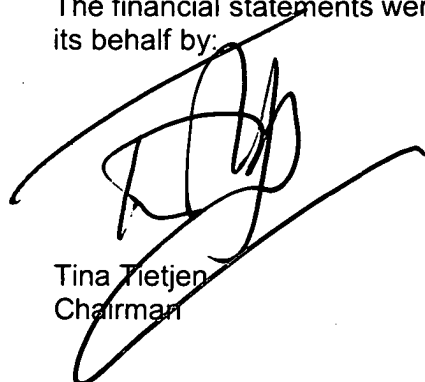
## Report and Financial statements for the year ended 31 March 2014

### Consolidated Income and Expenditure account For the year ended 31 March 2014

	Note	2014 £'000	2013 £'000 Restated
Turnover: continuing activities (including share of joint venture)		185,865	114,618
Less: share of joint venture turnover		(10,477)	(5,245)
<b>Group Turnover</b>	3	<b>175,388</b>	<b>109,373</b>
Cost of sales	3	(47,309)	(10,748)
Operating costs	3	(80,457)	(79,004)
<b>Operating surplus: continuing activities</b>		<b>47,622</b>	<b>19,621</b>
Share of operating surplus in joint venture		5,334	3,277
<b>Operating surplus including share of joint venture</b>		<b>52,956</b>	<b>22,898</b>
Income from Joint venture		400	-
Surplus on sale of fixed assets – housing properties	5	5,541	2,932
Net interest and similar charges (excl joint venture)	8	(26,643)	(21,745)
Breakage costs	8	(9,097)	-
Share of interest payable by joint venture		(3,596)	(3,356)
<b>Surplus on ordinary activities before taxation</b>		<b>19,561</b>	<b>729</b>
Tax on surplus on ordinary activities	19	(2,524)	(342)
<b>Surplus for the financial year</b>		<b>17,037</b>	<b>387</b>

The notes on pages 58 to 103 form part of these financial statements.

The financial statements were approved by the Board on <sup>3<sup>rd</sup></sup> September 2014 and signed on its behalf by:



Tina Tietjen  
Chairman

A. Beardsley  
Duncan Beardsley  
Treasurer



Henry Potter  
Company Secretary

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Consolidated statement of total recognised surpluses and deficits For the year ended 31 March 2014

	Note	2014 £'000	2013 £'000 Restated
Surplus for the financial year (Group)		15,299	466
Surplus/(deficit) for the financial year (share of joint venture)	13	1,738	(79)
Unrealised surplus on revaluation of housing properties	26	44,128	79,493
Unrealised surplus / on revaluation of investment properties	26	236	33
<b>Total recognised surpluses for the year</b>		<b>61,401</b>	<b>79,913</b>
Prior year adjustment (note 34)		-	
		<b>61,401</b>	

### Note of historical cost surpluses and deficits For the year ended 31 March 2014

	2014 £'000	2013 £'000 Restated
Reported surplus on ordinary activities before taxation	17,037	387
Excess of actual depreciation over historical cost depreciation	299	184
Realisation of property revaluation surpluses	1,827	401
<b>Historical costs surplus on ordinary activities before taxation</b>	<b>19,163</b>	<b>972</b>
Tax on surplus on ordinary activities	(2,524)	(342)
<b>Historical cost retained surplus</b>	<b>16,639</b>	<b>630</b>

### Reconciliation of movements in Group's funds For the year ended 31 March 2014

	2014 £'000	2013 £'000
Opening total funds	451,500	371,587
Total recognised surpluses relating to the year	61,401	79,913
<b>Closing total funds</b>	<b>512,901</b>	<b>451,500</b>

The notes on pages 58 to 103 form part of these financial statements

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Consolidated Balance Sheet at 31 March 2014

	Note	2014 £'000	2013 £'000 Restated
<b>Fixed assets</b>			
<b>Tangible assets</b>			
Housing properties at valuation	11	966,663	915,313
Other tangible fixed assets	12	26,469	28,219
		<b>993,132</b>	<b>943,532</b>
<b>Investments</b>			
Investment in joint venture:			
Share of gross assets	13a	61,863	57,429
Share of gross liabilities	13a	(56,871)	(54,395)
		4,992	3,034
Investment properties	13b	19,626	22,289
Investments Shared equity	13c	172	172
Investment in Homebuy and Starter Home Initiative:			
Cost of HomeBuy and Starter Home Initiative	13d	18,848	20,018
Less: Social Housing Grant	13d	(18,848)	(20,018)
		-	-
		<b>24,790</b>	<b>25,495</b>
<b>Total fixed assets</b>		<b>1,017,922</b>	<b>969,027</b>
<b>Current assets</b>			
Properties for sale	14	29,966	44,632
Debtors	15	10,617	29,289
Cash at bank and in hand	16	50,814	28,472
		<b>91,397</b>	<b>102,393</b>
<b>Creditors: amounts falling due within one year</b>	17	(42,587)	(40,717)
<b>Net current assets</b>		<b>48,810</b>	<b>61,676</b>
<b>Total assets less current liabilities</b>		<b>1,066,732</b>	<b>1,030,703</b>

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Consolidated Balance Sheet at 31 March 2014 - continued

	Note	2014 £'000	2013 £'000 Restated
<b>Creditors: amounts falling due after more than one year</b>	18	553,316	578,162
<b>Provision for liabilities</b>	24	515	1,041
		<b>553,831</b>	<b>579,203</b>
<b>Capital and reserves</b>			
Share capital	25	-	-
Revenue reserve	26	33,522	14,248
Restricted reserve	26	139	212
Designated reserve	26	57	95
Revaluation reserves	26	479,183	436,945
<b>Group funds</b>		<b>512,901</b>	<b>451,500</b>
		<b>1,066,732</b>	<b>1,030,703</b>

The notes on pages 58 to 103 form part of these financial statements.

The financial statements were approved by the Board on <sup>3rd</sup> September 2014 and signed on its behalf by:

  
Tina Tietjen  
Chairman

  
Duncan Beardsley  
Treasurer

  
Henry Potter  
Company Secretary

East Thames Group Limited  
Company number: 4091100

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Consolidated Cash Flow Statement for the year ended 31 March 2014

	Note	2014 £'000	2013 £'000
<b>Net cash flow from operating activities</b>	30	<b>120,365</b>	<b>5,553</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		563	534
Interest paid		(30,152)	(25,484)
Breakage fees paid		(9,097)	-
Loan issue costs paid		-	(2,085)
<b>Net cash outflow from returns on investments</b>		<b>(38,685)</b>	<b>(27,035)</b>
<b>Corporation tax</b>		<b>9</b>	<b>(37)</b>
<b>Capital expenditure and financial investments</b>			
Purchase of investment properties		(612)	(1,896)
Purchase and construction of housing properties		(61,396)	(84,692)
Purchase of other tangible fixed assets		(469)	(887)
Social Housing Grant received		10,043	27,752
Social Housing Grant repaid		(5)	(10)
Other capital grants		-	2,751
Sales of investment properties		4,200	-
Sales of housing properties		15,698	7,129
Sales of HomeBuy		301	116
Sales of Starter Homes Initiatives		1,164	1,405
<b>Cash outflow from capital expenditure and financial investments</b>		<b>(31,076)</b>	<b>(48,332)</b>
Cash outflow from investment in Joint Venture – Triathlon Homes LLP		(1,958)	(120)
<b>Cash inflow / (outflow) before financing</b>		<b>48,654</b>	<b>(69,971)</b>
<b>Financing</b>			
Sterling bond received		-	250,000
Housing loans repaid		(26,312)	(180,126)
<b>Cash (outflow) / inflow from financing</b>	32	<b>(26,312)</b>	<b>69,874</b>
<b>Increase / (decrease) in cash in the year</b>	32	<b>22,342</b>	<b>(97)</b>

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Parent Income and Expenditure account for the year ended 31 March 2014

	Note	2014 £'000	2013 £'000 Restated
Turnover: continuing activities	3	16,768	15,249
Operating costs	3	(17,480)	(19,134)
<b>Operating deficit: continuing activities</b>		<b>(712)</b>	<b>(3,885)</b>
Gift aid		-	266
Donation from group entities		712	1,626
<b>Deficit for the financial year</b>		<b>-</b>	<b>(1,993)</b>

The notes on pages 58 to 103 form part of these financial statements.

There are no other recognised surplus or deficits others than ones reported in this income and expenditure account.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Parent Balance Sheet as at 31 March 2014

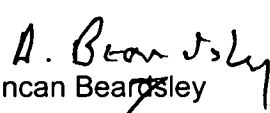
	Note	2014 £'000	2013 £'000
Investment in subsidiaries	13e	13	13
Fixed assets	12	1,432	1,481
<b>Current assets</b>			
Debtors	15	2,882	8,035
Cash at bank and in hand		3	-
		<hr/> 2,885	<hr/> 8,035
Creditors: amounts falling due within one year	17	(4,330)	(9,529)
<b>Net current (liabilities)</b>		<hr/> (1,445)	<hr/> (1,494)
<b>Total assets less current liabilities</b>		<hr/> -	<hr/> -
<b>Capital and reserves</b>			
Share capital		-	-
Revenue reserve	26	-	-
		<hr/> -	<hr/> -

The notes on pages 58 to 103 form part of these financial statements.

The financial statements were approved by the Board on <sup>3<sup>rd</sup></sup> September 2014 and signed on its behalf by:



Tina Tietjen  
Chairman



Duncan Bearsley  
Treasurer



Henry Potter  
Company Secretary

East Thames Group Limited  
Company number. 4091100

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Notes to the financial statements**

#### **1 LEGAL STATUS**

The company is registered under the Companies Act 2006 and is a registered charity. The company is also registered as a housing provider with the Homes and Communities Agency.

#### **2 ACCOUNTING POLICIES**

##### **Basis of accounting**

The financial statements of the Group and company are prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP) and the Statement of Recommended Practice: Accounting by Registered Social Housing Providers Update 2010 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2012.

The Group has taken true and fair overrides to the requirements of the Companies Act 2006 with regards to Social Housing Grant and Investment and Commercial Property. Further details are given in the relevant accounting policies below.

The Group has taken advantage of the exemption to prepare a cash flow statement for the parent company.

The financial statements reflect the effect of a change in accounting policy relating to the allocation of capital grants (including Social Housing Grant) to the related components of fixed assets. This change in accounting policy has been reflected as a prior year adjustment, further details of which are given in note 34 to the financial statements and the policy relating to depreciation of housing properties given below. The change in allocation is considered to be a more appropriate application of guidance given in SORP 2010 and its interpretation more generally in the sector.

##### **Joint Ventures**

The Group's interests in joint ventures comprise ventures where there is shared control. The investments in joint ventures are accounted for under the gross equity method and are carried in the consolidated balance sheet at the Group's share of their net assets at the date of acquisition and of their post acquisition retained profits and losses together with any goodwill arising on the acquisition, net of amortisation. The Group's share of the results of joint ventures is included in the consolidated Income and Expenditure Account. Goodwill relating to the joint venture reflects the requirement of its members agreement to contribute resource in the form of staff time and expertise. The increase in the value of such contributions gives rise to goodwill as no additional equity or profit sharing rights arise from incremental contributions. The amortisation of such goodwill over its useful economic life commences at the end of the joint venture development stage.

