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Report & Financial Statements 14/15

paragon

Paragon Community Housing Group Limited
Consolidated Report and Financial Statements
for the year ended 31 March 2015

Our vision

To be an exceptional organisation: improving neighbourhoods and building communities.

Our mission

To make a positive difference to our customers' lives by providing and maintaining high quality affordable homes and services.

Our values

Customer service excellence
Caring and one-team staff
Can-do approach
Commercial but with a social ethos
Consult and collaborate

Contents

Board Members, Executive, Advisors and Bankers

Board

Chair	**John Cudd**
Vice Chair	**Christine Pockson**
Other members	**Alfons Dankis** **David Edwards** **Dilip Kavi** **Ebele Akojie** **Heather Kerswell** (resigned March 2015) **Mark Whitehead** **Martyn Kingsford** (resigned September 2014) **Tracey Lees** (resigned March 2015)

Executives

Chief Executive	**Dilip Kavi**
Finance Director	**Paul Rickard** (appointed November 2014) **Peter Cleland** (June–November 2014) **Stephen Haines** (resigned May 2014)
Business Development Director	**Chris Whelan**
Managing Director	**Ian Watts**
Corporate Services Director / Company Secretary	**Marion Hall**

Auditors

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

Principal Solicitors

Devonshires
30 Finsbury Circus
London EC2M 7DT

Bankers

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

Exempt Charity incorporated under the Co-operative and Community Benefit Societies Act 2014: No. IP30090R
Registered with the Homes and Communities Agency: No. L4480


Excellence in
Co-Regulation Award
2015 NATIONAL WINNER
Scrutiny, Our Journey to
Excellence
Paragon
Sponsored by Maxmedia


Every Customer Matters
Our five-year corporate plan
paragon

01 Chairman's Statement

Last year I talked about engaging with our residents, staff, and other stakeholders to draw up a new Corporate Plan and I am delighted to be able to say that the priorities for the next five years are now clearly mapped out and progress has begun to deliver these.

The operating environment has continued to present challenges for housing associations but Paragon has risen to these and thrived. Demand for affordable housing has remained a key topic across the country and with 2015 being an election year and housing featuring in all manifestos, it promises to remain high on the agenda. We are delighted to have delivered 277 new homes during the year and undertaken the major refurbishment of a further 1,000 homes to ensure our customers can live in high quality homes that are affordable to heat and a tenancy of choice.

During the year we have further focused our core activities, disposing of two care homes, with the intention of removing Paragon from the care sector. We have put in place our most ambitious development pipeline yet with a target of 1,000 much needed homes to be built over the next five years. A substantial number of these will be delivered in partnership with the Homes and Communities Agency and Greater London Authority.

Although 89% of our homes remain concentrated in three boroughs, our development ambitions go beyond these, expanding actively into adjacent boroughs but never straying too far from our core base, balancing the opportunity for growth with the management efficiencies that concentration and local knowledge provide.

Welfare reform continues to be rolled out and the robust approach taken by Paragon together with a firm commitment of additional resources has paid dividends. Over 100 households have moved successfully through our Perfect Fit property exchange programme and our welfare benefits advice and support team generated over £912,000 in additional benefits for 377 households.

The economic environment has been one of historically low interest rates and we have taken advantage of this to issue a debut bond, raising £250 million at a record low cost, used to both refinance an element of existing debt and forward-fund our development aspirations.

We are proposing to re-organise the group – letting the legal structure reflect the operational structure and ensuring the most focused, consistent, and effective approach towards providing excellent services to our customers.

As part of this exercise we will be reducing the size of the board and have undertaken an independent review to ensure we have all of the skills required to take Paragon forward.

The organisation has achieved a great many things this year and I must thank colleagues on the Board and throughout the organisation for working tirelessly to deliver an outstanding set of achievements and ensuring that we live up to our aim of ensuring Every Customer Matters.

