



Moat Housing Group Limited Financial Statements

For the year ended 31 March 2016

MOAT HOUSING GROUP LIMITED

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MOAT HOUSING GROUP LIMITED

| MOAT HOUSING GROUP LIMITED BOARD | | Number of meetings attended (4 in total) |
|---|-----------------------|---|
| Ian Lindsay | Independent, Chairman | 4 |
| Owen Ingram | Independent | 4 |
| Gerry McCormack (appointed March 2016) | Independent | 1 |
| Liz McMeikan (appointed March 2016) | Independent | 1 |
| Elizabeth Austerberry | Executive | 4 |
| Steve Nunn | Executive | 3 |
| Greg Taylor | Executive | 4 |
| SECRETARY | | |
| Greg Taylor (appointed July 2015) | | |
| Sean Brodie (resigned July 2015) | | |
| AUDIT COMMITTEE | | Number of meetings attended (4 in total) |
| Gerry McCormack | Chair | 4 |
| Owen Ingram | | 4 |
| Ian Lindsay (resigned May 2015) | | 1 |
| Liz McMeikan (resigned February 2016) | | 4 |
| Ruth Thompson | | 2 |
| FINANCE COMMITTEE | | Number of meetings attended (6 in total) |
| Jeff Hume | Chair | 6 |
| Gerry McCormack | | 6 |
| Ian Lindsay (appointed May 2015) | | 6 |
| Andrew Wells | | 6 |
| Greg Taylor | | 6 |
| CUSTOMER & COMMUNITIES COMMITTEE | | Number of meetings attended (5 in total) |
| Jo Moran | Chair | 5 |
| Owen Ingram | | 5 |
| Ruth Thompson | | 4 |
| Graham Butterworth (resigned March 2016) | Resident | 5 |
| Bose Johnson (resigned November 2015) | Resident | 1 |
| David Smith (resigned March 2016) | Resident | 4 |
| John Wilkinson (resigned March 2016) | Resident | 4 |
| Hugh Fenn (resigned May 2016) | Executive | 5 |
| REMUNERATION COMMITTEE | | Number of meetings attended (2 in total) |
| Jeff Hume | Chair | 2 |
| Liz McMeikan | | 2 |
| Jo Moran | | 1 |
| Andrew Wells | | 2 |
| NOMINATIONS COMMITTEE | | Number of meetings attended (2 in total) |
| Ruth Thompson | Chair | 2 |
| Jeff Hume | | 2 |
| Liz McMeikan | | 2 |

MOAT HOUSING GROUP LIMITED

EXECUTIVE TEAM

Elizabeth Austerberry
Hugh Fenn (resigned May 2016)
Steve Nunn
Greg Taylor

Chief Executive
Executive Director: Housing and Customer Services
Executive Director: Development and New Business
Executive Director: Finance and Corporate Services

REGISTERED OFFICE

Mariner House, Galleon Boulevard, Crossways, Dartford, Kent DA2 6QE

REGISTERED AUDITOR

KPMG LLP, 15 Canada Square, Canary Wharf, London E14 5GL

PRINCIPAL SOLICITOR

Trowers & Hamblins, 3 Bunhill Row, London EC1Y 8YZ

BANKER

Royal Bank of Scotland plc, Europa House, 49 Sandgate Road, Folkstone, Kent CT20 1RU

LEGAL STATUS

Registered under the Co-operative and Community Benefits Societies Act 2014 No. 27943R

Registered under Section 5 of the Housing Associations Act 1985 No. L4047

MOAT HOUSING GROUP LIMITED

STRATEGIC AND DIRECTORS' REPORT

for the year ended 31 March 2016

The directors present the report and financial statements for Moat Housing Group Limited (MHG) for the year ended 31 March 2016.

PRINCIPAL ACTIVITIES

MHG is a non-charitable registered provider regulated by the Homes and Communities Agency (HCA). It is a subsidiary of Moat Homes Limited (MHL) and operates as part of the Moat Group (Moat).

Its primary activities are the construction and sale of homes on the open market and employment of all Moat staff. It also has a small portfolio of three social rented houses.

MHG's subsidiaries are:

- Mariner Facilities Management Ltd (MFM), a limited company registered with Companies House. MFM provides managing agent services.
- Moat Development Ltd (MDL), a limited company registered with Companies House. MDL is dormant.

OPERATING REVIEW

During the year ended 31 March 2016, MHG commenced construction of a scheme as part of a joint working arrangement with McCulloch Homes Limited and discussed a number of similar opportunities of joint working arrangements with other developers.

An opportunity arose during the year to sell the investment in Chrysalis (Stanhope) Holdings Limited, in which MHG was a minority shareholder, following an offer from the majority shareholders. Chrysalis invested in a 30 year Private Finance Initiative agreement with Ashford Borough Council to redevelop and manage the Stanhope estate. The sale completed in February 2016.

MHG continues to sell its market rent properties at Southfields following the improvement in the market prices. During the year 13 properties were sold and at 31 March 2016 MHG has only 8 properties to sell.

On average during the year there were 386 (2015: 376) full time and part time staff employed by MHG. The average number of full time equivalents was 350 (2015: 337). The cost of staff engaged on Moat activities is re-charged to MHL.

The operations of MFM as managing agents were discontinued on 31 March 2016 when the management of the remaining properties was transferred to another managing agent. MHG continues to support the company while it settles its remaining assets and liabilities, and has issued a letter of support to the board of directors of MFM.

MHG's focus going forward is to develop open market sales properties, either independently or working with other developers. In consideration of building up reserves for future development projects, the directors have not agreed a gift aid payment to MHL at the year end. It is intended, subject to consultations and gaining the necessary approvals, to transfer all staff to MHL together with the pension liabilities and social housing assets. MHG will then deregister as a registered provider.

FINANCIAL REVIEW

From 1 April 2015 MHG has prepared its financial statements in accordance with FRS 102, Housing SORP 2014 (Statement of Recommended Practice for registered social housing providers) and The Accounting Direction for Private Registered Providers of Social Housing from April 2015. The 2014-15 results have been restated and an explanation of how the transition to FRS 102 has affected the financial position and financial performance is provided in Note 26.

MOAT HOUSING GROUP LIMITED

STRATEGIC AND DIRECTORS' REPORT

for the year ended 31 March 2016

FINANCIAL REVIEW (continued)

Results for the year

- Operating surplus decreased to £192,000 (2015 restated: £839,000) for the year, giving an operating margin of 1% (2015 restated: 4%).
- There were no open market sales in the year (2015 restated: £0.5m surplus) and the surplus from market rent fell by £81,000 to £89,000 following the decision to sell the market rent portfolio at Southfields as it becomes vacant.
- The surplus on sale of investments of £2m (2015: £31,000) resulted from the sale of MHG's investment in Chrysalis of £1.7m and a surplus of £0.3m (2015: £31,000) from the sale of 13 market rent properties (2015: 2 properties sold).
- Interest receivable was £70,000 (2015: £122,000) a reduction of £52,000. As part of the sale of its investment in Chrysalis, MHG's subordinated loan to Chrysalis was settled.
- Other financing costs were £147,000 (2015 restated: £211,000). These relate to the Essex County Council and London Borough of Merton pension schemes. The liability of these schemes is now £1.3m (2015: £1.4m).
- Taxation of £429,000 (2015: £nil) has been provided.
- No gift aid payment has been made at the year end (2015: £1.8m).
- The surplus for the year was £1.7m (2015 restated: surplus of £1.2m).
- The total comprehensive income for the year was £1.9m (2015 restated: £0.8m loss).

At 31 March 2016 MHG had revenue reserves of £13.5m (2015 restated: £11.6m). MHG lends surplus funds to MHL.

GOING CONCERN

After making enquiries and reviewing the financial plan, the directors have a reasonable expectation that MHG has adequate resources to continue in operational existence for the foreseeable future. Its subsidiary MFM has discontinued operations but has the resources to settle its liabilities. For these reasons, it continues to adopt the going concern basis in the financial statements.

LONG TERM VIABILITY STATEMENT

The Board has undertaken an assessment of the future prospects of MHG taking account of its current position and principal risks. This assessment was made using MHG's core business processes, including the following:

Long Term Plan (LTP) – the Board reviews the LTP each year as part of its strategy review process. The LTP process includes detailed stress testing which involves flexing a number of the main assumptions underlying the forecast both individually and together under particular scenarios.

Risk management – as detailed below MHG has a structured approach to the management of risk and the principal risks identified are reviewed regularly by the Board.

Liquidity – based on the output of the LTP and regular re-forecasting of cash flows the Board regularly reviews an analysis looking at the forecast working capital requirements, cash flow, and borrowing and other facilities available to MHG.

In undertaking this review a period of 3 years has been selected. For the initial year of this three year period there is a greater level of certainty because detailed annual budgets are prepared and regularly re-forecast. Quarterly cash-flow forecasts are reviewed by the Board covering a rolling 3 year period, and are used to ensure sufficient facilities are in place. The largest single area of spend is development spend and development schemes usually complete within a 2 year timeframe. Whilst development spend and required facilities are planned over a longer term than three years, the period chosen ensures that MHG is viable beyond its usual development commitment timeframe.

On the basis of this and other matters considered and reviewed by the Board during the year, the Board has reasonable expectations that MHG will be able to continue in operation and meet its liabilities as they fall due over the 3 year period used for the assessment.

MOAT HOUSING GROUP LIMITED

STRATEGIC AND DIRECTORS' REPORT

for the year ended 31 March 2016

POST YEAR END EVENTS

On 23 June 2016, the result of the European Union Referendum voted for the United Kingdom to leave the European Union. This result creates uncertainty for the United Kingdom economy which may impact on the housing market, sales value of properties, pension fund deficits, and access to funding.