##### **Going Concern**

The Board has a reasonable expectation that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements. Further details are given in the Strategic Report including the Operating and Financial review on page 27.

##### **Basis of Consolidation**

The Group accounts consolidate the accounts of the parent Company and all its subsidiaries at 31 March using acquisition accounting.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 2 ACCOUNTING POLICIES (continued)

##### Turnover

Turnover comprises rental income receivable in the year, management fees, income from shared ownership first tranche sales, sales of properties built for sale, and other services included at the invoiced value (excluding VAT where applicable) of services supplied in the year, and revenue grants receivable in the year.

##### Revenue Recognition

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting. Rental income is recognised net of rent and service charge losses from voids.

Fee income is receivable when the conditions for receipt of the fees under the relevant contractual agreements have been met.

Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale.

Revenue grants are receivable when the conditions for receipt of agreed grant funding have been met.

##### Supporting People Funding Regime

Charges for support services funded under Supporting People are recognised as they fall due under the contractual arrangements with Administering Authorities.

##### Value Added Tax

The Group charges value added tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The income and expenditure account includes VAT to the extent that it is suffered by the Group and not recoverable from HM Revenue & Customs. The balance of VAT payable or recoverable at the year- end is included as a current liability or asset.

##### Interest Payable

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

- (a) interest on borrowings specifically financing the development programme after deduction of social housing grant (SHG) in advance; or
- (b) interest on borrowing of the Group as a whole after deduction of interest on SHG received in advance to the extent that they can be deemed to be financing the development programme.

Other interest payable is charged to the income and expenditure account in the year.

##### Derivatives

The Group uses interest rates swaps to reduce its exposure to future increases in the interest rates on floating rate loans. The notional principal of those interest rate swaps is not reflected in the Group's balance sheet. Payments made under interest rate swaps are recognised in the payment period and adjusted against interest payable on the loans. Costs associated with

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Notes to the financial statements**

#### **2 ACCOUNTING POLICIES (continued)**

restructuring any interest rate swaps are written off in the same period that the restructure took place. Any interest rate swaps that are considered to be effective hedges of underlying interest rate exposures are documented as cash flow hedges, although the relevant form of hedge accounting will not be affected until April 2015.

#### **Pensions**

The Group participates in a funded multi-employer defined benefit scheme, the Social Housing Pension Scheme (SHPS), the Pension Trust's multi-employer growth plan and the NHS statutory multi-employer scheme. It has not been possible to identify the share of underlying assets and liabilities belonging to individual participating employers of these schemes. The income and expenditure charge represents the employer contribution payable to the scheme for the accounting period.

From the 1<sup>st</sup> April 2008 defined benefit schemes have been closed to new employees and existing employees not already in the scheme; these employees are eligible to contribute to a defined contribution scheme run by the Pension Trust. Employer contributions to the pension scheme are charged to the income and expenditure account as incurred.

#### **Housing Properties**

Housing properties are principally properties available for rent, shared ownership, rent-now-buy-later and intermediate/market rent.

Completed housing properties in all tenure types are stated at Existing Use Value for Social Housing (EUV-SH). Full revaluations of the properties by an external valuer are undertaken every three years and interim valuations are carried out by them where there are indications of a significant change in value.

Housing properties under construction are stated at cost less related social housing grant and other capital grants. Cost includes the cost of acquiring land and buildings, development costs, interest charges incurred during the development period and expenditure incurred in respect of improvements.

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

Economic benefits are enhanced if works result in an increase in rental income, a reduction in future maintenance costs or a significant extension to the useful economic life of a property.

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

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Notes to the financial statements**

#### **2 ACCOUNTING POLICIES (continued)**

##### **Donated Land**

Land donated by local authorities and others is added to cost at the market value of the land at the time of the donation. Where the land is not related to a specific development and is donated by a public body, an amount equivalent to the increase in value between market value and cost is added to other grants. Where the donation is from a non-public source, the value of the donation is included as income.

##### **Social Housing Grant**

Social Housing Grant (SHG) is receivable from the Homes & Communities Agency (the HCA) and the Greater London Authority (the GLA) and is utilised to reduce the capital costs of housing properties including land costs. It is allocated to the land and structure components of the associated asset in proportion to their cost. Grant receivable in respect of identifiable components is allocated to those components.

SHG due from the HCA or received in advance is included as a current asset or liability. SHG received in respect of revenue expenditure is credited to the income and expenditure account in the same period as the expenditure to which it relates.

SHG released on sale of a property may be repayable but is normally available to be recycled and is credited to a Recycled Capital Grants Fund or Disposal Proceeds Fund and included in the balance sheet in creditors. SHG repayable in certain circumstances is included as a current liability until it is repaid. The repayment of SHG is generally subordinated to the repayment of housing loans by agreement with the HCA or the GLA.

Where individual components are disposed of and this does not create a relevant event for recycling purposes, any grant which has been allocated to the component is released to the income and expenditure account. Upon disposal of the associated property, the group is required to recycle these proceeds; as such a contingent liability is disclosed to reflect this.

##### **Other Grants**

Other grants include grants from local authorities and other organisations. Capital grants are utilised to reduce the capital costs of housing properties including land costs. These include amounts attributable to land donated by public authorities. Grants in respect of revenue expenditure are included in the income and expenditure account in the same period as the expenditure to which they relate and when attached conditions have been met.

##### **True and Fair Override**

Under the requirements of the SORP Update 2010, capital grants are shown as a deduction from the cost of housing properties on the balance sheet (see note 11). This is a departure from the rules of the Companies Act 2006 which does not permit income to be set off against assets. In the opinion of the Board it is a relevant accounting policy reflecting the subsidised costs of the assets and is comparable to that adopted by other registered social landlords. It has been adopted in order to present a true and fair view.

Depreciation is not provided on investment properties. This accounting treatment is a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, since investment properties are not held for consumption, the Board consider that systematic

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 2 ACCOUNTING POLICIES (continued)

annual depreciation of these properties would be inappropriate and not give a true and fair view on their values as reflected in the financial statements. Depreciation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

#### Depreciation of Housing Properties

Freehold land, shared ownership properties and assets held in the course of construction are not depreciated. Shared ownership properties are not depreciated reflecting on assessment that the expected residual values are anticipated to result in an immaterial charge (in turn reflecting the fact that the shared owner has the significant equity and is responsible for the maintenance of the property).

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

The Group separately identifies the major components which comprise its housing properties, and charges depreciation so as to write-down the cost of each component, net of grant receivable, to its estimated residual value, on a straight line basis, over its estimated useful economic life.

Depreciation is calculated using the valued amount of the property and its components. Depreciation is charged to the income and expenditure account and the excess of actual depreciation over historic cost is included in the statement of historic cost surpluses and deficits, credited to the revenue reserve and debited against the revaluation reserve.

There has been a change to the accounting policy relating to the allocation of social housing grants to components. Social housing grant is now allocated to the land and structure components of housing properties only. Previously social housing grants were allocated to all components of housing properties.

The Group depreciates the major components of its housing properties over the following years;

	<u>Years</u>
Kitchens	20
Bathrooms	30
Boilers	15
Other heating systems	30
External doors and windows	30
Roofs	60
Electrical installations	30
Structure	60-150

These useful economic lives apply equally to the Group's rented and supported housing and care stock of housing properties.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 2 ACCOUNTING POLICIES (continued)

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

#### Impairment

Housing properties including those with individual components, which are depreciated over a period in excess of 50 years are subject to impairment reviews annually. Other assets are reviewed for impairment if there is an indication that impairment may have occurred.

Where there is evidence of impairment, fixed assets are written down to their recoverable amount being the higher of the net recoverable value or value in use to the association. Any such write down is charged to operating surplus.

#### Other Tangible Fixed Assets

Other classes of other tangible fixed assets are stated at cost less depreciation.

Depreciation is provided on a straight line basis on the cost of other tangible fixed assets to write them down to their estimated residual values over their expected useful lives on a straight line basis over the following years:

	Years
Freehold offices other than Head office	25
Head office	30
Lifts	25
Equipment & Furniture	7
Service equipment	5
Motor vehicles	4
IT equipment	3
IT development	5-7

#### Leased Assets

Rentals payable under operating leases are charged to the income and expenditure account on a straight-line basis over the lease term.

#### Properties for Sale (including Shared Ownership Properties)

Completed properties for outright sale and properties under construction are valued at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

First tranche shared ownership sales are included in turnover. First tranche elements of shared ownership housing properties are disclosed as properties for sale within current assets and are stated at the lower of cost and net realisable value.

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Notes to the financial statements**

#### **2 ACCOUNTING POLICIES (continued)**

Subsequent tranches are dealt with in the same way as fixed asset property sales and shown as a separate item after operating surplus in the Income and Expenditure Account. Properties for sale within current assets also include other development for sale such as properties for outright sale.

#### **Starter Homes Initiative**

Where properties built for sale are disposed of during the year, the disposal proceeds are included in turnover, and the attributable costs are included in cost of sales. The Group receives grant via the Homes and Communities Agency to enable key workers to purchase their own homes. The loan is included in Fixed Asset Investments at cost together with the associated grant.

#### **Investment and Commercial Property**

Properties held for their investment potential are accounted for as investment properties under SSAP 19 "accounting for investment properties". These properties are held at fair value. If there is an indication of impairment the assets are written down to the lower of net realisable value and value in use. Commercial property under construction is recorded at the lower of cost and net realisable value, and on completion will be treated as investment properties. Changes in current market value are taken to the revaluation reserve.

#### **Current asset investments and liquid resources**

Current asset investments are stated at the lower of cost and net realisable value. Liquid resources are readily disposable current asset investments. They include some money market deposits, held for more than 24 hours that can only be withdrawn without penalty on maturity or by giving notice of more than one working day.

#### **Taxation**

The parent company is a registered charity and is not generally subject to Corporation Tax.

The majority of the Group's activities is not subject to Corporation Tax. Any charge for taxation is based upon taxable profit for the year and takes into account deferred tax where applicable.

The subsidiaries East Place Limited, East Regen Limited and East Thames Partnership Limited are subject to Corporation Tax, and other subsidiaries, including East Homes Limited may be liable to Corporation Tax on those activities that are not exempt either through charitable/public benefit objectives or being a registered charity.

Subsidiaries that are not registered charities are subject to corporation tax at the prevailing rates, but may make Gift Aid donations to reduce their liability to taxation.

#### **Gift Aid**

The Group has a gift aid policy in force whereas the subsidiary has entered into an arrangement to pay to the group holding company a sum of money equivalent to some or all of its taxable profits.

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Notes to the financial statements**

#### **2 ACCOUNTING POLICIES (continued)**

##### **Donations**

Donations are periodically made from group entities to the parent company for the purpose of funding specific projects that may not fall within the normal course of business.

##### **Provisions**

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be estimated reliably.