John Cudd
Chair – Paragon Community Housing Group Limited

02 Every Customer Matters

It has been another year of strength for Paragon. Our most important resource is our people and achieving Investors in People Gold was a testament to our commitment to our colleagues and their commitment to Paragon and our customers.

The year also saw Paragon receive a number of awards, including for excellence in co-regulation, and digital marketing.

Financial performance

We maintained our top governance and viability rating with our regulator and ahead of our bond issue we achieved an A2 credit rating from Moody's, a result of the financial strength of Paragon. This year our performance remained strong and after a significant increase in our planned maintenance spend, we achieved a surplus of £13.1m and an operating margin of 30.9%.

Despite the economic pressures facing our customers, gross arrears were held steady at 3.66% and net arrears at 1.3%.

Development

We are committed to the delivery of 302 units under the 2015–18 development funding programme but our ambitions go beyond this. We are a strong organisation with considerable financial capacity and it is important to us that we use this to improve and increase the provision of services and homes to both current and future customers. This is why we are aspiring to deliver 1,000 new homes over the next five years.

Repairs and Maintenance

There has been a widespread shortage of both materials and skills during the year which has affected the repairs programme of many associations. We have worked closely with our key partners and are delighted that through effective collaboration we have completed one of our most significant annual programmes to date, providing new kitchens or bathrooms to over 270 households, replacing over 420 of our oldest and least efficient boilers and installing new double glazed windows to a further 269 homes. This will help our tenants manage their energy bills as well as creating a positive environment in which to live.

Corporate Plan

Our new five year Corporate Plan has three objectives:

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

Each objective is supported by distinct goals which, in turn, are supported by clear actions that cascade throughout the business ensuring effective, tangible, and measurable results that we can be proud of.

There are key themes embedded in the organisation to help achieve our goals including value for money and ensuring we sweat our assets, growth through development and strategic partnerships, a focus on our core activities, and a clear understanding of our assets, liabilities, and the risks the business faces at both a strategic and operational level.

Our vision for the organisation is clear and our ambition is shared by all. It has been an exciting year for Paragon and we now look forward to a year of further achievement and a continual improvement and reshaping of the business to be an exceptional organisation, doing our very best to improve neighbourhoods and communities and live our values.

Dilip Kavi

Dilip Kavi
Chief Executive

03 Report of the Board of Management

The Board of Management presents its report and audited financial statements for the year ended 31 March 2015.

Principal Activities

Paragon Community Housing Group Limited (Paragon) is a Co-operative and Community Benefit Society, registered as a provider of social housing with the Homes and Communities Agency. Paragon became operational on 2 April 2007 when two registered providers of social housing joined the Group as subsidiaries:

- Elmbridge Housing Trust Limited (Elmbridge) became a charitable registered society on 15 September 2010 operating primarily in Elmbridge and other boroughs in North Surrey
- Richmond Upon Thames Churches Housing Trust Limited (Richmond), a charitable registered society, operating primarily in South West London and North Surrey.

All three are administered by a Board of Management chaired independently.

Paragon is a non-asset holding parent and provides the subsidiaries with a range of services, including board and governance support, finance, human resources, information technology, design and communications, and development.

Ultimately Paragon can exercise control over the subsidiaries via its nomination rights to their boards. Strategic and operational agreements between Paragon and the subsidiaries are outlined in the Intra Group Agreement. Throughout these financial statements, Paragon as a single entity is referred to as a Company.

Elmbridge has a wholly owned subsidiary, Paragon Development and Construction Services Limited (PDCSL). The main activities of PDCSL are to support the development and construction activities of the Group by enabling the Group to commission construction work directly through a subsidiary to reduce construction lead in times, and to reduce costs by allowing elements of construction to be commissioned directly rather that employing a main contractor as an intermediary.