It is likely there will be a protracted period of negotiation that may take at least two years. Due to the uncertainty and timing of negotiations, it is not possible to estimate the financial impact of this event. The directors will continually be reviewing any impacts and manage them in accordance with our corporate objectives.

STATEMENT OF CONFIRMATION

The directors confirm that they consider that the directors' report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess MHG's performance, business model and strategy.

STATEMENTS OF COMPLIANCE

The directors confirm that the Strategic Report follows the principles set out in the Statement of Recommended Practice, Accounting by Registered Social Housing Providers Update 2014 (SORP).

The directors confirm their compliance with the Governance and Viability Standard.

CHARITABLE DONATIONS

MHG made no charitable donations (2015: £nil) during the year.

SHARE CAPITAL

Changes in share capital are shown in note 22 of the financial statements.

EMPLOYEES

MHG and Moat's strength comes from its people, their ability to see the bigger picture and collectively to do the right thing. Their contribution to its work enables it to fulfil its objectives and its commitment to customers.

Moat places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting performance. This is achieved through formal and informal meetings and publications like "Moat in Brief". Employee representatives are consulted regularly through the Employee forum on a wide range of matters affecting their current and future interests.

Moat's recruitment and employment policies reflect a commitment to equality of opportunity and delivering diversity.

SLAVERY AND HUMAN TRAFFICING

MHG is fully committed to combatting slavery and human trafficking. As part of Moat's initiative to identify and mitigate risk during procurement it has implemented and is enforcing, effective systems and controls. To further embed a high level of understanding of the risks of modern slavery, it intends to develop an information campaign to help relevant staff to better understand the risks and provide detailed training for relevant staff. Moat's Slavery and Human Trafficking Statement can be found online at moat.co.uk

HEALTH AND SAFETY

The directors are aware of their responsibilities on all matters relating to health and safety. Moat has prepared detailed health and safety policies and provided staff training and education.

MOAT HOUSING GROUP LIMITED

STRATEGIC AND DIRECTORS' REPORT

for the year ended 31 March 2016

VALUE FOR MONEY (VfM)

The directors have reviewed a VfM self-assessment setting out Moat's and MHG's performance for 2015-16.

MHG provides a minimal amount of social housing, with only 3 social rented properties. All operational activities relating to the management of the properties are performed by Moat staff as part of group wide operations ensuring that economies of scale are achieved. As a result MHG benefits from the activities of the Moat procurement team and group wide service contracts. The operating margin on social housing lettings at 48% (2015 restated: 63%) compares favorably with the rest of Moat. The MHL Board has reviewed and approved a detailed VfM self assessment setting out Moat performance for 2015-16, benchmarking assessments against other providers and highlighting ongoing VfM activities including areas for improvement. A version of this paper for stakeholders can be found on the VfM page of the Moat website, and elements of VfM are incorporated in the annual report to residents, also available on the website.

Following an offer from the majority shareholders in Chrysalis the directors made the decision to sell its investment. To ensure that MHG received market value alternative offers were sought resulting in an increase in the sale price.

The decision was made in 2014-15 that given current market values it would be beneficial to sell the open market rent properties rather than managing a small market rent portfolio. During the year sales have progressed with an increased sales margin of 11% (2015: 6%). The remaining properties will be sold in 2016-17.

In terms of open market sale developments, all new schemes are scrutinised by the Moat Capital Projects Committee and are subject to an independent VfM statement prepared by an employer's agent.

Return on capital employed was 17% (2015 restated: 10%). The return is impacted by the fluctuation in MHG's surplus resulting from the timing of open market sales, and has improved in 2016 with the one-off sale of the investment in Chrysalis.

RISKS

All risks are managed effectively with an acceptable level of residual risk to the business. Under Moat's risk strategy and management framework operational risks are identified and managed by Moat's management team. During 2015-16 Moat's strategic risk register was reviewed at every Audit Committee and Board meeting. The strategic risks covered in the register as at 31 March 2016 applicable to MHG are listed below:

- Exposure to falling house prices, particularly in market sale units. This risk is mitigated by taking a conservative approach to valuations in investment appraisals and values are updated three monthly to ensure we have a clear view on our exposure on all projects in contract. Exposure to open market sales is limited, including participating in joint agreements with other developers.
- Reduced availability of credit impacting on the ability to sell market sale products. This risk is mitigated by engaging regularly in direct discussions with mortgage providers as well as Independent Financial Advisors on Moat's panel, enabling Moat to monitor mortgage lending trends and any emerging policy changes.

MOAT HOUSING GROUP LIMITED

STRATEGIC AND DIRECTORS' REPORT

for the year ended 31 March 2016

CORPORATE GOVERNANCE

MHG is governed by a Board of directors (The Board).

The Board's code of governance is based on the UK Corporate Governance Code. It has applied the main principles of the Code and complied with its detailed provisions other than C.1.3 - MHG does not produce half-yearly financial statements as they are not required by the Homes and Communities Agency.

The Board has also adopted the National Housing Federation Code on Excellence in Service Delivery and Accountability as its governing code on accountability.

The membership of the Board has been increased during the year. It comprises 4 non executive members and 3 executives. Board member details are set out on page 2. MHG operates as part of the group of companies branded as Moat, of which MHL is the parent company. All members of the MHG Board also sit on the MHL parent Board.

Non-executive Board members are appointed for specified terms and the Board undertakes an annual review of its performance both collectively and as individuals in meetings with the Chair which identify areas requiring further attention. Recruitment of non-executive Board members is mainly through external recruitment taking into account the skill set of the Board. The Board composition is also monitored against Moat's Equality and Diversity Policy.

The Board delegates some of its responsibilities to the Executive Team and Committees, listed on page 2 with their attendance at meetings. There are five Committees each with a group wide remit with clear terms of reference and delegated authority as detailed below. Detailed Terms of Reference for each Committee and the Board's reserved matters can be accessed on-line at moat.co.uk/governance.

The Audit Committee

The Audit Committee oversees the internal and external audit function, deals with risk management and internal control issues and oversees external financial reporting.

The Finance Committee

The Finance Committee is responsible for monitoring and steering Moat's key finance, funding and investment activities, and also monitors our development activity.

The Customer and Communities Committee

The Customer & Communities Committee is responsible for overseeing the delivery of great service for Moat customers. The Committee reviews analysis of business intelligence driven data and customer feedback to identify trends and help the development and implementation of customer focused solutions. The committee approves appraisals of significant community initiatives presented via Moat Foundation and oversees the Moat People Strategy.

The Remuneration Committee

The Remuneration Committee is responsible for reviewing the remuneration of the Chief Executive, senior management and the remuneration of the non-executive directors.

The Governance & Nominations Committee

The Governance & Nomination Committee reviews Board and Committee membership and leads the process for Board appointments, making recommendations to the Board, for its approval.

MOAT HOUSING GROUP LIMITED
STRATEGIC AND DIRECTORS' REPORT
for the year ended 31 March 2016

REPORT OF THE AUDIT COMMITTEE

Role

The Board delegates certain of its duties and responsibilities and powers to the Audit Committee, so that these can receive suitably focused attention. Principally its purpose is to ensure, on behalf of the Board, that the financial reporting, the audit process and systems of internal control and risk management are appropriate and effective.

The Audit Committee meets its responsibilities by receiving assurances from the Executive Team and other senior managers of Moat, receiving and reviewing reports on risk management and internal control procedures, and directing and receiving reports from the internal and external auditors. The Executive Director: Finance and Corporate Services presents the annual financial statements which the Committee reviews and scrutinises through questioning the external auditors and management.

Composition

The Audit Committee currently comprises 3 non-executive directors as shown on page 2 together with their attendance record.

In addition to the formal members of the Committee, the following attend on a regular basis:

- Chief Executive
- Executive Director: Finance and Corporate Services and Company Secretary
- Director of Accounting Services
- Director of Corporate Finance & Risk
- External and Internal Audit representatives

Other occasional attendees included the other Executive Directors and the Chair.

Meetings and activities during the year

Four Audit Committee meetings were held during the financial year. At each meeting the following matters were considered/reviewed:

- Strategic Risk map – discussions with management on any new risks which need to be added and changes in the importance of existing risks including any which can be removed. MHG's current strategic risks are shown in the previous section
- Internal audit reports – review of the results of any audits carried out by internal audit and discussion with management about actions planned to deal with any issues raised
- Internal audit monitoring report – review of performance of internal audit in completing the agreed audit programme and management performance as regards actions from previous audits
- Fraud/Whistleblowing and Benefits & payments registers – any new issues and the necessary actions are discussed

Other key matters considered are shown below:

| | |
|----------|---|
| May 2015 | <ul style="list-style-type: none"> • Review of accounting policies • Review of Standing Orders and Terms of Reference • Annual review of Key Policies and Procedures • Review of Moat's Disaster Recovery and Business Continuity Plans • Anti money laundering policy review • Review of compliance with UK Corporate Governance Code • Update Report – Progress with Asset & Liabilities Registers |
|----------|---|

MOAT HOUSING GROUP LIMITED
STRATEGIC AND DIRECTORS' REPORT
for the year ended 31 March 2016

REPORT OF THE AUDIT COMMITTEE (continued)

| | |
|---------------|---|
| July 2015 | <ul style="list-style-type: none"> • Annual review of internal controls • Review of key risks of misstatements in the financial statements 2014/15 • Consideration of the report from the external auditors regarding their audit findings in respect of the annual results • Review of the draft Letter of Representation to the external auditors • Review of the draft Financial Statements for 2014-15 • Review of internal auditors annual report • Private meeting with the external and internal auditors (no executives present) • Report on Tenancy Fraud (sub-letting) • Update Report – Progress with Asset & Liabilities Registers |
| November 2015 | <ul style="list-style-type: none"> • Update Report - British Safety Council 5 Star Occupation Health and Safety Audit 2014 • Annual review of risk management framework • Review of the effectiveness of external and internal audit provision • Review of whistle blowing, anti-fraud & bribery policies and fraud response plan • Annual review of insurance renewal terms • Update Report – Progress with Asset & Liabilities Registers • FRS102 training – based on Group 2014-15 restated comparatives |
| January 2016 | <ul style="list-style-type: none"> • Review of Internal Audit Assessment and Plan for 2016-17 • Review of External Audit plan for 2015-16 • Health & Safety report (Verbal update) • Update Report – Progress with Asset & Liabilities Registers (including additional audit report on progress from PwC) |

Significant issues considered by the Audit Committee

After discussions with both management and the external auditor (KPMG), the Committee determined that the key risk of misstatement to MHG's financial statements related to:

- Valuation and impairment of investment properties
- Open market sale activity

These issues were discussed with management and KPMG in January when the Committee reviewed KPMG's Audit Plan and at the conclusion of the audit when the financial statements were reviewed in July. The Committee also took confidence from the review of management accounts by the Board at each of their meetings.