##### **Finance costs**

Direct costs associated with obtaining debt finance including loan and bond issue costs, are deferred and written off over the expected life of the related instrument.

##### **Reserves**

The Group establishes restricted reserves for specific purposes where their use is subject to external restrictions in accordance with the wishes of the funder or donor, and designated reserves where reserves are earmarked for a particular purpose.

The difference between the market value of investment properties and the historical cost carrying value is credited to the revaluation reserve. When the properties are revalued, the difference between the valuation and carrying value of housing properties is also credited to the revaluation reserve.

## East Thames Group Limited

### Report and Financial statements for the year ended 31 March 2014

#### Notes to the financial statements

#### 3 PARTICULARS OF TURNOVER, COST OF SALES, OPERATING COSTS AND OPERATING SURPLUS

GROUP	2014				2013 (Restated*)			
	Turnover	Cost of Sale	Operating costs	Operating surplus / (deficit)	Turnover	Cost of Sale	Operating costs	Operating surplus / (deficit)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Social housing lettings:	87,426	-	59,950	27,476	81,703	-	57,329	24,374
Other social housing activities:								
Regeneration and development services	3,047	-	3,458	(411)	5,049	-	3,302	1,747
Community involvement	838	-	2,136	(1,298)	1,081	-	2,281	(1,200)
Support charges- fixed contracts	3,806	-	3,806	-	4,379	-	4,379	-
First tranche shared ownership sales	13,490	8,695	1,416	3,379	8,593	7,230	1,116	247
Sales of properties developed for sale to other Registered Providers	6,418	6,418	-	-	-	-	-	-
Impairment on schemes in the course of development	-	-	-	-	-	-	1,700	(1,700)
Improving East Thames	-	-	713	(713)	-	-	3,883	(3,883)
Abortive costs	-	-	48	(48)	-	-	140	(140)
Housing management – East Village	353	-	580	(227)	143	-	145	(2)
Home ownership services	203	-	293	(90)	159	-	233	(74)
Other	1,063	-	1,049	14	830	-	863	(33)
	<b>29,218</b>	<b>15,113</b>	<b>13,499</b>	<b>606</b>	<b>20,234</b>	<b>7,230</b>	<b>18,042</b>	<b>(5,038)</b>
Total – social housing activities	<b>116,644</b>	<b>15,113</b>	<b>73,449</b>	<b>28,082</b>	<b>101,937</b>	<b>7,230</b>	<b>75,371</b>	<b>19,336</b>

\*Restated due to the reallocation of housing management-East Village and Home ownership services from social housing letting costs to other social housing activities.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 3 PARTICULARS OF TURNOVER, COST OF SALES, OPERATING COSTS AND OPERATING SURPLUS (continued)

GROUP	2014				2013 (Restated)			
	Turnover	Cost of Sale	Operating costs	Operating surplus/ (deficit)	Turnover	Cost of Sale	Operating costs	Operating surplus/ (deficit)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Non-social housing activities</b>								
Development for sale – outright sales	55,957	29,819	6,269	19,869	6,412	3,518	1,377	1,517
Development for sale – other sales	1,900	2,377	-	(477)	-	-	-	-
Impairment (write back)/write off on investment properties	-	-	(35)	35	-	-	1,341	(1,341)
Impairment on investment in shared equity	-	-	-	-	-	-	67	(67)
Commercial rent	884	-	774	110	1,024	-	848	176
Commercial income other	3	-	-	3	-	-	-	-
<b>Total non-social housing activities</b>	<b>58,744</b>	<b>32,196</b>	<b>7,008</b>	<b>19,540</b>	<b>7,436</b>	<b>3,518</b>	<b>3,633</b>	<b>285</b>
<b>Total</b>	<b>175,388</b>	<b>47,309</b>	<b>80,457</b>	<b>47,622</b>	<b>109,373</b>	<b>10,748</b>	<b>79,004</b>	<b>19,621</b>
<b>PARENT</b>								
<b>Other income and expenditure</b>								
Group recharge	16,001	-	16,768	(767)	14,607	-	15,251	(644)
Improving East Thames	-	-	712	(712)	-	-	3,883	(3,883)
Commercial rent	60	-	-	60	315	-	-	315
Other	707	-	-	707	327	-	-	327
<b>Total</b>	<b>16,768</b>	<b>-</b>	<b>17,480</b>	<b>(712)</b>	<b>15,249</b>	<b>-</b>	<b>19,134</b>	<b>(3,885)</b>

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 4 PARTICULARS OF INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS

GROUP	General Needs Housing £'000	Foyers £'000	Supported Housing £'000	Residential Care Homes £'000	Temporary Social Housing £'000	Shared Ownership & RNBL(*) £'000	Affordable Housing £'000	2014 £'000	2013 Restated** £'000
Rent receivable net of identifiable service charges	45,263	2,533	3,991	372	-	12,500	1,725	66,384	61,710
Service charge income	2,516	1,310	1,957	-	-	2,277	86	8,146	6,826
Support charges – resident subsidy	-	-	2,117	-	-	-	-	2,117	2,246
Revenue grants from local authorities and other agencies	3	-	3,785	4,469	-	-	-	8,257	8,508
Nomination Fees	-	-	-	-	-	16	-	16	21
Other income	1,267	-	873	12	-	350	4	2,506	2,392
Turnover from social housing lettings	<b>49,049</b>	<b>3,843</b>	<b>12,723</b>	<b>4,853</b>	<b>-</b>	<b>15,143</b>	<b>1,815</b>	<b>87,426</b>	<b>81,703</b>
Service charge costs	2,572	1,537	2,270	8	-	2,348	88	8,823	6,868
Management	12,758	849	3,352	470	-	2,938	178	20,545	19,164
Support	-	-	4,634	4,901	-	-	-	9,535	8,888
Rent payable to landlords	-	-	179	1	-	1,213	-	1,393	1,511
Routine maintenance	5,495	376	650	-	-	1,848	25	8,394	7,392
Planned maintenance	655	188	271	-	-	361	11	1,486	4,942
Revenue element of major repairs expenditure	-	-	-	-	-	-	-	-	930
Rent losses from bad debts	802	-	4	1	14	108	-	929	494
Housing properties depreciation	8,109	-	-	-	-	736	-	8,845	7,140
Operating costs on social housing lettings	<b>30,391</b>	<b>2,950</b>	<b>11,360</b>	<b>5,381</b>	<b>14</b>	<b>9,552</b>	<b>302</b>	<b>59,950</b>	<b>57,329</b>
Operating surplus/(deficit) on social housing lettings	<b>18,658</b>	<b>893</b>	<b>1,363</b>	<b>(528)</b>	<b>(14)</b>	<b>5,591</b>	<b>1,513</b>	<b>27,476</b>	<b>24,374</b>
Void losses	<b>1,092</b>	<b>571</b>	<b>777</b>	<b>-</b>	<b>-</b>	<b>800</b>	<b>96</b>	<b>3,336</b>	<b>1,835</b>

(\*) 'rent now, buy later' (RNBL)

(\*\*) Restated due to the reallocation of housing management-East Village and Home ownership services from social housing letting costs to other social housing activities.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 5 SALES OF FIXED ASSETS – HOUSING PROPERTIES

GROUP	Sales Proceeds	Carrying value of fixed assets	Social Housing Grant Transfer to RCGF & DPF	Social Housing Grant repaid	2014 Surplus	2013 Surplus
	£'000	£'000	£'000	£'000	£'000	£'000
Sales of older and shared ownership properties	15,798	7,357	3,526	-	4,915	2,714
Sales of investment properties	4,200	3,909	-	-	291	-
Homebuy	301	-	220	-	81	25
Starter Homes Initiative	1,164	-	905	5	254	193
	<b>21,463</b>	<b>11,266</b>	<b>4,651</b>	<b>5</b>	<b>5,541</b>	<b>2,932</b>

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 6 UNITS OF ACCOMMODATION IN MANAGEMENT

	Group 2014	2013 Restated*
<b>Social Housing</b>		
<b>Owned</b>		
Social rents	7,827	7,645
Intermediate rent	403	410
Supported housing and housing for older people	1,203	1,238
Foyers	548	548
Low cost home (shared) ownership	1,720	1,680
'Rent now, buy later'	401	430
Affordable rents	201	132
<b>Total owned</b>	<b>12,303</b>	<b>12,083</b>
<b>Accommodation managed for others</b>		
General housing	298	80
Supported housing and housing for older people	79	74
Foyers	41	41
Total accommodation managed for others	418	195
<b>Total social housing owned and managed</b>	<b>12,721</b>	<b>12,278</b>
<b>Non Social Housing</b>		
<b>Owned</b>		
Market rent	57	101
Fully staircased (Long leased) properties	1,066	852
<b>Total owned</b>	<b>1,123</b>	<b>953</b>
<b>Accommodation managed for others</b>		
Market rent	5	159
Intermediate Rent	58	-
Low cost home (shared) ownership	81	-
Shared Equity	23	-
Total accommodation managed for others	167	159
<b>Total non social housing managed</b>	<b>1,290</b>	<b>1,112</b>
<b>Total social and non social housing owned and managed</b>	<b>14,011</b>	<b>13,390</b>

The Parent company neither owns nor manages any units of stock.

\*Restated to only include units of accommodation in management.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 7 OPERATING SURPLUS

The operating surplus is arrived at after charging:	Group 2014 £'000	Group 2013 £'000	Parent 2014 £'000	Parent 2013 £'000
Depreciation of housing properties	8,845	7,140	-	-
Depreciation of other fixed assets	1,575	1,661	517	708
Impairment on schemes in the course of development	-	1,700	-	-
Impairment on investment properties	(35)	1,341	-	-
Impairment on shared equity properties	-	67	-	-
Operating leases on land and buildings	153	1,421	-	-
Fees payable to the Company's auditor for the audit of the financial statements	17	14	17	14
Audit of the financial statements of the Company's subsidiaries pursuant to legislation	77	63	-	-
Fees payable to the Company's auditor for non - audit services (advice relating to FRS 102 (£11,000), VAT advice (£6,000) and service charge audits (£26,000))	43	30	-	-

#### 8 NET INTEREST PAYABLE AND SIMILAR CHARGES

	2014 £'000	2013 £'000
Interest receivable	510	534
Interest payable on loans and leases:		
- repayable wholly within five years	-	-
- repayable in more than five years	(30,152)	(25,484)
	<b>(29,642)</b>	<b>(24,950)</b>
Interest payable from other Registered Providers	53	-
Interest payable capitalised on housing properties under construction	2,388	2,494
Interest payable capitalised on commercial properties under construction	757	1,332
Interest receivable transferred to the RCGF/DPF	(54)	(49)
Amortisation of loan issue costs	(145)	(572)
Net interest and similar charges	(26,643)	-
Breakage costs	(9,097)	-
	<b>(35,740)</b>	<b>(21,745)</b>
Capitalisation rate used to determine the finance costs during the period	5%	5%

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 8 NET INTEREST PAYABLE AND SIMILAR CHARGES (continued)

In February 2014, the Group incurred an exceptional cash cost of £9.097m when eight cancellable interest rate swaps were restructured. These long-dated cancellable interest rate swaps provided the Group with fixed interest hedging on £110m of debt, but gave the counterparty banks the option to cancel the swap at various predetermined dates. This introduced a material level of uncertainty over the longevity of the Group's interest rate hedging which the Board deemed to be unacceptable. These swaps were restructured to remove the banks' cancellation options but still retain the Group's original fixed interest rate obligations. The restructured swaps are now effective interest rate hedges to £110m of the Group's debt.