During the year, Paragon Treasury Plc (PTP) became a wholly owned subsidiary of Paragon. PTP was incorporated on 30 October 2014. PTP is a special purpose funding vehicle, used to secure funding for Elmbridge & Richmond. PTP obtains finance directly from capital markets and on-lends this to the Group headed by Paragon. All associated expenses are borne by the underlying borrowers.

Paragon is currently in the process of consulting stakeholders on the group reorganisation, combining the three main legal entities in to one. Consent has been received from funders as part of the recent refinancing exercise and this exercise will align the legal structure with the operating structure.

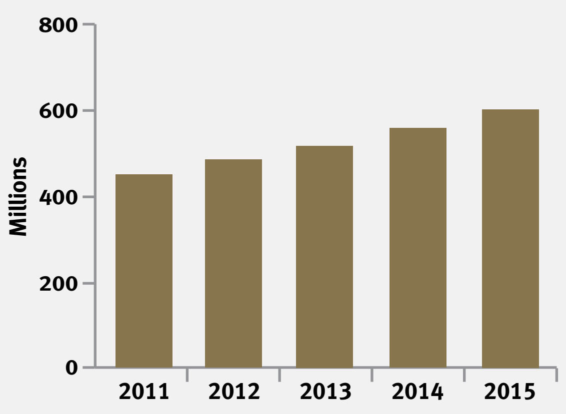
Review of activities for the year

Details of the group's performance for the year, together with future plans are set out in the Operating and Financial Review on pages 18–33.

Housing Property Assets

Details of changes to the Group's fixed assets are shown in notes 12 and 13 to the financial statements. Completed housing properties are carried at valuation and changes in values are considered in the Operating and Financial Review.

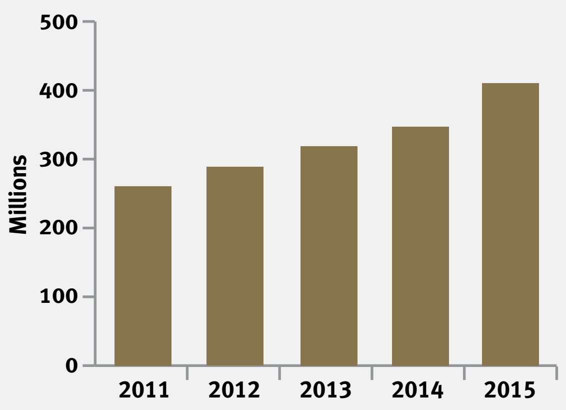
Housing properties at valuation



Reserves

After transfer of the surplus for the year of £13.1m (2014: £13.3m), the Group's total reserves stood at £411m (2014: £348m), including an accumulated revaluation surplus on housing properties of £336m (2014: £286m).

Group reserves



Employees

A key strength of Paragon lies in the quality of its employees and their ability to meet Paragon's objectives and in particular to provide services to residents in an efficient and effective manner.

Paragon achieved the Investors in People Gold Accreditation standard of performance reflecting good practice in relation to the leadership, management and development of its employees. Paragon's strong team ethos, high level of engagement and involvement of employees and the strong connection between the corporate plan, team plans and individual performance appraisals were cited as good practice.

Paragon is committed to equality and diversity. There is an Equality and Diversity Forum with Board member representation. The employment of disabled people is supported through recruitment, and the retention of employees who become disabled. Paragon manages health and safety through designated staff resources and there is a health and safety steering group with board member representation which meets quarterly to discuss all aspects of health and safety across Paragon.

Board Members and Executive Management Team

Board members and Executive Management Team members who held office through the year are detailed on page 4.

All Board members are non-executive except the Chief Executive. Each member holds one fully paid up share of £1 except the Chief Executive.

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

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

Paragon has insurance policies which indemnify Board members and employees against liability when acting on behalf of Paragon.

Statement of the Board of Management's Responsibilities

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

Community Benefit Society law and social housing legislation require the Board members to prepare financial statements for each financial year for Paragon and its subsidiaries in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Board members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the surplus or deficit of Paragon and subsidiaries for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by registered social housing providers (update 2010) have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

Board members are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, 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, the Accounting Direction for Private Registered Providers of Social Housing 2012 and the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969.