Valuation and impairment of investment properties

Management explained the process to revalue its investment properties portfolio. It explained that it was in the process of selling the investment portfolio and was able to value the remaining properties based on sales values obtained in March and April. An analysis of the actual revaluation amounts was brought to the Committee for discussion. KPMG explained their audit procedures to test management's valuation and impairment assessment.

The Committee questioned management and KPMG on the work done and were satisfied that there was no material misstatement in terms of valuation and impairment requirements in the financial statements.

Misstatements and fraud

Management reported to the Committee that they were not aware of any material misstatements. KPMG reported to the Committee that no material misstatements had been found in the course of their work and that no material amounts remained unadjusted in the financial statements. In terms of fraud, the Fraud register is presented to the Committee for review at each meeting. One issue concerning potential fraud has been brought to the attention of the Audit Committee during the year under review, which was not material. Management and KPMG confirmed that they were unaware of any other fraudulent activity.

MOAT HOUSING GROUP LIMITED
STRATEGIC AND DIRECTORS' REPORT
for the year ended 31 March 2016

REPORT OF THE AUDIT COMMITTEE (continued)

After reviewing the presentations and reports from management, the Committee was satisfied that the assumptions, judgements and key estimates used in preparing the financial statements were appropriate.

Future viability

Management reported to the Committee that the long term plan, including underlying assumptions had been reviewed by the Finance Committee and the Board.

KPMG explained the work they had performed in reviewing the 2015-16 budget, the long term plan and cash flow forecasts to ensure there were no significant concerns about the future viability of MHG.

The Committee were satisfied that there was no material misstatement concerning the future viability of MHG.

Independent Assurances

External Audit

The external auditor for the year ended 31 March 2016 was KPMG LLP. They were appointed in November 2010, following a market test conducted by the Audit Committee. The annual fee for the external audit service was approved by the Committee during the year and its review of the non-audit services provided by them to the group showed that they related to tax compliance and tax advice and were provided by a different department within KPMG. KPMG also confirmed the independence of the different services.

Internal Audit

Internal audit services for the year were provided by Price Waterhouse Coopers (PwC), who were appointed in 2014 following a tendering exercise conducted by the Audit Committee. PwC were appointed on an annual contract basis.

PwC also assisted Moat with its strategic review of the business for which they received £105k.

PwC adopt a risk-based approach to their audits. The audits carried out during the year and the associated levels of assurance provided to the Audit Committee were as follows:

| Review | Status | Report classification |
|------------------------|---------------------|------------------------------|
| Data Protection | Final report issued | High risk |
| SLT Quarterly Sign-Off | Final report issued | Medium risk |
| Major and Minor Works | Final report issued | Medium risk |
| Service Charges | Final report issued | Low risk |
| Investment Appraisal | Final report issued | Low risk |
| Key Financial Controls | Final report issued | Low risk |
| Voids | Final report issued | Low risk |
| Treasury Management | Final report issued | Low risk |

Internal Audit resource continues to be directed purposely towards areas where management, in consultation with PwC, is concerned the controls might be weak or failing. In depth end-to-end, cross-functional reviews are undertaken to ensure processes are considered in their entirety. This is possible because of the assurance PwC gains from a "Senior Leadership Team Quarterly Sign Off" process which is subject to annual audit by PwC. This robust, departmental, quarterly internal assurance process covers a wide range of operational risks and associated controls.

In addition to the scheduled internal audit programme, PwC undertook a specific review in January 2016, of the work being undertaken in respect of the creation of asset and liability registers, in compliance with the Governance and Financial Viability Standard. This review provided Committee with reassurance that the approach taken should ensure that the registers contain sufficient information to enable a potential buyer to accurately price the value of the business. Detailed asset and liability registers are in place, although further work is now being undertaken to electronically link documents to make the process of reviewing associated documents more efficient.

MOAT HOUSING GROUP LIMITED
STRATEGIC AND DIRECTORS' REPORT
for the year ended 31 March 2016

REPORT OF THE AUDIT COMMITTEE (continued)

As the internal audits are targeted at areas of possible weaknesses a higher level of medium/high findings might be expected.

The one high recommendation 'Data Protection' is recognised as a potential area of concern. This will be subject to further scrutiny within the 2016-17 audit programme and has been added to the Strategic Risk Register, monitored by the Executive Team monthly and the Audit Committee at every meeting. All staff completed Data Protection Training in February 2016.

The medium risk finding on the SLT quarterly return audit was not unexpected and reflects the impact of a number of staff changes during the year, within the senior leadership team. Significant work to improve has been undertaken in this area since the audit was conducted by PwC.

PwC has undertaken a follow-up review of prior findings and Executive Directors and other Moat officials attended committee meetings to provide explanation as appropriate. It was pleasing to note the continued positive track record in keeping the number of outstanding action points to a minimum.

Summary and Conclusion

The Audit Committee has examined the manner in which the Board and management ensure and monitor the adequacy of the nature, extent and effectiveness of internal control systems, and has concluded that there is a sufficient review of the risk management and internal control arrangements. These arrangements are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, not absolute assurance against material misstatement or loss.

The Committee is satisfied that its own report and those of the Internal and External Auditors cover all necessary matters and are supported by appropriate evidence to provide reasonable assurance to the Board on internal controls, both operational and financial reporting controls, and that these are incorporated into normal governance procedures.



Gerry McCormack

Audit Committee Chair

21 July 2016

MOAT HOUSING GROUP LIMITED

STRATEGIC AND DIRECTORS' REPORT

for the year ended 31 March 2016

INTERNAL CONTROLS

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

The Board recognises that no system of internal control can provide absolute assurance against material misstatement, loss or eliminate all risk of failure to achieve business objectives. The system of internal control provides reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of our assets and interests. The system is designed to manage key risks and to provide reasonable assurance that planned business objectives and outcomes can be achieved.

The Board has adopted a risk based approach to internal controls which is embedded within MHG's management and governance procedures. This approach includes the regular evaluation of the nature and extent of risks to which MHG is exposed.

The process adopted by the Board in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework includes:

Identification and evaluation of key risks

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is a formal and ongoing process of management review in each area of MHG's activities. The Executive Team regularly considers and receives reports on significant risks facing MHG and is responsible for reporting to the Board any significant changes around identified key strategic risk areas as well as emerging strategic risks.

Monitoring and corrective action

A process of control, self-assessment and regular management reporting on control issues provides hierarchical assurance to management and to the Board. This includes a rigorous procedure for ensuring that corrective action is taken in relation to significant control issues, particularly those that may have a material impact on the financial statements and effective delivery of services.

Control environment and control procedures

The Board and Board Committees retain responsibility for a defined range of matters covering strategic, operational, finance and compliance issues including treasury strategy and large new investment projects.

The Board has adopted and disseminated to all employees a Code of Conduct for Employees. This sets out MHG's requirements around the integrity and ethics of our employees. The Code is supported by a framework of policies and procedures which cover fraud prevention and detection, health and safety, data and asset protection, financial delegated authorities, segregation of duties, accounting and treasury management.

Information and financial reporting systems

The Board approves a strategic plan in each financial year as well as a long term financial plan and budget. Financial reporting procedures include management accounts produced monthly and forecasts for the remainder of the financial year. Management accounts are reviewed at every Finance Committee and Board meeting and the Board also regularly reviews progress towards the achievements of key business objectives, targets and outcomes.

Anti-Fraud and Anti-Bribery Statement

The Board has a policy on anti-fraud and anti-bribery covering prevention, detection and reporting of fraud and the recovery of assets. MHG recognises that bribery and corruption, in all its forms, is illegal and unacceptable. MHG expects its business partners to adopt a similar approach in these areas and makes this a condition for new contracts.

A register is maintained of any frauds or potential frauds. The Audit Committee reviews the Fraud Register at each meeting and has taken the results of these reviews into account in its report to the Board.

MOAT HOUSING GROUP LIMITED

STRATEGIC AND DIRECTORS' REPORT

for the year ended 31 March 2016

INTERNAL CONTROLS (continued)

The Board has reviewed the system of internal controls for the year ended 31 March 2016 and has received sufficient assurance on the adequacy of controls in the year under review. There has been no major breach within the year and up to date of signing the financial statements that requires disclosure. The Board continues to believe outsourced provision of internal audit best supports an independent and detailed review of key procedures and controls.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the directors to prepare financial statements for each financial year. Under those regulations the directors have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. The financial statements are required by law to give a true and fair view of the affairs of the association and of its surplus or deficit for that year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and 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 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 MHG will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the association's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which MHG's auditor is unaware and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that MHG's auditor is aware of that information.