#### 9 EMPLOYEES

	Group 2014	Group 2013	Parent 2014	Parent 2013
<b>Number of employees expressed in full-time equivalents at end of year (35 hours per week)</b>				
Administration	415	436	125	134
Care staff	351	378	-	-
	<b>766</b>	<b>814</b>	<b>125</b>	<b>134</b>

	Group 2014 £'000	Group 2013 £'000	Parent 2014 £'000	Parent 2013 £'000 Restated*
<b>Staff costs</b>				
Wages and salaries	21,424	22,266	6,630	6,916
Social Security costs	2,175	2,199	739	746
Other pension costs	1,451	1,693	598	967
	<b>25,050</b>	<b>26,158</b>	<b>7,967</b>	<b>8,629</b>
Recharged from Group entities	-	-	145	239
Recharged to Group entities	-	-	(2,116)	(2,590)
	<b>25,050</b>	<b>26,158</b>	<b>5,996</b>	<b>6,278</b>

\*Restated to reflect gross staff costs of contracted employees netted off by recharges to and from group entities

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 9 EMPLOYEES (continued)

*Staff remuneration by bands – Includes directors*

Pay Band (Based on basic salary) £	Number of staff 2014	Number of staff 2013
150,001 to 160,000	2	1
140,001 to 150,000	-	-
130,001 to 140,000	-	1
120,001 to 130,000	2	3
110,001 to 120,000	-	-
100,001 to 110,000	1	-
90,001 to 100,000	3	4
80,001 to 90,000	5	7
70,001 to 80,000	1	1
60,000 to 70,000	16	16
<b>Total</b>	<b>30</b>	<b>33</b>

*Ratio of highest to lowest earners*

	2014 £'000	2012 £'000
Gross salary highest earner	151	151
Gross salary lowest earner	14	14
<b>Ratio</b>	<b>1:11</b>	<b>1:11</b>

#### NHS Pension Scheme

East Thames Group Limited employs 11 staff who are members of the NHS Pension Scheme. Employees pay contributions averaging 6.88% and East Thames Group Limited pay contributions of 14%. The NHS Pension Scheme is a defined benefit scheme.

The estimated contribution for 2014/15 is £33k.

The NHS Pension Scheme is a statutory multi-employer scheme, with benefits fully guaranteed by the Government. Contributions from both members and employers are paid to the Exchequer, which meets the cost of the scheme benefits. The Exchequer also pays for the costs of increasing benefits each year by the rate of inflation. This extra cost is not met by contributions from scheme members or employers.

#### Social Housing Pension Scheme (SHPS)

East Thames Group Limited participates in the Social Housing Pension Scheme (the Scheme). The Scheme is funded and is contracted-out of the State Pension scheme.

The Scheme is a multi-employer defined benefit scheme. Employer participation in the Scheme is subject to adherence with the employer responsibilities and obligations as set out in the 'SHPS House Policies and Rules Employer Guide'.

# **East Thames Group Limited**

## **Report and Financial statements for the year ended 31 March 2014**

### **Notes to the financial statements**

#### **9 EMPLOYEES (continued)**

The Scheme operated a single benefit structure, final salary with a 1/60th accrual rate until 31 March 2007. From April 2007 three defined benefit structures have been available, namely:

- 1.1. Final salary with a 1/60th accrual rate.
- 1.2. Final salary with a 1/70th accrual rate.
- 1.3. Career average revalued earnings (CARE) with a 1/60th accrual rate.

From April 2010 a further two defined benefit structures have been available, namely:

- 1.4. Final salary with a 1/80th accrual rate.
- 1.5. Career average revalued earnings (CARE) with a 1/80th accrual rate.

A defined contribution benefit structure was made available from 1 October 2010.

An employer can elect to operate different benefit structures for their active members and their new entrants. An employer can only operate one open defined benefit structure at any one time. An open benefit structure is one which new entrants are able to join.

East Thames Group Limited currently operates with a defined contribution scheme for active members.

The Trustee commissions an actuarial valuation of the Scheme every three years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, in respect of each benefit structure, so that the Scheme can meet its pension obligations as they fall due. From April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate. From 1 April 2010 the requirement for employers to pay at least 50% of the total contribution rate no longer applies.

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting period East Thames Group Limited paid contributions at the rate of 8.2%. Member contributions varied between 8% and 10% for the defined benefits scheme. This scheme is now closed for new members.

During the accounting period East Thames Group Limited paid contributions at the rate of 1% to 12%. Member contributions varied between 1% and 10% for the defined contribution scheme.

As at the balance sheet date there were 202 active members of the Scheme employed by East Thames Group Limited. The annual pensionable payroll in respect of these members was £7.88m

It is not possible in the normal course of events to identify on a reasonable and consistent basis the share of underlying assets and liabilities belonging to individual participating employers. The Scheme is a multi-employer scheme, where the assets are co-mingled for investment purposes, and benefits are paid out of total Scheme assets. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS17 represents the employer contribution payable.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 9 EMPLOYEES (continued)

The last formal valuation of the Scheme was performed as at 30 September 2011 by a professionally qualified Actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £2,062m. The valuation revealed a shortfall of assets compared with the value of liabilities of £1,035m, equivalent to a past service funding level of 67.0%.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at 30 September 2013. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The market value of the Scheme's assets at the date of the Actuarial Report was £2,718m. The Actuarial Report revealed a shortfall of assets compared with the value of liabilities of £1,151m, equivalent to a past service funding level of 70%.

The financial assumptions underlying the valuation as at 30 September 2011 were as follows:

Valuation Discount Rates:	% p.a.
Pre-Retirement	7.0
Non Pensioner Post Retirement	4.2
Pensioner Post Retirement	4.2
Pensionable Earnings Growth	2.5 per annum for 3 years, then 4.4
Price Inflation (RPI)	2.9
<b>Pension Increases:</b>	
Pre 88 GMP	0.0
Post 88 GMP	2.0
Excess Over GMP	2.4

Expenses for death-in-service insurance, administration and Pension Protection Fund (PPF) levy are included in the contribution rate.

The valuation was carried out using the following demographic assumptions:

- Mortality pre-retirement – 41% SAPS S1 Male / Female All Pensioners (amounts), Year of Birth, CMI\_2009 projections with long term improvement rates of 1.5% p.a. for Males and 1.25% p.a. for Females.
- Mortality post retirement – 97% SAPS S1 Male / Female All Pensioners (amounts), Year of Birth, CMI\_2009 projections with long term improvement rates of 1.5% p.a. for Males and 1.25% p.a. for Females.

The long-term joint contribution rates required from April 2013 from employers and members to meet the cost of future benefit accrual were assessed at:

Benefit Structure	Long-term Joint Contribution Rate (% of pensionable salaries)
Final salary with a 1/60th accrual rate	19.4
Final salary with a 1/70th accrual rate	16.9
Career average revalued earnings (CARE) with a 1/60th accrual rate	18.1
Final salary with a 1/80th accrual rate	14.8
Career average revalued earnings (CARE) with a 1/80th accrual rate	14.0
Career average revalued earnings (CARE) with a 1/120th accrual rate	9.7

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 9 EMPLOYEES (continued)

If an actuarial valuation reveals a shortfall of assets compared to liabilities the Trustee must prepare a Recovery Plan setting out the steps to be taken to make up the shortfall.

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £1,035m would be dealt with by the payment of deficit contributions as shown in the table below:

From 1 April 2013 to 30 September 2020	A cash amount(*) equivalent to 7.5% of Members' Earnings per annum (payable monthly and increasing by 4.7% per annum each 1 April)
From 1 October 2020 to 30 September 2023	A cash amount(*) equivalent to 3.1% of Members' Earnings per annum (payable monthly and increasing by 4.7% per annum each 1 April)
From 1 April 2013 to 30 September 2026	£30,640,000 per annum (payable monthly and increasing by 3% per annum each 1 April; first increase on 1 April 2014)

(\*) The contributions of 7.5% will be expressed in nominal pound terms (for each Employer), increasing each year in line with the Earnings growth assumption used in the 30 September 2008 valuation (i.e. 4.7% per annum). The contributions of 3.1% will be calculated by proportioning the nominal pound payment at the time of the change. Earnings at 30 September 2008 (for each Employer) will be used as the reference point for calculating these contributions.

These deficit contributions are in addition to the long-term joint contribution rates as set out in above.

The next formal valuation of the Scheme will begin later this year and will give an update on the financial position as at 30 September 2014. The results of this valuation will be available in Spring 2016.

Employers that participate in the Scheme on a non-contributory basis pay a joint contribution rate (i.e. a combined employer and employee rate).

Employers that have closed the defined benefit section of the Scheme to new entrants are required to pay an additional employer contribution loading of 2.5% to reflect the higher costs of a closed arrangement.

A small number of employers are required to contribute at a different rate to reflect the amortisation of a surplus or deficit on the transfer of assets and past service liabilities from another pension scheme into SHPS.

New employers that do not transfer any past service liabilities to the Scheme pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and new employers joining the Scheme between valuations up until 1 April 2010 do not contribute towards the deficit until two valuations have been completed after their date of joining. New employers joining the Scheme after 1 April 2010 will be liable for past service deficit contributions from the valuation following joining. Contribution rates are changed on the 1 April that falls 18 months after the valuation date.

A copy of the Recovery Plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to The Pensions Regulator. The Regulator has the power

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 9 EMPLOYEES (continued)

under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or Recovery Plan are inappropriate. For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the Scheme liabilities and hence impact on the Recovery Plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the Recovery Plan).

As a result of pension scheme legislation there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buy-out basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

East Thames Group Limited has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Social Housing Pension Scheme, based on the financial position of the Scheme as at 30 September 2013. At this date the estimated employer debt for East Thames Group Limited was £44.2 million.

The estimated contributions for the 2014/15 year are £1.3m.

#### Growth Plan

East Thames Group Ltd participates in The Pensions Trust's Growth Plan (the Plan). The Plan is funded and is not contracted-out of the State scheme. The Plan is a multi-employer pension plan.

Contributions paid into the Plan up to and including September 2001 were converted to defined amounts of pension payable from Normal Retirement Date. From October 2001 contributions were invested in personal funds which have a capital guarantee and which are converted to pension on retirement, either within the Plan or by the purchase of an annuity.

The rules of the Plan allow for the declaration of bonuses and/or investment credits if this is within the financial capacity of the Plan assessed on a prudent basis. Bonuses/investment credits are not guaranteed and are declared at the discretion of the Plan's Trustee.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 9 EMPLOYEES (continued)

The Trustee commissions an actuarial valuation of the Plan every three years. The purpose of the actuarial valuation is to determine the funding position of the Plan by comparing the assets with the past service liabilities as at the valuation date. Asset values are calculated by reference to market levels. Accrued past service liabilities are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

The rules of the Plan give the Trustee the power to require employers to pay additional contributions in order to ensure that the statutory funding objective under the Pensions Act 2004 is met. The statutory funding objective is that a pension scheme should have sufficient assets to meet its past service liabilities, known as Technical Provisions.