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

The financial statements are published on Paragon's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The Board members are responsible for the integrity of the financial statements.

Corporate Governance

The Paragon Board is responsible for setting the strategic direction and overseeing its financial management. The Chairs of Elmbridge and Richmond are members of the Paragon Board and there is an Intra Group Agreement between Paragon and the subsidiaries.

Paragon has adopted the National Housing Federation (NHF) Code of Governance. The only area of compliance that we consider needs strengthening is succession planning and this has been considered by Board members as part of the group reorganisation. We are in the process of formally documenting succession planning for the Executive and Senior Management teams.

Paragon complies with the Governance and Viability Standard and was confirmed during the year as maintaining V1 and G1 status.

Paragon operates a number of committees as detailed on page 20. The most important committee from a governance perspective is the Audit and Risk Management Committee (ARMC) which meets three or four times a year. The Committee comprises six members drawn from Board members across the Group. The Committee is chaired by a Paragon Board member. The ARMC is responsible for recommending the appointment of auditors, setting their terms of reference and monitoring their performance. It receives reports from the internal auditors, reviews the statutory accounts with the external auditors prior to their submission to the Boards and reviews internal controls.

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

Board's Report on Internal Control

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

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

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

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

- **Risk management**
  - The responsibility for the identification, evaluation, monitoring and reporting of key risks between the Board, ARMC, the Executive Management Team (EMT) and other employees is clearly defined in the Risk Strategy approved by ARMC.
  - There is a formal and ongoing process of management risk review in each area of Paragon's activities and this links directly to the corporate plan, business plan and employee targets and work plans.
  - The ARMC approves the risk register and monitors the process for managing risk. EMT monitors key risks and reports to the ARMC on existing and emerging risks. The Boards receive regular updates on specific risks that affect operations.
- **Fraud management**
  - Governance Regulations are in place approved by the Nomination and Remuneration Committee, which detail the actions to be taken on detected or attempted fraud or corruption. The Governance Regulations are reviewed annually.
  - The Whistle-blowing policy covers employees wishing to report an act of fraud or corruption and these reports are recorded in the Whistle-blowing register which is reviewed at each ARMC meeting.
  - Further actions for dealing with fraud or corruption by Board members or employees are contained in the NHF Code of Conduct 2012 for Board members and the Disciplinary policy and procedure respectively.
  - All instances of attempted or perpetrated fraud/corruption are reported to the ARMC and recorded in the Fraud register which is reviewed at each meeting of the committee.
- **Information and financial reporting systems**
  - Financial reporting procedures include a long term financial plan, detailed annual budgets and regular management accounts which are reviewed and approved by the Boards.
  - Key performance indicators and business objectives which are set as part of the performance management framework are regularly reviewed by the Boards to assess progress and outcomes.
- **Control environment and procedures**
  - The Paragon Board retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues and new investment projects, subject to the Intra Group Agreement with the subsidiaries. The Board disseminates its requirements

to employees through a framework of policies and procedures.

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

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

Risk register

The following is an extract of Paragon's July 2015 risk register together with the movement in the last year. The risk register is regularly reviewed and updated for both existing and new risks. For example, whilst refinancing remained a risk throughout 2014/15 this has now been removed from the risk register as the refinancing project was successfully completed at a record low funding rate in January 2015. The desired outcomes were achieved and the 2015/18 development programme is now fully funded. Similarly, political risk, including the recent budget announcements has now been included in the register.