AUDITOR

A resolution to re-appoint KPMG LLP as external auditor shall be proposed at the annual general meeting.

Approved by the Board and signed on its behalf by:



Ian Lindsay (Chair) Date: 21 July 2016

INDEPENDENT AUDITOR'S REPORT TO MOAT HOUSING GROUP LIMITED ONLY

OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

We have audited the financial statements of Moat Housing Group for the year ended 31 March 2016 on pages 16 to 43. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the Association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Association those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 14, the Association's directors are responsible for the preparation of 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/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Association as at 31 March 2016 and of its income and expenditure for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

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

- the Association has not kept proper books of account; or
- the Association has not maintained a satisfactory system of control over transactions; or
- the financial statements are not in agreement with the Association's books of account; or
- we have not received all the information and explanations we need for our audit.



Rebecca Pett

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, Canary Wharf, London E14 5GL

Date: 25 July 2016

MOAT HOUSING GROUP LIMITED
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2016

| | Notes | 2016 £000 | 2015 restated £000 |
|--|-------|---------------------|--------------------------|
| Turnover | 3 | 17,137 | 18,878 |
| Cost of sales | 3 | <u>-</u> | <u>(4,304)</u> |
| Gross profit | | 17,137 | 14,574 |
| Operating costs | 3 | <u>(16,945)</u> | <u>(13,735)</u> |
| Operating surplus | 3 | 192 | 839 |
| Surplus on sale of investments | 4 | 2,014 | 31 |
| Dividend income received from associated company | 14 | - | 31 |
| Interest receivable | 7 | 70 | 122 |
| Interest and finance costs | 8 | (147) | (211) |
| Movement in fair value of investment properties | 13 | <u>48</u> | <u>389</u> |
| Surplus before taxation | 9 | 2,177 | 1,201 |
| Taxation | 11 | <u>(429)</u> | <u>-</u> |
| Surplus for the year | | 1,748 | 1,201 |
| Gift Aid payment | 10 | - | (1,796) |
| Remeasurement of net defined benefit asset/(liability) | 23 | 181 | (271) |
| Total comprehensive income/(loss) for the year | | <u><u>1,929</u></u> | <u><u>(866)</u></u> |

All amounts relate to continuing activities.

There is no difference between the surplus for the year stated above and its historical cost equivalent.

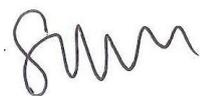
MOAT HOUSING GROUP LIMITED
STATEMENT OF FINANCIAL POSITION
as at 31 March 2016

| | Notes | 2016 £000 | 2015 restated £000 |
|---|-------|----------------------|--------------------------|
| Tangible fixed assets | | | |
| Housing properties | 12 | 473 | 473 |
| Less: Depreciation | 12 | (21) | (14) |
| | 12 | <u>452</u> | <u>459</u> |
| Investments | | | |
| Firstbuy loans | | 125 | 125 |
| Investment properties | 13 | 2,127 | 4,709 |
| Investments | 14 | - | 8 |
| | | <u>2,704</u> | <u>5,301</u> |
| Current Assets | | | |
| Housing stock for sale | 15 | 287 | 15 |
| Debtors | 16 | 20,689 | 14,058 |
| Cash at bank and in hand | | 816 | 548 |
| | | <u>21,792</u> | <u>14,621</u> |
| Creditors - amounts falling due within one year | 17 | <u>(2,604)</u> | <u>(1,804)</u> |
| Net current assets | | <u>19,188</u> | <u>12,817</u> |
| Total assets less current liabilities | | 21,892 | 18,118 |
| Creditors - amounts falling due after more than one year | 18 | (7,070) | (5,082) |
| Provisions for liabilities | | | |
| Pension provision | 23 | <u>(1,285)</u> | <u>(1,428)</u> |
| Total net assets | | <u><u>13,537</u></u> | <u><u>11,608</u></u> |
| Capital and reserves | | | |
| Called up share capital | 22 | - | - |
| Income and expenditure account | | <u>13,537</u> | <u>11,608</u> |
| | | <u><u>13,537</u></u> | <u><u>11,608</u></u> |

The financial statements were approved by the Board on 21 July 2016 and signed on its behalf by



Ian Lindsay
Chair



Steve Nunn
Board Member



Greg Taylor
Secretary

MOAT HOUSING GROUP LIMITED
STATEMENT OF CHANGES IN EQUITY
as at 31 March 2016

| | Income and expenditure account £'000 |
|--|---|
| Balance at 1 April 2014 | 12,472 |
| Adoption of FRS102 | |
| Pension - past service deficit contributions | (5,623) |
| Employee accrued annual leave | (319) |
| Transfer employee cost to MHL | 5,942 |
| Additional amortisation of government grant | 2 |
| Additional depreciation of housing properties | (2) |
| | <hr/> |
| Restated balance at 1 April 2014 | 12,472 |
| Adoption of FRS102 | |
| Pension - past service deficit contributions | 271 |
| Transfer employee cost to MHL | (271) |
| Additional amortisation of government grant | 1 |
| Additional depreciation of housing properties | (1) |
| Revaluation of investment property | 284 |
| Other finance costs-interest on scheme liabilities | (211) |
| Remeasurement of pension scheme net assets/(defined liabilities) | 53 |
| Other management costs | (1) |
| Surplus for the year under UK GAAP | 1,131 |
| Gift Aid Payment | (1,796) |
| Remeasurement of pension scheme net assets/(defined liabilities) | (324) |
| | <hr/> |
| Restated balance at 1 April 2015 | 11,608 |
| Surplus for the year | 1,748 |
| Remeasurement of pension scheme net assets/(defined liabilities) | 181 |
| | <hr/> |
| Balance at 31 March 2016 | <u><u>13,537</u></u> |

MOAT HOUSING GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2016

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

MHG is a public benefit entity. The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom, the Accounting Direction for Private Registered Providers of Social Housing 2015, the Statement of Recommended Practice for registered social housing providers 2014 (SORP), published by the National Housing Federation, and on the historic cost basis (as modified by the revaluation of investment properties).

This is the first year the financial statements have been prepared under FRS102. An explanation of how the transition to FRS 102 has affected the financial position and financial performance of MHG is provided in note 26.

The financial statements have been presented in Sterling (£'000).

A summary of the accounting policies, which have been applied consistently, is set out below.

Disclosure exemptions

Under FRS 102 the company has taken advantage of reduced disclosures for subsidiaries and has not prepared a statement of cash flows as its parent MHL consolidates MHG in its own financial statements.

Going concern

The financial statements have been prepared using the going concern basis of accounting.

Housing properties

Housing properties are stated at cost less accumulated depreciation and accumulated impairment cost. Cost includes the cost of acquiring land and buildings, development costs, interest capitalised during the development period, directly attributable administration costs, and expenditure incurred in respect of improvements which comprise the modernisation and extension of existing properties.

Housing properties for rent are split between land, structure and major components with a substantially different economic life.

Housing properties in the course of construction are stated at cost and are not depreciated. They are transferred to completed properties when they are ready for letting or sale.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within gain/loss on disposal of fixed assets in the Statement of comprehensive income.

Housing properties - Depreciation

Depreciation is charged on a straight line basis over the expected economic useful lives of each component part of housing properties. Land is not depreciated. The estimated useful lives are as follows:

| | |
|---------------------|-----------------|
| Structure | - 100 years |
| Kitchens | - 20 years |
| Bathrooms | - 30 years |
| Windows and doors | - 20 - 30 years |
| Heating | - 15 years |
| Electrical rewiring | - 40 years |
| Roofs | - 50 years |

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

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

Impairment of Housing properties

The carrying amounts of housing properties are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. For the purpose of impairment testing, assets are grouped into the smallest group of assets that generates cash flows from continuing use.

An impairment loss is recognised for the amount by which the asset's carrying value exceeds its estimated recoverable amount and is recognised in operating expenditure in the statement of comprehensive income.

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

Impairment losses recognised in prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

Social Housing Grant (SHG)

SHG is initially recognised at fair value as a long term liability, specifically as deferred grant income and released through turnover over the life of the structure of housing properties in accordance with the accrual model. Grants relating to expenditure on tangible fixed assets are credited to turnover at the same rate as the depreciation on the assets to which the grant relates. The deferred element of the grants is included in creditors as deferred income.

On disposal of properties, all associated SHG are transferred to either the Recycled Capital Grant Fund (RCGF) or Disposal Proceeds Fund (DPF) until the grant is recycled or repaid to reflect the existing obligation under the social housing grant funding regime.

Firstbuy loans

Loans advanced under Firstbuy arrangements to people purchasing their own homes meet the definition of a public entity concessionary loan and are initially recognised as the amount paid to the purchaser. In subsequent years this is adjusted to reflect any accrued interest receivable and to the extent the loan is deemed irrecoverable, an impairment loss is recognised in the surplus for the year.

In the event that the property is sold, MHG recovers the equivalent loaned percentage of the property at the time of the sale. Any surplus generated by a repayment of a Firstbuy loan is retained by MHG.

Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are not depreciated but are held at fair value. Changes in fair value are recognised in the surplus for the year. Rental income from these properties is taken to turnover.

Investments in subsidiaries

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in associates

Investments in associates are measured at cost less accumulated impairment.