If the actuarial valuation reveals a deficit, the Trustee will agree a recovery plan to eliminate the deficit over a specified period of time either by way of additional contributions from employers, investment returns or a combination of these.

The rules of the Plan state that the proportion of obligatory contributions to be borne by the member and the member's employer shall be determined by agreement between them. Such agreement shall require the employer to pay part of such contributions and may provide that the employer shall pay the whole of them.

East Thames Group Ltd does not pay contributions to the Growth Plan. Members paid contributions at the rate of their choice.

It is not possible in the normal course of events to identify on a reasonable and consistent basis the share of underlying assets and liabilities belonging to individual participating employers. The Plan is a multi-employer scheme, where the assets are co-mingled for investment purposes, and benefits are paid out of the Plan's total assets. Accordingly, due to the nature of the Plan, the accounting charge for the period under FRS17 represents the employer contribution payable.

The valuation results at 30 September 2011 were completed in 2012 and have been formalised. The valuation of the Plan was performed by a professionally qualified Actuary using the Projected Unit Method. The market value of the Plan's assets at the valuation date was £780 million and the Plan's Technical Provisions (i.e. past service liabilities) were £928 million. The valuation therefore revealed a shortfall of assets compared with the value of liabilities of £148 million, equivalent to a funding level of 84%.

The financial assumptions underlying the valuation as at 30 September 2011 were as follows:

	% p.a
Rate of return pre retirement	4.9
Rate of return post retirement:	
Active/Deferred	4.2
Pensioners	4.2
Bonuses on accrued benefits	0.0
Inflation: Retail Prices Index (RPI)	2.9
Inflation: Consumer Prices Index (CPI)	2.4

### Notes to the financial statements

#### 9 EMPLOYEES (continued)

In determining the investment return assumptions the Trustee considered advice from the Scheme Actuary relating to the probability of achieving particular levels of investment return. The Trustee has incorporated an element of prudence into the pre and post retirement investment return assumptions; such that there is a 60% expectation that the return will be in excess of that assumed and a 40% chance that the return will be lower than that assumed over the next 10 years.

The Scheme Actuary has prepared a funding position update as at 30 September 2013. The market value of the Plan's assets at that date was £772 million and the Plan's Technical Provisions (i.e. past service liabilities) was £927 million. The update, therefore, revealed a shortfall of assets compared with the value of liabilities of £155 million, equivalent to a funding level of 83%.

If an actuarial valuation reveals a shortfall of assets compared to liabilities, the Trustee must prepare a recovery plan setting out the steps to be taken to make up the shortfall.

The Pensions Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or recovery plan are inappropriate. For example, the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the Plan liabilities and hence impact on the recovery plan) or impose a schedule of contributions on the Plan (which would effectively amend the terms of the recovery plan). A copy of the recovery plan in respect of the September 2011 valuation was forwarded to The Pensions Regulator on 2 October 2012, as is required by legislation.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Plan and The Pensions Act 2011 has more recently altered the definition of Series 3 of the Growth Plan so that a liability arises to employers from membership of any Series except Series 4. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

The debt for the Plan as a whole is calculated by comparing the liabilities for the Plan (calculated on a buy-out basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Plan. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Plan's liability attributable to employment with the leaving employer compared to the total amount of the Plan's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Plan liabilities, Plan investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

When an employer withdraws from a multi-employer defined benefit pension scheme which is in deficit, the employer is required by law to pay its share of the deficit, calculated on a statutory basis (known as the buy-out basis). Due to a change in the definition of money purchase contained in the Pensions Act 2011 the calculation basis that applies to the Growth Plan will be amended to include Series 3 liabilities in the calculation of an employer's debt on withdrawal.

The Growth Plan is a "last man standing" multi-employer scheme. This means that if a withdrawing employer is unable to pay its debt on withdrawal the liability is shared amongst the remaining employers. The participating employers are therefore, jointly and severally liable for the deficit in the

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 9 EMPLOYEES (continued)

Growth Plan. As at 30 September 2013 the total deficit calculated on the buy-out basis was £219.9m.

East Thames Group Ltd has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Plan based on the financial position of the Plan as at 30 September 2013. As of this date the estimated employer debt for East Thames Group Ltd was £90,764.

The estimated contribution for the 2014/15 year is £380k.

#### 10 DIRECTORS EMOLUMENTS

The Directors are defined as the members of the East Thames Group Limited Board, including the Chief Executive and any member of the Group Executive team (Executive Directors).

##### *Board & Committee members*

Fees payable to the 8 non-executive members of the East Thames Group Limited Board members totalled £30k (2013: £42k). In addition, expenses reimbursed to 8 non-executive members totalled £15k (2013: £13k).

Remuneration payable to the 4 non-executive committee members for the year amounted to £7k (2013: £13k).

##### *Executive Directors*

Remuneration payable to Group executive directors for management services totalled £587k. (2013: £758k).

The emolument of the highest paid director, the Chief Executive, including pension contributions and benefits in kind was £182k (2013: £200k).

The Chief Executive is an ordinary member of the SHPS pension scheme and has a contractual arrangement with East Thames Group Limited covering additional voluntary contributions (AVCs).

There are no other enhanced pension arrangements to which East Thames Group or any of its subsidiaries make a contribution.

##### *Chief Executive and Chairman's remuneration on a £ per social housing unit basis*

	Gross Salary £'000	No of units	Cost per unit 2014 £	Cost per unit 2013 £
Chief Executive	151,000	14,011	10.78	11.35
Chairman	16,000	14,011	1.14	1.19

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 10 DIRECTORS EMOLUMENTS (CONTINUED)

	Total 2014 £'000	Total 2013 £'000
<b>Aggregate emoluments payable to executive directors</b>		
Chief Executive	151	152
Other Executive Directors	349	474
Pensions contributions	87	132
<b>Total</b>	<b>587</b>	<b>758</b>

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 11 TANGIBLE FIXED ASSETS – HOUSING PROPERTIES

GROUP	Housing properties held for letting	Housing Properties under construction	Shared ownership and Rent to buy properties held for letting	Shared ownership and Rent to buy properties under construction	Total
	£'000	£'000	£'000	£'000	£ '000
<b>Valuation/Costs</b>					
At 1 April 2013	708,859	76,307	162,070	13,122	960,358
Additions	4,706	31,119	1,798	21,799	59,422
Tenure change transfers	(1,024)	(1,959)	1,024	1,959	-
Transfer to properties for sale	(9,913)	(10,569)	(11,929)	(746)	(33,157)
Works to existing properties	1,974	-	-	-	1,974
Interest capitalised	-	1,350	-	1,038	2,388
Schemes completed	48,566	(48,566)	17,327	(17,327)	-
Disposals	(3,708)	(8)	(7,035)	-	(10,751)
Redevelopment Transfer	(791)	565	-	169	(57)
Valuation adjustment	2,451	-	11,028	-	13,479
<b>As at March 2014</b>	<b>751,120</b>	<b>48,239</b>	<b>174,283</b>	<b>20,014</b>	<b>993,656</b>
<b>Depreciation and impairment</b>					
As at 1 April 2013	-	5,580	-	-	5,580
Depreciation charged in year	8,109	-	736	-	8,845
Released on disposal	(288)	-	(9)	-	(297)
Redevelopment Transfer	(57)	-	-	-	(57)
Valuation adjustment	(7,764)	-	(727)	-	(8,491)
<b>At 31 March 2014</b>	<b>-</b>	<b>5,580</b>	<b>-</b>	<b>-</b>	<b>5,580</b>
<b>Social housing grants</b>					
At 1 April 2013	-	30,433	-	7,347	37,780
Additions	10,629	1,105	1,204	68	13,006
Tenure change transfers	(238)	(564)	238	564	-
Transfer to properties for sale	(5,386)	-	-	-	(5,386)
Schemes completed	17,084	(17,084)	2,158	(2,158)	-
Disposals	(571)	-	(2,943)	-	(3,514)
Redevelopment Transfer	(587)	450	-	137	-
Valuation adjustment	(20,931)	-	(657)	-	(21,588)
<b>At 31 March 2014</b>	<b>-</b>	<b>14,340</b>	<b>-</b>	<b>5,958</b>	<b>20,298</b>
<b>Other capital grants</b>					
At 1 April 2013	-	1,685	-	-	1,685
Schemes completed	570	(570)	-	-	-
Valuation adjustment	(570)	-	-	-	(570)
<b>At 31 March 2014</b>	<b>-</b>	<b>1,115</b>	<b>-</b>	<b>-</b>	<b>1,115</b>
<b>Net book value</b>					
<b>At 31 March 2014</b>	<b>751,120</b>	<b>27,204</b>	<b>174,283</b>	<b>14,056</b>	<b>966,663</b>
<b>At 31 March 2013</b>	<b>708,859</b>	<b>38,609</b>	<b>162,070</b>	<b>5,775</b>	<b>915,313</b>

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 11 TANGIBLE FIXED ASSETS – HOUSING PROPERTIES (continued)

	2014 £'000	2013 £'000 Restated
<b>Expenditure on works to existing properties</b>		
Amount capitalised	-	516
Components capitalised	1,974	2,856
Amounts (credited) / charged to income and expenditure account	-	930
	<b>1,974</b>	<b>4,302</b>

	2014 £'000	2013 £'000
<b>Total accumulated capital and revenue social grant receivable</b>		
Capital grants	620,614	616,508
Revenue grants	178	175
	<b>620,792</b>	<b>616,683</b>

	2014 £'000	2013 £'000
<b>Housing properties comprise:</b>		
Freehold land and buildings	966,308	914,958
Long leasehold land and buildings	355	355
	<b>966,663</b>	<b>915,313</b>

#### Valuation

Completed housing properties held for letting are stated at Existing Use Value for Social Housing (EUV-SH) and shared ownership properties and 'rent now, buy later' (RNBL) are stated at EUV-SH less the Net Present Liability to repay Social Housing Grant. Housing properties have been valued by professional valuers, FPD Savills, Chartered Surveyors.

The last valuation of completed housing properties was prepared as at 31 March 2014 in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The analysis of the carrying value of housing properties, split between valuation and cost is as follows:

	£'000
<b>Completed properties at valuation</b>	925,403
East Homes Limited	
<b>Housing properties under construction at cost</b>	41,260
East Homes Limited	
	<b>966,663</b>

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 11 TANGIBLE FIXED ASSETS – HOUSING PROPERTIES (continued)

In the valuing of housing properties, discounted cash flow methodology was adopted and key assumptions included.