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

Paragon dynamic risk report

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

MAJOR (red)
High risk – constant monitoring by Executive Team

MODERATE (amber)
Tolerable risk – periodic monitoring by Senior Managers

MINOR (green)
Acceptable risk – acceptable level of risk but monitored periodically

Increased risk

No change

Reduced risk / improved mitigation

Risk – causes & outcomes	Mitigating actions	Residual risk	Change since 2014
Failure to deliver capital programmes Failure to deliver may lead to reputational damage and impact on the Financial Plan.	Paragon works closely with all partners and stakeholders to deliver all programmes. Any slippage on the 2011–15 programme was agreed in advance with the HCA resulting in no loss of grant.		
Welfare Benefit reforms Reforms could reduce income collection, adversely impacting on financial performance and customer well-being.	So far this risk has been mitigated through resource investment, financial plan adjustments and high quality communications with all stakeholders. The mitigated position remains green but is monitored closely.		
FRS102 Although the implementation of FRS102 does not change the underlying fundamentals of the business, it will significantly change the presentation of performance and, in some cases, the accounting policies. Implementation is a statutory obligation.	A project plan has been developed with the relevant key milestones and modelling undertaken on the detailed impact. Alternative policy options are being appraised and comparative accounts compiled to ensure effective adoption ahead of time. The external audit strategy confirmed that the impairment implications of FRS 102 are limited in scope and materiality.		
Pensions The deficit on existing pension schemes and any potential cessation liabilities are substantive which would impact the financial performance of Paragon. The nature of defined benefit pension schemes also means that the future liability is subject to change and uncertainty. Under FRS102 the present value of past service deficit contributions will be recognised on the balance sheet.	We are consulting on closing the existing defined benefit pension schemes to future accrual and moving all staff to a standard defined contribution scheme.		
Health & safety This will always be a key risk. Any failure to undertake outstanding actions to address identified fire risks could lead to the safety of residents, contractors or employees being compromised. Paragon may also be exposed to reputational damage.	Fire Risk Assessments are up to date. An initial catch up programme has been undertaken. Further programmes are being drawn up and will be implemented and monitored to maintain high standards of fire safety.		
Value for money Failure to produce a comprehensive, robust, and transparent VfM self-assessment creates regulatory risk.	The 2013/14 VfM Statement is on the Paragon website and has passed HCA scrutiny. The 2014/15 VfM action plan is being monitored by EMT and the self-assessment will be independently reviewed and published on the website by 30 September 2015.		

Risk – causes & outcomes	Mitigating actions	Residual risk	Change since 2014
Customer satisfaction Good customer satisfaction is a key goal and satisfaction levels below target risk Paragon's reputation.	Customer satisfaction has not improved as much as desired. There is a plan to improve repairs and maintenance satisfaction. Contractors have committed additional resources and the EMT is monitoring this. Plans are also in place to improve leaseholder satisfaction.		
Care homes The nature of this business gives rise to the risk of safe guarding incidents which introduce operational and reputational risk. The uncertain financial operating environment could also impact on the financial performance of this business.	The care homes business was deemed non-core for Paragon and divestment of this area was agreed. Two care homes were sold during the year and the third and final care home is expected to complete in the near future.		
Business continuity A significant disaster impacting the office or infrastructure could lead to a breakdown of operational services and major disruption to customers and the business.	A Business Continuity plan with responsibilities for EMT and managers is in place. The IT disaster recovery plan has been tested. Alternative offices are available. A full live disaster recovery test is planned for 2015/16.		
Data quality Issues with data quality have increased the time required to produce some business intelligence information. This creates inefficiencies which may impact on customer service if mitigation is ineffective.	The Data Integrity review has found adequate assurances and that KPIs are accurate. A housing data cleanse project is underway. A further review of data quality will be undertaken during 2015/16.		
Political risk Political risk, including manifesto pledges and the recent budget announcements. This includes a wide range of proposals around welfare benefits as well as a reduction in rents for 4 years and an extension of the Right To Buy to cover all housing association tenants. Until further detail is available the exact nature and impact of the risk remains uncertain.	EMT and the Board continue to monitor closely the progress of Government proposals as well as actively contributing to sector responses on specific initiatives.		NEW

The Risk Register reflects those key risks identified and monitored by the Board and the EMT. As part of our capital markets issue we were required to highlight to investors other risks that can impact Paragon's ability to fulfil its obligations under the bond including credit impacts, welfare reform, inflation, interest rate, legal, regulatory, pensions, tax, and capital funding risk.