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

Housing stock for sale

Completed properties and properties under construction for open market sales are recognised at the lower of cost and net realisable value. Assessing net realisable value requires use of estimation techniques. In making this assessment, management considers publicly available information and internal forecasts on future sales activity. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal. At each reporting date, the housing stock for sale is assessed for impairment. If impairment is necessary the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is immediately recognised in the surplus for the year.

On disposal, sales proceeds are included in turnover and the cost of sales, including costs incurred in the development of the properties, marketing and other incidental costs, are included in operating expenses.

Future repair funds

Charges which are made to leaseholders for future major repairs such as replacement windows and roofs and the replacement of equipment within their estates are ring fenced for use on their properties/estates only. Such funds are disclosed on the Statement of financial position as creditors.

Financial instruments

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

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of MHG after deducting all of its liabilities.

Basic financial instruments

Rent arrears, Trade and Other debtors

Rent arrears, Trade and Other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate for a similar debt instrument.

Trade and Other creditors

Trade and Other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Impairment of financial assets

Financial assets not carried at fair value are assessed for indicators of impairment at each reporting date. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Impairment losses are recognised in the surplus for the year.

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

When a subsequent event causes the amount of the impairment loss to decrease, the decrease is reversed through the surplus for the year.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which MHG pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are shown as an expense in the surplus for the year in the periods during which services are rendered by employees. MHG participates in the Aviva defined contribution plan, closed to new members, and the Social Housing Pension Scheme (SHPS) defined contribution plan which is open to all new employees and current employees have the opportunity to switch into it.

Defined benefit plans

MHG participates in the multi-employer defined benefit Social Housing Pension Scheme (SHPS) operated by The Pensions Trust and is deemed to participate in the Growth Plan as an Additional Voluntary Contribution (AVC) Vehicle for members of the SHPS scheme. It is not possible to identify the share of the underlying assets and liabilities belonging to individual participating employers on a consistent and reasonable basis and therefore MHG accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the surplus for the year represents the contributions payable to the scheme in respect of the accounting period. To the extent that payment plans relate to funding a deficit, the contributions are recognised as a liability payable arising from the agreement with multi-employer plan and results in a charge to the surplus for the year. Where the payments are not expected to be settled within 12 months the liability is measured at the present value of the contributions paid. The scheme is closed to new employees.

MHG participates in the defined benefit Essex County Council and London Borough of Merton pension schemes which are closed to new employees. The amounts charged to operating surplus are the costs arising from the employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to interest and finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the defined benefit liability) are recognised in other comprehensive income. Defined benefit schemes are funded in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained triennially and are updated at each reporting date.

Termination benefits

Termination benefits are recognised as an expense when MHG is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment.

Provisions for liabilities

Provisions are recognised when MHG has a present legal or constructive obligation as a result of a past event that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised as the best estimate of the amount required to settle the obligation at the reporting date.

Annual leave

A provision is made for annual leave accrued by employees that they are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

Turnover

Turnover represents income from the provision of staff and management services, sale of open market sale properties and rent and service charge income receivable. All income is recognised on a receivable basis and the sale of property on completion.

VAT

MHG is a member of the Moat VAT group. A large proportion of Moat's income comprises rental income, which is exempt for VAT purposes and gives rise to a partial exemption calculation. Expenditure is therefore shown inclusive of VAT. Recoverable VAT arising from open market sales activity and from partially exempt activities is credited to the surplus for the year.

Taxation

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Gift aid payment

Gift aid payment is only recognised as a liability at the year end to the extent that it has been paid prior to the year end, there is a deed of covenant prior to the year end or a Companies Act s288 written resolution has been approved by the shareholder in the year to pay the taxable surplus for the year to its parent by a certain payment date.

Exclusion from consolidation

MHG is exempt from the requirement to prepare consolidated accounts on the grounds that it is a wholly owned subsidiary of another undertaking and its parent undertaking includes MHG in its own published consolidated financial statements.

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

2. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of MHG's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Critical judgements

Impairment

As explained in note 1, the directors carry out impairment reviews annually.

Social housing properties

During 2015-16, the directors deemed that the requirement to reduce rents by 1% for the next 4 years triggered a full impairment review of its rented housing properties. The 3 social rent properties are in the same estate and were taken to be one cash-generating unit. A desk top exercise was carried out to review the carrying values of rented property assets to the 'recoverable amount'. The recoverable amount was the higher of the Estimated use value as social housing (EUV-SH) and its Value in use-special purpose (VIU-SP) taken to be the cost of constructing an equivalent asset on the same site. The cost of construction used was the estimated cost of construction used in investment appraisals. As carrying values were lower than the recoverable amount no impairment was necessary.

Schemes in development

All development schemes are assessed using an investment appraisal model, which is reviewed annually by the Finance Committee, to ensure the appropriateness of assumptions. During development the schemes are reviewed against the investment appraisal for any fluctuations in costs or anticipated sales values. For schemes in development or committed there were no adverse fluctuations and no impairment was deemed necessary.

Investment properties

The directors deemed that an external valuation of investment properties was not appropriate as they were able to value the properties based on actual market values achieved by MHG in March and April as it was actively selling the investment property portfolio.

Key sources of estimation uncertainty

Estimated useful lives

Fixed assets are depreciated over their estimated useful lives. The components into which housing properties are split and their associated estimated lives are considered to be the appropriate level based on knowledge of the repairs and maintenance programme carried out. The actual lives of individual components can however vary based on factors such as product life, wear and tear, maintenance programmes and environmental factors.

Pensions

The liability for future pension payments is estimated by qualified actuaries.

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

3. TURNOVER, OPERATING COSTS AND OPERATING SURPLUS

| | 2016 | | | |
|--------------------------------------|-----------------|------------------------|----------------------|--------------------------|
| | Turnover | Operating costs | Cost of sales | Operating surplus |
| | £'000 | £'000 | £'000 | £'000 |
| Social housing lettings | 23 | (12) | - | 11 |
| Non-social housing activities | | | | |
| Management | 17,002 | (16,910) | - | 92 |
| Market rent | 112 | (23) | - | 89 |
| | <u>17,137</u> | <u>(16,945)</u> | <u>-</u> | <u>192</u> |

| | 2015 restated | | | |
|--|----------------------|------------------------|----------------------|--------------------------|
| | Turnover | Operating costs | Cost of sales | Operating surplus |
| | £000 | £000 | £000 | £000 |
| Social housing lettings | 19 | (7) | - | 12 |
| Other social housing activities | | | | |
| Contracted services | 208 | (28) | - | 180 |
| Non-social housing activities | | | | |
| Management | 13,635 | (13,667) | - | (32) |
| Market rent | 203 | (33) | - | 170 |
| Open Market sales | 4,813 | - | (4,304) | 509 |
| | <u>18,878</u> | <u>(13,735)</u> | <u>(4,304)</u> | <u>839</u> |

Income from management services consists of group charges payable by:

| | 2016 | 2015 |
|--------------------|---------------|--------------------------|
| | £000 | restated £000 |
| Moat Homes Limited | <u>17,002</u> | <u>13,635</u> |

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

3. TURNOVER, OPERATING COSTS AND OPERATING SURPLUS (continued)

Income and Expenditure from Social Housing Lettings

| | 2016 | 2015 |
|---|----------------|-----------------|
| | General | restated |
| | needs | General |
| | £000 | needs |
| | | £000 |
| Turnover from social housing lettings | | |
| Rents receivable | 18 | 18 |
| Service charge income | 3 | - |
| | <hr/> | <hr/> |
| Net rental income | 21 | 18 |
| Amorisation of Social Housing Grant | 2 | 1 |
| | <hr/> | <hr/> |
| Total turnover from social housing lettings | 23 | 19 |
| | <hr/> | <hr/> |
| Operating costs on social housing lettings | | |
| Management | (1) | - |
| Routine maintenance | (4) | (1) |
| Depreciation of housing properties | (7) | (6) |
| | <hr/> | <hr/> |
| Total operating costs on social housing lettings | (12) | (7) |
| | <hr/> | <hr/> |
| Operating surplus on social housing lettings | 11 | 12 |
| | <hr/> | <hr/> |
| Void losses | - | - |
| | <hr/> | <hr/> |

4. SURPLUS ON SALE OF INVESTMENTS

| | 2016 | | | 2015 |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Investment | Investment | Total | Investment |
| | properties | properties | properties | properties |
| | £000 | £000 | £000 | £000 |
| Proceeds of sale | 3,040 | 1,804 | 4,844 | 495 |
| Less: Attributable book value | (2,630) | (8) | (2,638) | (449) |
| Incidental selling costs | (71) | (121) | (192) | (15) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 339 | 1,675 | 2,014 | 31 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

5. DIRECTORS AND EXECUTIVE TEAM

The total emoluments, including pension contribution, received by Moat Executive Team members (ET) were £691,752 (2015: £677,505) in the year.

The emoluments of the highest paid director in the year were as follows:

| | 2016 | 2015 |
|--|-------------|-------------|
| | £000 | £000 |
| Emoluments, excluding pension contributions | 183 | 184 |
| Pension contributions – in respect of services as director | 18 | 10 |
| | <hr/> | <hr/> |
| | 201 | 194 |
| | <hr/> | <hr/> |

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

5. DIRECTORS AND EXECUTIVE TEAM (continued)

The Chief Executive is an ordinary member of the SHPS defined contribution scheme.

The salaries of ET members were recharged to MHL in full although their contract of employment is with MHG.

MHG non-executive board members did not receive any remuneration for their services as board members from MHG. MHG's parent MHL paid £90,927 (2015: £80,862) in fees and £3,825 (2015: £2,629) in expenses to its non-executive board members for their overall work within the Group.