Discount rate	5.5%
Long term annual inflation rate	2.5%
Level of annual rent increase	0.5%

The carrying value of the housing properties that would have been in the financial statements had the assets been carried forward at historical costs less SHG, depreciation and impairment is as follows:

	2014 £'000	2013 £'000
Historical cost	1,245,845	1,225,132
Social housing grant	(620,614)	(616,508)
Other capital grants	(41,482)	(41,482)
Depreciation and impairment	(95,989)	(87,797)
	<u>487,760</u>	<u>479,345</u>

#### Impairment

The Group considers individual boroughs to be separate Income Generating Units (IGUs) when assessing for impairment, in accordance with the requirements of Financial Reporting Standard ("FRS")11 - Impairment of Fixed Assets and Goodwill.

During the year the Group recognised impairment of nil (2013: £1,700k) on housing properties held at valuation. The prior year charge was calculated using the value in use methodology at a discount rate of 5.5% on development schemes.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 12 TANGIBLE FIXED ASSETS – OTHER

GROUP	Freehold office £'000	Equipment & Furniture £'000	IT Equipment £'000	IT software development £'000	Motor Vehicles £'000	Total £'000
<b>Cost</b>						
At 1 April 2013	30,819	5,146	4,603	4,864	68	45,500
Additions	-	45	200	224	-	469
Transfers in the year	(317)	(318)	-	-	-	(635)
Disposals	-	(2,158)	-	-	-	(2,158)
<b>At 31 March 2014</b>	<b>30,502</b>	<b>2,715</b>	<b>4,803</b>	<b>5,088</b>	<b>68</b>	<b>43,176</b>
<b>Depreciation</b>						
At 1 April 2013	(4,585)	(3,972)	(4,553)	(4,103)	(68)	(17,281)
Charged in year	(1,057)	(311)	(30)	(185)	-	(1,583)
Disposals	-	2,157	-	-	-	2,157
At 31 March 2014	(5,642)	(2,126)	(4,583)	(4,288)	(68)	(16,707)
<b>Net book value</b>	<b>24,860</b>	<b>589</b>	<b>220</b>	<b>800</b>	<b>-</b>	<b>26,469</b>
<b>At 31 March 2014</b>						
At 31 March 2013	26,234	1,174	50	761	-	28,219

PARENT	Equipment & Furniture £'000	IT Equipment £'000	IT software development £'000	Total £'000
<b>Cost</b>				
At 1 April 2013	4,176	4,602	4,864	13,642
Additions	45	200	224	469
Disposals	(2,158)	-	-	(2,158)
<b>At 31 March 2014</b>	<b>2,063</b>	<b>4,802</b>	<b>5,088</b>	<b>11,953</b>
<b>Depreciation</b>				
At 1 April 2013	(3,507)	(4,551)	(4,103)	(12,161)
Charged in year	(302)	(30)	(185)	(517)
Disposals	2,157	-	-	2,157
At 31 March 2014	(1,652)	(4,581)	(4,288)	(10,521)
<b>Net book value</b>	<b>411</b>	<b>221</b>	<b>800</b>	<b>1,432</b>
<b>At 31 March 2014</b>				
At 31 March 2013	669	51	761	1,481

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 13 INVESTMENTS AND RELATED PARTY TRANSACTIONS

East Thames Group Ltd is a registered provider and registered charity registered under the Companies Act 2006. The parent and all subsidiaries are registered in England and Wales.

Main operational subsidiaries:

East Homes Limited	Registered Provider and a charitable Industrial and Provident Society that provides social housing including low-cost home ownership.	Company limited by shares, 14 issued shares, one held by East Thames Group Limited
East Living Limited	Charitable Industrial and Provident Society that provides care and supported housing.	Company limited by shares, 8 issued shares, one held by East Thames Group Limited
East Potential Limited	Registered charity that manages foyers and neighbourhood regeneration programmes on behalf of the Group.	Company limited by guarantee with eight members, one being East Thames Group Limited

East Thames Group Limited exercises control over the above subsidiaries. The remaining shares in these subsidiaries are held by the Board members and independent shareholders, which provide them with the right to vote at general meetings but do not provide them with any rights to dividends, redemption of share capital or distribution on winding up.

Other subsidiaries providing specialist and support services:

East Regen Limited	Non-charitable company that provides management and development services.	Company limited by shares. 100% shares held by East Thames Group Limited.
East Place Limited	Non-charitable company that undertakes commercial activities and a subsidiary of East Homes Limited.	Company limited by shares, single share held by East Homes Limited.
East Treasury Limited	Non-charitable company that raises finance and provides treasury services.	Company limited by shares. 100% shares held by East Thames Group Limited.
East Finance Plc Incorporated 09 March 2012	Non-charitable company that raises finance and provides treasury services.	Company limited by shares. 100% shares held by East Thames Group Limited.
East Thames Partnership Limited Incorporated 18 March 2003	Non-charitable company that undertakes commercial activities and a subsidiary of East Homes Limited.	Company limited by shares. 100% shares held by East Homes Limited.
East Homes Services Limited Incorporated 24 October 2013	Non-charitable company that provides housing management services to East Village and is a subsidiary of East Homes Limited.	Company limited by shares. 90% shares held by East Homes Limited and 10% shares held by Triathlon Homes LLP.

East Thames Group Limited exercises control through the power to appoint and remove Directors/Trustees to the Boards.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 13 INVESTMENTS AND RELATED PARTY TRANSACTIONS (continued)

The Group has the following investments:

##### a) Joint venture - Triathlon Homes LLP

East Place Ltd, a wholly owned subsidiary of East Thames Group Ltd, and which in turn is controlled by East Thames Group, has a 33% interest in Triathlon Homes LLP, a joint venture company. Triathlon Homes LLP is considered to be a joint venture on the basis that neither the Group nor the other members can control that entity. Decisions essential to the financial and operating policy of the entity require each party's consent. The shareholding of the joint venture hasn't changed.

The following represents the Group's share of the joint venture's assets and liabilities at 31 March 2014:

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Fixed assets	48,040	45,913
Current assets	11,786	9,700
	<hr/> 59,826	<hr/> 55,613
Goodwill	2,037	1,816
	<hr/> 61,863	<hr/> 57,429
Creditors: amounts falling due within one year	(2,386)	(2,731)
Creditors: amounts falling due after more than one year	(54,985)	(52,164)
	<hr/> (57,371)	<hr/> (54,895)
Members capital loan	500	500
	<hr/> (56,871)	<hr/> (54,395)

Details of the Group's transactions during the year with Triathlon Homes LLP are included as follows:

	<b>2014</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Investment by East Thames Group Limited in Triathlon Homes LLP	221	198
1/3 <sup>rd</sup> share of turnover of Triathlon Homes LLP	10,477	5,245
1/3 <sup>rd</sup> share of profit before taxation of Triathlon Homes LLP	1,738	(79)
1/3 <sup>rd</sup> share of profit after taxation of Triathlon Homes LLP	970	(79)
Distribution to members from Triathlon Homes LLP	400	-

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 13 INVESTMENTS AND RELATED PARTY TRANSACTIONS (continued)

##### b) Investment Properties

GROUP	Investment properties completed £'000	Investment properties under construction £'000	Total £'000
<b>Cost / Valuation</b>			
<b>At 1 April 2013</b>	<b>19,123</b>	<b>3,166</b>	<b>22,289</b>
Transfers in the year	4,022	(3,705)	317
Additions	119	539	658
Disposals	(3,909)	-	(3,909)
Net Impairment reversal	35	-	35
Valuation adjustment	236	-	236
<b>At 31 March 2014</b>	<b>19,626</b>	<b>-</b>	<b>19,626</b>
At 31 March 2013	19,123	3,166	22,289

Investments are carried in the Financial Statements at market value. The historical cost of these properties is £18.4m (2013: £21.3m).

The Group's investment properties were subject to an external valuation by a qualified valuer as at 31 March 2014. The valuations represent an assessment of the market value (as defined in the Royal Institute of Chartered Surveyor's Valuation Standards) of the individual properties. The valuation has been prepared by applying current market rentals and a sale and leaseback arrangement with East Thames Group Limited. In the directors' opinion, this reflects the most appropriate methodology for the valuation of the commercial elements of the association's head office.

Investment properties includes both commercial and social investment properties. Included under social investment properties are £0.8m of grants, relating to two properties.

##### Impairment

There was an impairment charge of £101k relating to a portion of the first floor leased to Interserve for a period of six years which has been reclassified as investment properties. In addition, there was an impairment write back of £136k in relation to the 4<sup>th</sup> and 5<sup>th</sup> floors, also classified as investment properties. The net write back was £35k. The impairment charges and write backs were calculated by comparing the net carrying values to the values in use (market value) as at 31<sup>st</sup> March 2014.

##### c) Investments Shared Equity

To progress modernisation of the Ocean Estate several properties were decanted to enable demolition on a block by block basis. In two cases an incentive payment in the form of a loan was made to the leasehold tenants to cover the shortfall in the purchase price of a new property. The

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 13 INVESTMENTS AND RELATED PARTY TRANSACTIONS (continued)

full purchase price at the two properties was £717k; East Thames Group provided a shared equity loan of £203k plus expenses under the same principles as the HomeBuy scheme.

	2014 £'000	2013 £'000
Cost	172	172
	<u>172</u>	<u>172</u>

#### d) Investment in HomeBuy and Starter Home Initiative

	2014 £'000	2013 £'000
Long term investment in properties	20,018	21,388
Decrease in investment in properties due to sales	<u>(1,170)</u>	<u>(1,370)</u>
Cost of HomeBuy and Starter Home Initiative	18,848	20,018
Less: Social Housing Grant	<u>(18,848)</u>	<u>(20,018)</u>
	<u>-</u>	<u>-</u>

#### e) Investments in subsidiaries

	Group £'000	Parent £'000
Cost and net book value at 31 March 2014 and 31 March 2013	-	13

This represents the Company's investment in East Finance plc, a special purpose borrowing vehicle established to hold the Group's bond balance.