Details of Board and Committee members are set out on page 2.

6. EMPLOYEE INFORMATION

The average monthly number of persons employed during the year was:

| | 2016 | | 2015 | |
|-----------------------|-----------------|----------------------|-----------------|----------------------|
| | Number of Staff | Full time equivalent | Number of Staff | Full time equivalent |
| Staff employed by MHG | 386 | 350 | 376 | 337 |

Full time equivalents are calculated based on a standard working week of 35 hours.

| | 2016 | 2015 |
|-----------------------------------|----------|------------------|
| | £000 | restated £000 |
| Wages and salaries | 11,954 | 11,599 |
| Social Security costs | 1,150 | 1,150 |
| Other pension costs | 3,698 | 1,415 |
| Recharged to other Moat companies | (16,802) | (14,138) |
| | <u>-</u> | <u>26</u> |

19 (2015: 23) employees, including executives, earned over £60,000 in remuneration in the following bands:

| | 2016 | 2015 |
|---------------------|------------------|------------------|
| Band | No. of employees | No. of employees |
| £60,000 - £69,999 | 4 | 7 |
| £70,000 - £79,999 | 6 | 2 |
| £80,000 - £89,999 | 4 | 5 |
| £90,000 - £99,999 | 1 | 3 |
| £100,000 - £109,999 | - | 1 |
| £130,000 - £139,999 | 1 | - |
| £140,000 - £149,999 | 1 | 2 |
| £150,000 - £159,999 | 1 | 2 |
| £180,000 - £189,999 | 1 | 1 |

Remuneration includes salary, allowances, bonuses and compensation for loss of office.

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

7. INTEREST RECEIVABLE

| | 2016 | 2015 |
|---|-------------|-------------|
| | £000 | £000 |
| Interest receivable | 6 | 69 |
| Interest receivable from Group entities | 64 | 53 |
| | <u>70</u> | <u>122</u> |

8. OTHER FINANCE COSTS

| | 2016 | 2015 |
|---------------------------------|-------------|-----------------|
| | £000 | restated |
| | | £000 |
| Group pension schemes | | |
| Merton and Essex pension scheme | 47 | 51 |
| SHPs pension scheme | 99 | 159 |
| SHPs GP pension scheme | 1 | 1 |
| | <u>147</u> | <u>211</u> |

9. SURPLUS BEFORE TAXATION

| | 2016 | 2015 |
|---------------------------------------|-------------|-----------------|
| | £000 | restated |
| | | £000 |
| This is stated after charging: | | |
| Depreciation of housing properties | 7 | 6 |
| Auditor's remuneration | | |
| Audit of financial statements | 21 | 19 |
| Services relating to taxation | 7 | 2 |

10. GIFT AID PAYMENT

| | 2016 | 2015 |
|---|-------------|--------------|
| | £000 | £000 |
| The aggregate amount of gift aid payments comprises: | | |
| Gift aid paid in respect of prior year but not recognised as a liability in that year | - | 796 |
| Gift aid approved by written resolution by the shareholders | - | 1,000 |
| | <u>-</u> | <u>1,796</u> |

The aggregate amount of gift aid proposed but not included as liabilities at the year end is nil (2015: nil)

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

11. TAX

| | 2016 | 2015 |
|---|--------------|-----------------|
| | £000 | £000 |
| Current tax: | | |
| UK corporation tax | <u>429</u> | <u>-</u> |
| | 2016 | 2015 |
| | £000 | restated |
| | | £000 |
| Surplus before tax | 2,177 | 1,201 |
| Gift aid | <u>-</u> | <u>(1,796)</u> |
| Surplus/(deficit) on ordinary activities subject to tax | <u>2,177</u> | <u>(595)</u> |
| Current tax at 20% (2015: 21%) | 435 | (124) |
| Effects of: | | |
| Non taxable income | - | (19) |
| Timing differences | <u>(6)</u> | <u>143</u> |
| Total current tax charge | <u>429</u> | <u>-</u> |

12. TANGIBLE FIXED ASSETS – HOUSING PROPERTIES

| | Rented properties completed 2016 | Rented properties completed 2015 restated |
|-----------------------------------|---|--|
| | £000 | £000 |
| Cost | | |
| At 1 April and 31 March | <u>473</u> | <u>473</u> |
| Depreciation | | |
| At 1 April | (14) | (8) |
| Charged in the year | <u>(7)</u> | <u>(6)</u> |
| At 31 March | <u>(21)</u> | <u>(14)</u> |
| Net book value at 31 March | <u>452</u> | <u>459</u> |
| Net book value at 1 April | <u>459</u> | <u>465</u> |

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

13. INVESTMENT PROPERTIES

Investment properties are held at fair value. A desktop valuation was carried out internally by the business initiatives manager at 31 March 2016 using actual sales values.

| | 2016 | 2015 |
|---|----------------|--------------|
| | £000 | £000 |
| Market rent properties | <u>2,127</u> | <u>4,709</u> |
| Investment properties as at 1 April | 4,709 | 4,769 |
| Movement in fair value of investment properties | 48 | 389 |
| Properties sold | <u>(2,630)</u> | <u>(449)</u> |
| Investment properties as at 31 March | <u>2,127</u> | <u>4,709</u> |

14. INVESTMENTS

During the year MHG sold its minority investment of 33.3% of the share capital in Chrysalis (Stanhope) Holdings Limited (2015: £8k), realising a surplus of £1.7m.

| | 2016 | 2015 |
|---|-------------|-------------|
| | £000 | £000 |
| Dividend income from Associated company | <u>-</u> | <u>31</u> |

Investment in subsidiaries

| | Description | Country of incorporation | % of ordinary shares held | Investment £ |
|-----------------------------------|--------------------|-------------------------------------|--|-------------------------|
| Moat Development Ltd | Dormant | England | 100% | 1 |
| Mariner Facilities Management Ltd | Managing Agent | England | 100% | 100 |

During the year MHG increased its investment in Mariner Facilities Management Ltd by £17k. This investment was fully impaired.

15. HOUSING STOCK FOR SALE

Housing stock for sale represents the cost of land and buildings for homes for sale on the open market.

| | 2016 | 2015 |
|---------------------------------------|-------------|----------------|
| | £000 | £000 |
| Open market sales | <u>287</u> | <u>15</u> |
| Housing stock for sale as at 1 April | 15 | 1,967 |
| Additions | 272 | 15 |
| Sales | <u>-</u> | <u>(1,967)</u> |
| Housing stock for sale as at 31 March | <u>287</u> | <u>15</u> |

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

16. DEBTORS

| | 2016 | 2015 |
|---|---------------|--------------------------|
| | £000 | restated £000 |
| Rent debtors | 21 | 15 |
| Amounts due from other Group regulated companies - day to day | 7,994 | 5,886 |
| Amounts due from other Group regulated companies - arranged | 12,300 | 7,050 |
| Amounts due from other Group non-regulated companies - arranged | 150 | 75 |
| Amounts due from Associates | - | 596 |
| Prepayments and accrued income | 31 | 64 |
| Other debtors | 193 | 372 |
| | <u>20,689</u> | <u>14,058</u> |

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2016 | 2015 |
|---|--------------|--------------------------|
| | £000 | restated £000 |
| Amounts due to other Group non-regulated companies - day to day | 17 | - |
| Pension deficit contributions | 850 | 575 |
| Other creditors | 899 | 883 |
| Accruals | 838 | 346 |
| | <u>2,604</u> | <u>1,804</u> |

18. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

| | 2016 | 2015 |
|-------------------------------|--------------|--------------------------|
| | £000 | restated £000 |
| Government grant | 142 | 144 |
| Service charge creditor | 5 | 2 |
| Pension deficit contributions | 6,923 | 4,936 |
| | <u>7,070</u> | <u>5,082</u> |

Amounts repayable after five years are:

| | | |
|-------------------------------|--------------|--------------|
| Government grant | 142 | 144 |
| Service charge creditor | 5 | 2 |
| Pension deficit contributions | 4,126 | 2,965 |
| | <u>4,273</u> | <u>3,111</u> |

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

19. GOVERNMENT GRANT

| | 2016 | 2015 |
|---|-------------|--------------------------|
| | £000 | restated £000 |
| Social Housing Grant | 147 | 147 |
| Cumulative amortisation of Social Housing Grant | <u>(5)</u> | <u>(3)</u> |
| | <u>142</u> | <u>144</u> |

20. CAPITAL COMMITMENTS

| | 2016 | 2015 |
|---|--------------|--------------|
| | £000 | £000 |
| Capital expenditure contracted for but not provided in the financial statements | <u>5,977</u> | <u>-</u> |
| Capital expenditure authorised but not yet contracted for | <u>5,060</u> | <u>6,157</u> |

21. FINANCIAL INSTRUMENTS

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

| | 2016 | 2015 |
|---|---------------|---------------------------|
| | £'000 | restated £'000 |
| Financial assets | | |
| Measured at amortised cost: | | |
| Amounts due from group companies (<i>note 16</i>) | 12,450 | 7,125 |
| Measured at undiscounted amount receivable: | | |
| Amounts due from associates (<i>note 16</i>) | - | 596 |
| Trade and other debtors (<i>note 16</i>) | <u>8,208</u> | <u>6,273</u> |
| | <u>20,658</u> | <u>13,994</u> |

Amounts due from group companies are repayable at variable rates of 1 month LIBOR plus a margin of between 25 and 200 basis points to reflect the risk assessment of the borrower.

| | 2016 | 2015 |
|---|--------------|---------------------------|
| | £'000 | restated £'000 |
| Financial liabilities | | |
| Measured at amortised cost: | | |
| Pension deficit contributions payable (<i>notes 17, 18</i>) | 7,773 | 5,511 |
| Measured at undiscounted amount payable: | | |
| Trade and other creditors (<i>notes 17, 18</i>) | <u>1,759</u> | <u>1,231</u> |
| | <u>9,532</u> | <u>6,742</u> |

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

21. FINANCIAL INSTRUMENTS (continued)

| | 2016 | 2015 |
|--|--------------|---------------------------|
| | £'000 | restated £'000 |
| Interest income and expense | | |
| Total interest income for financial assets at amortised cost | <u>70</u> | <u>122</u> |

22. CALLED UP SHARE CAPITAL

| | 2016 | 2015 |
|--|-------------|-------------|
| | £ | £ |
| Allotted, issued and fully paid £1 shares | | |
| At 1 April | 3 | 4 |
| Cancelled during the year | - | (2) |
| Issued during the year | <u>2</u> | <u>1</u> |
| At 31 March | <u>5</u> | <u>3</u> |

23. PENSION OBLIGATIONS

The Pension Trust - Social Housing Pension Scheme (SHPS)

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

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

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

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

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

23. PENSION OBLIGATIONS (continued)

Deficit contributions

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

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

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

The Pension Trust – The Growth Plan

MHG participates in the scheme, a multi-employer scheme which provides benefits to some 1,300 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme. MHG has closed the scheme to new employees.

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

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

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2011. This valuation showed assets of £780m, liabilities of £928m and a deficit of £148m. To eliminate this funding shortfall, the trustees have asked the participating employers to pay additional contributions to the scheme as follows:

Deficit contributions

| | |
|------------------------------------|---|
| From 1 April 2013 to 31 March 2023 | £13.9m per annum (payable monthly and increasing by 3% each year on 1 April) |
|------------------------------------|---|

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

23. PENSION OBLIGATIONS (continued)

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This valuation showed assets of £793m, liabilities of £970m and a deficit of £177m. To eliminate this funding shortfall, the trustees have asked the participating employers to pay additional contributions to the scheme as follows:

Deficit contributions

| | |
|--|--|
| From 1 April 2016 to 30 September 2025 | £12,945,440 per annum (payable monthly and increasing by 3% each year on 1 April) |
| From 1 April 2016 to 30 September 2028 | £54,560 per annum (payable monthly and increasing by 3% each year on 1 April) |

The recovery plan contributions are allocated to each participating employer in line with their estimated share of the Series 1 and Series 2 scheme liabilities.

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

| | The Growth plan | | SHPS | |
|---|-----------------|------------------|--------------|------------------|
| | 2016 | 2015 restated | 2016 | 2015 restated |
| | £'000 | £'000 | £'000 | £'000 |
| Present value of provision | <u>67</u> | <u>64</u> | <u>7,707</u> | <u>5,449</u> |
| | | | | |
| | The Growth plan | | SHPS | |
| | 2016 | 2015 restated | 2016 | 2015 restated |
| Reconciliation of opening and closing provisions: | £'000 | £'000 | £'000 | £'000 |
| Provision at start of year | 65 | 68 | 5,449 | 5,555 |
| Unwinding of the discount factor | 1 | 1 | 99 | 159 |
| Deficit contribution paid | (8) | (8) | (567) | (546) |
| Remeasurements: | | | | |
| Impact of any change in assumptions | (1) | 3 | (51) | 280 |
| Amendments to contribution schedule | <u>10</u> | <u>-</u> | <u>2,777</u> | <u>-</u> |
| Provision at end of year | <u>67</u> | <u>64</u> | <u>7,707</u> | <u>5,448</u> |

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

23. PENSION OBLIGATIONS (continued)

| | The Growth plan | | SHPS | |
|---|-----------------|------------------|--------------|------------------|
| | 2016 | 2015 restated | 2016 | 2015 restated |
| | £'000 | £'000 | £'000 | £'000 |
| Income and expenditure impact | | | | |
| Interest expense | 1 | 1 | 99 | 159 |
| Remeasurements: | | | | |
| Impact of any change in assumptions | (1) | 3 | (51) | 280 |
| Amendments to contribution schedule | 10 | - | 2,777 | - |
| Contributions paid in respect of future service | - | - | 61 | 70 |
| Costs recognised in surplus and | <u>10</u> | <u>4</u> | <u>2,886</u> | <u>509</u> |

| | The Growth plan | | SHPS | |
|------------------|-----------------|------------------|-------------|------------------|
| | 2016 | 2015 restated | 2016 | 2015 restated |
| | % per annum | % per annum | % per annum | % per annum |
| Assumptions | | | | |
| Rate of discount | <u>2.07</u> | <u>1.74</u> | <u>2.06</u> | <u>1.92</u> |

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

Defined Contribution Schemes – Moat Housing Group Pension Plan

Moat also participates in the defined contribution scheme with SHPS. The total expense charged to surplus and deficit in the year ended 31 March 2016 was £588k (2015: £377k). This scheme is open to all new employees and current employees also have the opportunity to switch into this scheme.

Moat also participates in the Aviva defined contribution scheme. The total expense charged to surplus for the year ended 31 March 2016 was £244k (2015: £147k). This scheme is closed to new employees.

London Borough of Merton and Essex County Council Pension schemes

MHG provides two smaller pension schemes under the Local Government Pension Scheme (LGPS) to its employees. Both schemes are defined benefit statutory schemes. A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, dependent upon on one or more factors such as age, years of service and compensation. The schemes are closed to new employees.

The schemes have rules which specify the benefits to be paid and are financed accordingly with assets being held in independently administered funds. A full actuarial valuation of each scheme is carried out every three years with interim reviews in the intervening years.

The last full actuarial valuations were conducted as at 31 March 2013 by independent, qualified actuaries, Barnett Waddingham for both schemes, using the projected unit credit method. The next actuarial valuations of the Funds will be carried out as at 31 March 2016 and will set contributions for the period from 1 April 2017 to 31 March 2020.

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

23. PENSION OBLIGATIONS (continued)

To assess the value of the Employers' liabilities at 31 March 2016, Barnett Waddingham have rolled forward the value of the Employers' liabilities calculated for the funding valuations as at 31 March 2013, using financial assumptions that comply with FRS 102. To calculate the asset share, they have rolled forward the assets allocated to MHG at 31 March 2013 allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of MHG and its employees.

The valuation uses a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, carried out as at 31 March 2013.

| | | Essex | Essex | Merton | Merton |
|--|---------|---------|---------|---------|---------|
| | | Pension | Pension | Pension | Pension |
| The assumed life expectations from age 65 are: | | Fund | Fund | Fund | Fund |
| | | 2016 | 2015 | 2016 | 2015 |
| | | Years | Years | Years | Years |
| Retiring today | | | | | |
| | Males | 22.9 | 22.8 | 22.5 | 22.4 |
| | Females | 25.3 | 25.2 | 25.8 | 25.7 |
| Retiring in 20 years | | | | | |
| | Males | 25.2 | 25.1 | 24.8 | 24.6 |
| | Females | 27.7 | 27.6 | 28.1 | 28.0 |

The financial assumptions, set with reference to market conditions at 31 March 2016, used to calculate the results are as follows:

| Assumptions as at 31 March: | Essex | Essex | Merton | Merton |
|-----------------------------|---------|---------|---------|---------|
| | Pension | Pension | Pension | Pension |
| | Fund | Fund | Fund | Fund |
| | 2016 | 2015 | 2016 | 2015 |
| | % p.a. | % p.a. | % p.a. | % p.a. |
| RPI increases | 3.2% | 3.2% | 3.2% | 3.1% |
| CPI increases | 2.3% | 2.3% | 2.3% | 2.3% |
| Salary increases | 4.1% | 4.1% | n/a | n/a |
| Pension increases | 2.3% | 2.3% | 2.3% | 2.3% |
| Discount rate | 3.6% | 3.3% | 3.5% | 3.2% |

The expected return on assets is the discount rate.

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

23. PENSION OBLIGATIONS (continued)

Movements in deficit are as follows:

| | Essex Pension Fund 2016 £000 | Essex Pension Fund 2015 restated £000 | Merton Pension Fund 2016 £000 | Merton Pension Fund 2015 restated £000 | Total 2016 £000 | Total 2015 restated £000 |
|---|---|--|--|---|--------------------------------|---|
| Deficit brought forward | (680) | (665) | (748) | (535) | (1,428) | (1,200) |
| Remeasurement of the net assets/(defined liability) | 104 | (67) | 77 | (204) | 181 | (271) |
| Amounts recognised in surplus and deficit | (35) | (37) | (25) | (24) | (60) | (61) |
| Contributions paid | 7 | 89 | 15 | 15 | 22 | 104 |
| Deficit carried forward | <u>(604)</u> | <u>(680)</u> | <u>(681)</u> | <u>(748)</u> | <u>(1,285)</u> | <u>(1,428)</u> |

Amounts recognised in the surplus and deficit are as follows:

| | Essex Pension Fund 2016 £000 | Essex Pension Fund 2015 restated £000 | Merton Pension Fund 2016 £000 | Merton Pension Fund 2015 restated £000 | Total 2016 £000 | Total 2015 restated £000 |
|-----------------------------------|---|--|--|---|--------------------------------|---|
| Service cost | (11) | (8) | - | - | (11) | (8) |
| Net interest on defined liability | (23) | (28) | (24) | (23) | (47) | (51) |
| Administration expenses | (1) | (1) | (1) | (1) | (2) | (2) |
| | <u>(35)</u> | <u>(37)</u> | <u>(25)</u> | <u>(24)</u> | <u>(60)</u> | <u>(61)</u> |