#### f) Related party transactions

East Thames Group Ltd recharges a fair proportion of the Group's overheads consisting of running costs of the Group's head office at West Ham Lane, and shared services such as Finance, Human Resources, IT services, Internal Audit, Risk Management, Health and Safety, Marketing etc to each of the Group's entities. Group overheads totalling £14.6m were charged based on a Board approved basis for sharing Group overheads of which the following were charged to non-regulated entities of the Group:

	Parent 2014 £'000
East Living Ltd	3,684
East Potential Ltd	569
East Place Ltd	112
East Treasury Ltd	183
East Regen Ltd	1259
East Homes Services Ltd	-

East Thames Group through East Homes Services Ltd provides housing management services to Triathlon as part of a cost sharing group.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 14 PROPERTIES FOR SALE

	Group 2014 £'000	Group 2013 £'000
Shared ownership properties completed	7,768	4,534
Shared ownership properties under construction	8,625	7,883
Completed properties for sale to other Registered Providers	10	1,751
Properties for sale under construction to other Registered Providers	-	72
Properties for sale under construction	13,563	30,392
	<b>29,966</b>	<b>44,632</b>

#### 15 DEBTORS

	Group 2014 £'000	Group 2013 £'000	Parent 2014 £'000	Parent 2013 £'000
<b>Due within one year:</b>				
Rent and service charges receivable	4,053	3,441	-	-
Less: Provision for bad and doubtful debts	(1,302)	(1,050)	-	-
	<b>2,751</b>	<b>2,391</b>	-	-
Other debtors*	6,729	25,279	105	141
Prepayments and accrued income	1,137	1,076	367	304
Amounts due from group undertakings	-	-	2,411	7,047
Other taxation	-	543	-	543
	<b>10,617</b>	<b>29,289</b>	<b>2,883</b>	<b>8,035</b>

\* £15.3m of the reduction is due to the level of social housing grants in arrears

#### 16 CASH AT BANK AND IN HAND

Cash at bank and in hand includes restricted cash of £3.5m (2013: £3.5m). The restricted cash is deposited with Barclays Bank as a security for the Group's obligation under the East Village project. As such this £3.5m cannot be accessed for general use in business unless an alternative form of security is provided. There is no restricted cash in the parent company.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2014 £'000	Group 2013 £'000	Parent 2014 £'000	Parent 2013 £'000
Loans (note 22)	6,127	6,126	-	-
Bank overdraft (note 22)	-	-	2,176	1,295
Rent and service charges received in advance	2,223	1,907	-	-
Social Housing grants received in advance	-	-	-	-
Corporation tax	2,875	342	-	-
Amount due to group undertakings	-	-	388	2,234
Other taxation and social security	670	622	283	234
Other creditors	4,609	9,888	1,021	4,784
Accruals and deferred income	22,364	18,243	462	982
Recycled Capital Grant Fund (note 20)	3,545	2,259	-	-
Disposal Proceeds Fund (note 21)	174	1,330	-	-
	<b>42,587</b>	<b>40,717</b>	<b>4,330</b>	<b>9,529</b>

#### 18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2014 £'000	Group 2013 £'000	Parent 2014 £'000	Parent 2013 £'000
Loans (note 22)	536,115	562,283	-	-
Accruals and deferred income	3,712	3,954	-	-
Recycled Capital Grant Fund (note 20)	7,067	5,980	-	-
Disposal Proceeds Fund (note 21)	870	345	-	-
Other	5,552	5,600	-	-
	<b>553,316</b>	<b>578,162</b>	<b>-</b>	<b>-</b>

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 19 TAXATION

	Group 2014 £'000	Group 2013 £'000	Parent 2014 £'000	Parent 2013 £'000
<b>United Kingdom Corporation Tax:</b>				
Current tax on income for the year	2,875	351	-	-
Adjustments in respect of prior years	(351)	(9)	-	-
<b>Tax on surplus on ordinary activities</b>	<b>2,524</b>	<b>342</b>	<b>-</b>	<b>-</b>

	Group 2014 £'000	Group 2013 £'000 Restated	Parent 2014 £'000	Parent 2013 £'000
<b>Current tax reconciliation:</b>				
Surplus on ordinary activities before taxation	19,561	729	-	-
Theoretical tax at UK corporation tax rate 23% (2013:24%)	4,499	175	-	-
<i>Effects of:</i>				
Surplus/(deficit) in respect of charitable activities	(2,695)	298	-	-
Under/ (Over) provision in prior years	(351)	(9)	-	-
Movement in tax losses	(34)	(599)	-	-
Taxable income/(Disallowable expenditure)	327	23	-	-
Tax on share of profit from investment in joint venture	768	454	-	-
Other temporary differences	(2)	-	-	-
Unrecognised deferred tax on losses	12	-	-	-
<b>Current tax on surplus/(deficit) on ordinary activities</b>	<b>2,524</b>	<b>342</b>	<b>-</b>	<b>-</b>

East Place Limited has a 33% share in Triathlon Homes LLP and is required to include its share of the partnership's taxable profits as the LLP is not a taxable entity in its own right.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 20 RECYCLED CAPITAL GRANT FUND

	Group 2014 £'000	Group 2013 £'000
<b>At 1 April 2013</b>	<b>8,239</b>	<b>5,820</b>
Grants recycled	3,955	3,081
Interest accrued	47	36
Purchase/development of properties	(1,629)	(698)
<b>Balance at 31 March 2014</b>	<b>10,612</b>	<b>8,239</b>
Due within one year	(3,545)	(2,259)
Due in more than one year	7,067	5,980

£0.8m of the fund is due to the Housing and Communities Agency and £9.8m is due to the Greater London Authority.

#### 21 DISPOSAL PROCEEDS FUND

	Group 2014 £'000	Group 2013 £'000
<b>At 1 April 2013</b>	<b>1,675</b>	<b>2,619</b>
Net sale proceeds recycled	696	182
Interest accrued	7	13
Major repairs and works to existing stock	(1,334)	(1,139)
<b>Balance at 31 March 2014</b>	<b>1,044</b>	<b>1,675</b>
Due within one year	(174)	(1,330)
Due in more than one year	870	345

The total fund is due to the Greater London Authority.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 22 DEBT ANALYSIS

	Group 2014 £'000	Group 2013 £'000 Restated**	Parent 2014 £'000	Parent 2013 £'000
<b>Due within one year:</b>				
Bank overdraft	-	-	2,176	1,295
Bank loans	6,050	6,050	-	-
Royal Bank of Scotland (Orchardbrook loans)	63	63	-	-
Other loans	14	13	-	-
	<b>6,127</b>	<b>6,126</b>	<b>2,176</b>	<b>1,295</b>

	Group 2014 £'000	Group 2013 £'000	Parent 2014 £'000	Parent 2013 £'000
<b>Due after more than one year:</b>				
Royal Bank of Scotland (Orchardbrook loans)	5,450	5,698	-	-
Barclays Bank	150,000	170,000	-	-
Nationwide Building Society	107,850	113,900	-	-
Lloyds Banking Group	25,000	25,000	-	-
Sterling bond	250,000	250,000	-	-
Other loans	1,337	1,352	-	-
Capitalised costs	(3,522)	(3,667)	-	-
	<b>536,115</b>	<b>562,283</b>	<b>-</b>	<b>-</b>

#### Loans are repayable as follows: (excluding capitalised costs)

	Group 2014 £'000	Group 2013 £'000 Restated**	Parent 2014 £'000	Parent 2013 £'000
Repayable on maturity*	301,250	301,250	-	-
Repayable by instalments:				
- Within one year	6,127	7,421	2,176	1,295
- Between one and two years	6,136	6,134	-	-
- Between two and five years	18,468	18,460	-	-
- After more than five years	213,783	240,106	-	-
	<b>545,764</b>	<b>573,371</b>	<b>2,176</b>	<b>1,295</b>

\* £ 1.25m THFC maturity date 02/09/2019

\* £ 50m Barclays LOBO loans with maturity dates no later than 09/02/2068

\* £250m Sterling bond maturity date 15/06/2042

\*\* Restated due to the Parent overdraft netted off on consolidation as per agreement with Barclays bank.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 22 DEBT ANALYSIS – (continued)

As at 31 March 2014 the Group had total loan facilities of £683.3m, of which £572.1m were drawn:-

Lender	Borrower	Facility £m	Drawn £m
Sterling bond	East Finance plc	250.0	250.0
Barclays Bank	East Treasury Limited	207.5	150.0
Nationwide Building Society	East Treasury Limited	143.9	113.9
Lloyds Banking Group	East Treasury Limited	75.0	25.0
Orchardbrook	East Homes Limited	5.5	5.5
The Housing Finance Corporation	East Homes Limited	1.4	1.4
Total		683.3	545.8

As at 31st March 2014 total outstanding loans amounted to £545.8m (2013: £572.1m). With the inclusion of £3.7m of unamortised issue costs the gross debt on the balance sheet amounted to £542.2m (2013: £568.4m).

The loan portfolio benefits from having secured favourable interest margins on its bank borrowings and entering into hedging arrangements, resulting in a 5.1% average rate of interest on the loan portfolio, as swapped, at 31 March 2014.

At 31 March 2014 the net mark-to-market exposure on £150m net notional of interest rate and inflation swaps amounted to a £67.0m liability which is substantially secured by charging a number of the Group's properties.

In February 2014, the Group incurred an exceptional cash cost of £9.1m when eight cancellable interest rate swaps were restructured. These long-dated cancellable interest rate swaps provided the Group with fixed interest hedging on £110.0m of debt, but gave the counterparty banks the option to cancel the swap at various predetermined dates. This introduced a material level of uncertainty over the longevity of the Group's interest rate hedging which the Board deemed to be unacceptable. These swaps were restructured to remove the banks' cancellation options but still retain the Group's original fixed interest rate obligations. The restructured swaps are now effective interest rate hedges to £110.0m of the association's debt. This restructuring will also assist the Group in its forward planning for adoption of FRS 102 in 2015.

The exposure to potential changes in interest rates is monitored and in particular the possible outcomes should the Lender's Option Borrowers Option ("LOBO") loan facility be cancelled at the Group's discretion. The most recent LOBO call date, on a £15.0m tranche, passed on 9 February 2014 without any re-pricing being signalled by the counterparty bank. This tranche now remains subject to annual call options on each anniversary until 2068. The re-pricing option attaching to the remainder of the £50.0m LOBO consists of a £20.0m tranche in 2018 and a £15.0m tranche in 2023 and periodically thereafter until 2068.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 23 ANNUAL OBLIGATIONS UNDER OPERATING LEASES

	Group 2014 £'000	Group 2013 £'000
Operating leases on land and buildings which expire:		
Within one year	-	-
In the second to fifth years inclusive	-	1,300
Over five years	153	121
	<b>153</b>	<b>1,421</b>

#### 2 PROVISION FOR LIABILITIES

4

	Group 2014 £'000	Group 2013 £'000	Parent 2014 £'000	Parent 2013 £'000
At 1 <sup>st</sup> April	1,041	647	-	-
Transfer (to)/from income and expenditure account		-	-	-
- new and increased provisions	1,294	687	-	-
Utilised in the year	(1,820)	(293)	-	-
<b>At 31<sup>st</sup> March</b>	<b>515</b>	<b>1,041</b>	<b>-</b>	<b>-</b>

#### Comprising:

Dilapidation fund	265	771	-	-
Other	250	270	-	-
<b>At 31<sup>st</sup> March 2014</b>	<b>515</b>	<b>1,041</b>	<b>-</b>	<b>-</b>

The dilapidations provision represents the estimated costs of improvement on the Gibbons road office previously rented by the Group. The lease ran out in December 2013. Other provisions relates to potential estimated litigation and disrepair costs to tenants at one of the Group's schemes.