The amount included in the statement of financial position arising from its obligations from these defined benefit schemes is as follows:

| | Essex Pension Fund 2016 £'000 | Essex Pension Fund 2015 £'000 | Merton Pension Fund 2016 £'000 | Merton Pension Fund 2015 £'000 | Total 2016 £000 | Total 2015 £000 |
|---|--|--|---|---|--------------------------------|--------------------------------|
| Net pension asset as at 31 March: | | | | | | |
| Present value of defined benefit obligation | (2,439) | (2,541) | (2,172) | (2,257) | (4,611) | (4,798) |
| Fair value of Fund assets (bid value) | 1,835 | 1,861 | 1,491 | 1,509 | 3,326 | 3,370 |
| Deficit | <u>(604)</u> | <u>(680)</u> | <u>(681)</u> | <u>(748)</u> | <u>(1,285)</u> | <u>(1,428)</u> |

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

23. PENSION OBLIGATIONS (continued)

Movements in the present value of the defined benefit obligation:

| Movement in the present value of the scheme: | Essex Pension Fund | Essex Pension Fund | Merton Pension Fund | Merton Pension Fund |
|---|---------------------------|---------------------------|----------------------------|----------------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | £000 | £000 | £000 | £000 |
| Opening defined benefit contribution | (2,541) | (2,275) | (2,257) | (1,978) |
| Current service cost | (11) | (8) | - | - |
| Interest cost | (83) | (99) | (72) | (85) |
| Change in financial assumptions | 120 | (228) | 112 | (277) |
| Estimated benefits paid net of transfers in | 81 | 74 | 45 | 83 |
| Contributions by scheme participants | (5) | (5) | - | - |
| | (2,439) | (2,541) | (2,172) | (2,257) |

Movements in the fair value of scheme assets were as follows:

| Movement in the fair value of the scheme: | Essex Pension Fund | Essex Pension Fund | Merton Pension Fund | Merton Pension Fund |
|---|---------------------------|---------------------------|----------------------------|----------------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | £000 | £000 | £000 | £000 |
| Opening fair value of Fund assets | (1,861) | (1,610) | (1,509) | (1,443) |
| Interest on assets | (60) | (71) | (48) | (62) |
| Return on assets less interest | 16 | (156) | 35 | (73) |
| Other actuarial gains/losses | - | (5) | - | - |
| Administration expenses | 1 | 1 | 1 | 1 |
| Contributions by employer inc. unfunded | (7) | (89) | (15) | (15) |
| Contributions by Fund participants | (5) | (5) | - | - |
| Estimated benefits paid plus unfunded net of transfers in | 81 | 74 | 45 | 83 |
| | (1,835) | (1,861) | (1,491) | (1,509) |

The total return on the Essex Pension Fund assets for the year to 31 March 2016 is £44,000.
The total return on the Merton Pension Fund assets for the year to 31 March 2016 is £13,000.

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

23. PENSION OBLIGATIONS (continued)

The analysis of the scheme assets at reporting date was as follows:

| Essex Pension Fund Employer asset share - bid value | 2016 £'000 | 2016 % | 2015 £'000 | 2015 % |
|--|-----------------------|-------------------|-----------------------|-------------------|
| Equities | 1,241 | 68% | 1,252 | 67% |
| Gilts | 54 | 3% | 82 | 4% |
| Other bonds | 88 | 5% | 178 | 10% |
| Property | 219 | 12% | 202 | 11% |
| Cash | 60 | 3% | 41 | 2% |
| Alternative assets | 82 | 4% | 106 | 6% |
| Other managed funds | 91 | 5% | - | - |
| | <u>1,835</u> | <u>100%</u> | <u>1,861</u> | <u>100%</u> |

| Merton Pension Fund Employer asset share - bid value | 2016 £'000 | 2016 % | 2015 £'000 | 2015 % |
|---|-----------------------|-------------------|-----------------------|-------------------|
| Equities | 1,047 | 70% | 1,092 | 72% |
| Gilts | 351 | 24% | 363 | 24% |
| Property | 47 | 3% | 43 | 3% |
| Cash | 46 | 3% | 11 | 1% |
| | <u>1,491</u> | <u>100%</u> | <u>1,509</u> | <u>100%</u> |

24. CONTINGENT LIABILITIES

MHG 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 2015. As of this date the estimated employer debt for MHG was £ 46.7 million (2015: £42.6 million).

MHG has been notified by the Pensions Trust of the estimated employer debt on withdrawal from the Growth Plan based on the financial position of the Growth Plan as at 30 September 2015. As of this date the estimated employer debt for MHG was £133k (2015: £148k).

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

25. NUMBER OF HOMES IN MANAGEMENT

The number of homes in management at the year end was:

| | At 31 March 2016 | At 31 March 2015 |
|-------------------------------|---------------------------------|---------------------------------|
| Social Housing | | |
| General needs | 3 | 3 |
| Equity loan properties | <u>5</u> | <u>5</u> |
| | <u>8</u> | <u>8</u> |
| Non-Social Housing | | |
| Leasehold properties | 15 | 15 |
| Open market rented properties | <u>8</u> | <u>21</u> |
| | <u>23</u> | <u>36</u> |
| Total | <u>31</u> | <u>44</u> |

26. TRANSITION TO FRS 102

MHG has adopted FRS102 for the year ended 31 March 2016 and has restated the comparative prior year amounts.

Explanation of changes to previously reported surplus and reserves:

- a) Where there is an agreement to fund multi-employer scheme deficits a liability is now recognised for the contributions payable that arise from the agreement in the Statement of financial position and the resulting income/expense is recognised in the surplus for the year.
- b) All movements on the revaluation of the investment properties are taken through surplus for the year for the year under FRS 102 rather than the statement of recognised surpluses and deficits. Previously increases in the valuation were held in a revaluation reserve.
- c) Government grant is now presented separately from housing properties as deferred income within creditors due within or after one year. The accrual model for accounting for government grants amortises the grant over the estimated life of its associated property.
- d) Employee annual leave accrual – holiday accrued but not taken/holiday taken but not accrued is now recognised as an accrual or a prepayment.
- e) Change in disclosure of pension finance costs.
- f) All employee related costs including pension costs are reimbursed by MHL.

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

26. TRANSITION TO FRS 102 (continued)

| | | 31 March 2015 £'000 | 1 April 2014 £'000 |
|---|------------|------------------------------------|-----------------------------------|
| Restated Statement of financial position | | | |
| | See above: | | |
| Original capital and reserves under UK GAAP | | 11,767 | 12,472 |
| Transitional adjustments | | | |
| Pensions - past service deficit (<i>Creditors within 1 year</i>) | a | (575) | (554) |
| Pensions - past service deficit (<i>Creditors after 1 year</i>) | a | (4,936) | (5,069) |
| Investment properties - revaluation (<i>Revaluation reserve</i>) | b | (284) | - |
| Investment properties - revaluation (<i>Income & expenditure</i>) | b | 284 | - |
| Government grant - reclassification (<i>Housing properties</i>) | c | 147 | 147 |
| Government grant - reclassification (<i>Creditors after 1 year</i>) | c | (147) | (147) |
| Amortisation of government grant (<i>Creditors after 1 year</i>) | c | 3 | 2 |
| Depreciation (<i>Housing properties</i>) | c | (3) | (2) |
| Employee annual leave accrual (<i>Creditors within 1 year</i>) | d | (319) | (319) |
| Transfer employee costs to MHL (<i>Creditors within 1 year</i>) | f | 5,671 | 5,942 |
| Restated capital and reserves under FRS 102 | | <u>11,608</u> | <u>12,472</u> |

| | | | £'000 |
|---|------------|--|--------------|
| Restated surplus for the year ended 31 March 2015 | | | 1,131 |
| | See above: | | |
| Original surplus for the year ended 31 March 2015 | | | 1,131 |
| Transitional adjustments | | | |
| Amortisation of government grant (<i>Turnover</i>) | c | | 1 |
| Depreciation of housing properties (<i>Operating costs</i>) | c | | (1) |
| Pensions - past service deficit (<i>Operating costs</i>) | a | | 270 |
| Pensions - administration costs (<i>Operating costs</i>) | e | | (2) |
| Investment properties - revaluation -reclassification (<i>Operating costs</i>) | b | | (105) |
| Investment properties - revaluation -reclassification (<i>Movement in fair value of investments</i>) | b | | 105 |
| Investment properties - revaluation (<i>Movement in fair value of investments</i>) | b | | 284 |
| Pensions - interest (<i>Interest and other financing costs</i>) | e | | (211) |
| Transfer employee costs to MHL (<i>Operating costs</i>) | f | | (271) |
| Restated surplus for the year ended 31 March 2015 | | | <u>1,201</u> |

27. RELATED PARTY TRANSACTIONS

All intra-group transactions have taken place in the normal course of business. There are no other related party transactions requiring disclosure other than the disclosures required by the Accounting Direction for Private Registered Providers of Social Housing from April 2015 of which there are none to be reported.

MOAT HOUSING GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2016

28. GROUP STRUCTURE

As at 31 March 2016 MHG was a subsidiary undertaking of Moat Homes Limited. The results of the association have therefore been consolidated within the Group accounts, which are available on request from:

The Secretary
Moat Homes Limited
Mariner House
Galleon Boulevard
Crossways
Dartford
Kent
DA2 6QE

29. LEGISLATIVE AUTHORITY

MHG is incorporated under the Co-operative and Community Benefit Societies Act 2014 and is a non-charitable Registered Provider.