#### 25 SHARE CAPITAL

	2014 £	2013 £
Guarantees of £1 each issued and fully paid		
At 1 April 2013	7	7
Guarantees received during the year	1	0
Guarantees surrendered during the year	3	0
<b>At 31 March 2014</b>	<b>5</b>	<b>7</b>

The shares provide members with the right to vote at general meetings but do not provide any rights to dividends, redemption of share capital or distribution on winding up.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 26 RESERVES

GROUP	Revaluation Housing properties £'000	Revaluation Investment properties £'000	Restricted £'000	Designated £'000	Revenue £'000	Total £'000
At 1 April 2013	405,959	977	212	95	44,257	451,500
Prior year adjustment (note 34)	30,009	-	-	-	(30,009)	-
Restated at 1 April 2013	435,968	977	212	95	14,248	451,500
Surplus for the year	-	-	-	-	15,299	15,299
Property revaluation adjustment	44,128	236	-	-	-	44,364
Transfers property sales valuation realised	(894)	(933)	-	-	1,827	-
Transfer in respect of depreciation on revalued properties	(299)	-	-	-	299	-
Transfers between reserves	-	-	(73)	(38)	111	-
Group share of gain in joint venture	-	-	-	-	1,738	1,738
<b>At 31 March 2014</b>	<b>478,903</b>	<b>280</b>	<b>139</b>	<b>57</b>	<b>33,522</b>	<b>512,901</b>

PARENT	Revenue £'000	Total £'000
At April 2013	-	-
Profit/(Loss) for the year	-	-
<b>At 31 March 2014</b>	<b>-</b>	<b>-</b>

	Group 2014 £'000	Group 2013 £'000	Parent 2014 £'000	Parent 2013 £'000
<b>Restricted reserves comprise:</b>				
Donations	79	79	-	-
East Potential	60	133	-	-
	<b>139</b>	<b>212</b>	<b>-</b>	<b>-</b>
<b>Designated reserves comprise:</b>				
East Potential	57	95	-	-
	<b>57</b>	<b>95</b>	<b>-</b>	<b>-</b>

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 26 RESERVES (continued)

All restricted and designated reserves are for use in social and economic regeneration programmes.

The Group plans its financial affairs to ensure that each year revenue income exceeds revenue expenditure. This policy ensures that the Group has a margin of safety to manage unexpected expenditure. The annual surpluses ensure that East Thames Group Limited is able to meet its commitment to providers of private finance and continue to provide social housing.

Unlike commercial organisations the Group's rules prevent the distribution of reserves. Instead these are applied to furthering the Group's aims and objectives. At 31 March 2014 the Group's reserves were all used in financing investments in social housing.

#### 27 FINANCIAL COMMITMENTS

	<b>Group 2014</b>	<b>Group 2013</b>
	<b>£'000</b>	<b>£'000</b>
<b>Capital Commitments</b>		
Expenditure contracted for but not provided in the accounts	130,911	90,883
Expenditure authorised by the Board but not contracted for	137,866	98,293
	<b>268,777</b>	<b>189,176</b>

The expenditure will be funded from loan facilities (£201.6m), grants (£56.5m), and operating cash flows (£10.7m). The Group's Treasury Management policy requires a minimum of funding facilities for twelve month's trading activities and this is monitored through weekly cash flow forecasts. £59,1m of the £130,9m contracted expenditure falls within the first twelve months for which funding are in place at the date of signing the accounts. Some of these commitments extend over a longer period and the Group ensures that it has adequate resources to finance this expenditure by quarterly updates of its 30 year business plan.

#### 28 CONTINGENT LIABILITIES

The Group has provided certain financial guarantees in connection with trading obligations of East Regen Limited, a subsidiary undertaking of East Thames Group Limited. At 31 March 2014, these guarantees amounted to £17.6m (2013: £24.8m).

#### 29 POST BALANCE SHEET EVENTS

The Group has no post balance sheet events to recognise.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 30 RECONCILIATION OF OPERATING SURPLUS TO OPERATING CASH FLOWS

	Group 2014 £'000	Group 2013 £'000
Operating surplus/(deficit)	47,690	20,887
Share of operating surplus from joint venture (net of interest)	2,138	(79)
Depreciation of fixed assets	10,428	7,958
Impairment of fixed assets and investments	(35)	3,109
Sales allowances	(91)	(54)
	<b>60,130</b>	<b>31,821</b>
<b>Movement in working capital</b>		
Decrease in provisions	(778)	485
Decrease in properties for sale	43,148	(1,069)
Decrease/(increase) in debtors	18,924	(12,160)
Increase/(decrease) in creditors	(1,059)	(13,524)
<b>Net cash inflow from operating activities</b>	<b>120,365</b>	<b>5,553</b>

#### 31 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Group 2014 £'000	Group 2013 £'000
Increase/(decrease) in cash in the period	22,342	(97)
Cash outflow/(inflow) from decrease in debt and lease financing	26,312	(69,874)
Cash (inflow)/outflow from loan issue costs	-	2,085
Change in net debt resulting from cash flows	48,654	(67,886)
Change in net debt resulting from non cash flows	(145)	(572)
Net debt at the start of the year	(539,937)	(471,479)
<b>Net debt at the end of the year</b>	<b>(491,428)</b>	<b>(539,937)</b>

#### 32 ANALYSIS OF NET DEBT

Group	2013 £'000	Cash flow £'000	Other changes £'000	2014 £'000
Cash at hand and in bank	28,472	22,342	-	50,814
Loans due within one year	(6,126)	6,126	(6,127)	(6,127)
Loans due after more than one year	(565,950)	20,186	6,127	(539,637)
Capitalised loan issue costs	3,667	-	(145)	3,522
	<b>(539,937)</b>	<b>48,654</b>	<b>(145)</b>	<b>(491,428)</b>

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 33 FINANCIAL ASSETS AND LIABILITIES

The Board policy on derivatives and financial instruments is explained in the Strategic Review and Board Report.

##### Financial assets

Other than short-term debtors, financial assets held are cash deposits and cash at bank. These are sterling denominated and the interest rate profile at 31 March was:

	2014 £'000	2013 £'000
		Restated*
Floating rate	41,324	13,848
Financial assets on which no interest is earned	9,490	14,624
	<u>50,814</u>	<u>28,472</u>

The financial assets on which no interest is earned comprise current bank accounts. The remaining financial assets are floating rate, attracting interest at rates that vary with bank rate.

##### Financial liabilities excluding trade creditors – interest rate risk profile

The Group's financial liabilities are sterling denominated. After taking into account various interest rate swaps, the interest rate profile of the Group's financial liabilities at 31 March was:

	2014 £'000	2013 £'000
Floating rate	73,900	100,000
Inflation linked	20,000	-
Fixed rate	451,864	473,371
Total loans (note 22)	<u>545,764</u>	<u>573,371</u>

At 31 March the fixed rate financial liabilities had a weighted average interest rate of 5.02% (2013:4.7%). The weighted average period for which the interest rates are fixed is 25 years (2013: 27 years), or 16 years (2013:17 years) if the hedge counterparties exercise their option to cancel the fixed rate hedge contracts (cancellable swaps or swap options) at their earliest call dates.

The floating rate financial liabilities comprise bank loans that bear interest at rates based on the one-month LIBOR plus a lender's margin.

The debt maturity profile is shown in note 22.

##### Borrowing facilities

The Group has undrawn committed borrowing facilities of £137.5m. The total facilities available at 31 March in respect of which all conditions precedent had been met were as follows:

\* Restated due to the Parent overdraft netted off on consolidation as per agreement with Barclays bank.

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 33 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	2014 £'000	2013 £'000 Restated*
Expiring in one year or less	6,127	6,126
Expiring after more than one year but not more than two years	6,136	6,134
Expiring after more than two years	617,001	677,315
	<u>683,264</u>	<u>689,575</u>

#### Fair values of financial assets and liabilities

	2014		2013	
	Book value £'000	Fair value £'000	Book value £'000 Restated*	Fair value £'000 Restated*
<b>Primary financial instruments held or issued to finance the Group's operations</b>				
Financial assets	50,814	49,490	28,472	28,472
Short-term financial liabilities and current portion of long-term borrowings	(6,127)	(6,127)	(6,126)	(6,126)
Long-term borrowings	(539,637)	(610,777)	(562,283)	(682,476)
Derivative financial instruments held to manage the interest rate profile	-	(67,042)	-	(93,455)
<b>Total</b>	<u>(491,428)</u>	<u>(633,132)</u>	<u>(539,937)</u>	<u>(753,585)</u>

The fair values have been calculated by discounting cash flows at prevailing interest rates.

\* Restated due to the Parent overdraft netted off on consolidation as per agreement with Barclays bank.

#### Gains and losses on hedges

As explained in the Strategic Report of the Board, the Group uses interest rate swaps to manage its interest rate profile. Changes in the fair values of these instruments, used as hedges, are not recognised in the financial statement until the hedged position matures. An analysis of these unrecognised gains and losses is as follows:

	Gains £'000	Losses £'000	Total net gains / (losses) £'000
<b>Unrecognised gains and losses on hedges at 31 March 2014</b>	1,120	(68,162)	(67,042)
Of which:			
Gains and losses expected to be recognised in 2013-14	-	-	-
Gains and losses expected to be recognised in 2014-15 or later	1,120	(68,162)	(67,042)

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 34 PRIOR YEAR ADJUSTMENT

##### Group

The prior year adjustment reflects a change to the accounting policy on allocation of social housing grant to components. Social housing grant is now allocated to the land and structure components of housing properties only, bringing it in line with the approach taken in SORP update 2010 and the industry standard. Previously social housing grants were allocated to all components of housing properties.

The adjustment also reflects a correction of £0.4m of major improvement expenditure capitalised in error in the previous financial year.

The effect of these changes is to decrease the Group's surplus for the year ending 31 March 2013 by £1.3m. The cumulative effect on reserves is nil.

	Cumulative prior year adjustments to 31 March 2012 £'000	Prior year adjustment for 2012/13 £'000	Cumulative prior year adjustments to 31 March 2013 £'000
<b>Income &amp; Expenditure account</b>			
Operating costs - depreciation charge	27,812	843	28,655
Operating costs - major improvement expenditure	-	423	423
Impact on operating surplus	<u>27,812</u>	<u>1,266</u>	<u>29,078</u>
<b>Balance Sheet</b>			
<b>Housing properties (valuation)</b>			
At 31 March as previously stated	897,203		960,358
Additional capitalisation of components	-	423	423
Revaluation adjustment	-	(423)	(423)
At 31 March as restated	<u>897,203</u>		<u>960,358</u>
<b>Housing properties (depreciation)</b>			
At 31 March as previously stated	5,580		5,580
Additional depreciation	27,812	843	28,655
Revaluation adjustment	(27,812)	(843)	(28,655)
At 31 March as restated	<u>5,580</u>		<u>5,580</u>

# East Thames Group Limited

## Report and Financial statements for the year ended 31 March 2014

### Notes to the financial statements

#### 34 PRIOR YEAR ADJUSTMENT (continued)

	Cumulative prior year adjustments to 31 March 2012	Prior year adjustment for 2012/13	Cumulative prior year adjustments to 31 March 2013
<b>Revenue reserves</b>			
At 31 March as previously stated	41,301		44,257
Impact on operating surplus	(27,812)	(1,266)	(29,078)
Write back excess of actual depreciation over historic cost depreciation	-	(931)	(931)
Revenue reserve at 31 March as restated	<u>13,489</u>		<u>14,248</u>
<b>Revaluation reserve</b>			
At 31 March as previously stated	329,882		406,936
Valuation adjustment	27,812	2,197	30,009
Revaluation reserve at 31 March as restated	<u>357,694</u>		<u>436,945</u>