Wherever possible, mitigating actions are in place for each risk and further information is available in our published prospectus.

Stress testing and scenario analysis

As part of the annual business planning round we undertook key tranches of scenario analysis:

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

Equally important we identify mitigating actions that could be implemented in the event of an extreme adverse scenario. This includes a separately identified pool of unencumbered and unrestricted properties that could be sold within a very short timeframe as well as quantifying the level of maintenance spend that could be deferred without breaching contracts or compromising our legal obligations.

Disclosure of Information to Auditors

At the date of making this report, each of the Board members, as set out on page 4, confirm the following:

- So far as each Board member is aware, there is no relevant information needed by Paragon's auditors in connection with preparing their report of which the auditors are unaware; and
- Each Board member has taken all the steps that they ought to have taken as a Board member to make themselves aware of any information needed by the auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Board is not aware of any relevant information of which the auditors are unaware.

External Auditors

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

The report of the Board was approved by the Board on 23 July 2015 and signed on its behalf.

John Cudd
Chair

04 Operating and Financial Review

Board

The Paragon Board is committed to high standards of governance. The Board comprises six Non-Executive Directors and the Chief Executive. Non-Executive Directors are proposed for re-election every three years, and they serve a maximum of three terms. The Board is collectively responsible for ensuring the success of the Paragon Group and its compliance with all legal and regulatory obligations. It has responsibility for setting the Group's overall values and objectives, ensuring that high standards of integrity and probity are maintained and for the management oversight of the Group as a whole and its constituent parts.

The Board meets regularly to fulfil its stewardship role. It paid particular attention to the following activities in 2014/15:

- A Governance review was commissioned following a Board away day. An independent review has been undertaken to assist the Group re-organisation, which was aligned to the refinancing project.
- Refinancing a proportion of Paragon's existing debt to help support the development of new homes. This was done through a bond for £250m issued by Paragon Treasury Plc, a subsidiary of Paragon, established specifically for this purpose. £25m of the total bond was retained by Paragon for future issuance.
- The Corporate Plan was reviewed and a range of stakeholders were consulted. The goals have been translated into annual operational targets, which have a direct link to our day to day work. The Corporate Plan also underpins Paragon's long term Financial Plan.
- The disposal of two care homes with a third final sale imminent. The care homes were identified as a long-standing risk and non-core activity.

The Board also:

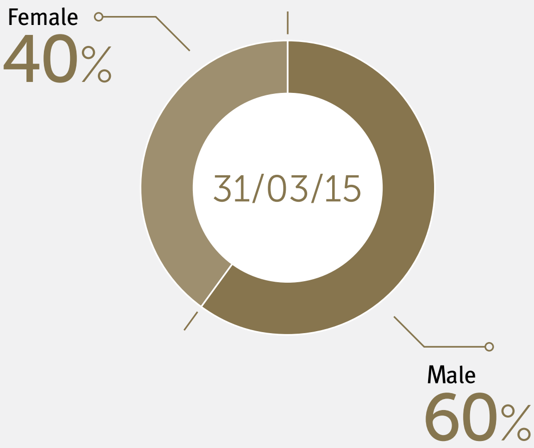
- reviewed and approved the business plans of the subsidiaries, to ensure consistency with the Group's overarching plan
- approved budgets and annual operating plans
- approved the statutory accounts
- received annual reports from committees
- conducted joint Board meetings of the Paragon Group, and supported Executives in the delivery of Board decisions.

The Board has commissioned professional advisors for different business areas. The Board has delegated certain activities to the ARMC, the Nomination and Remuneration Committee and the Investment Committee. The Customer Services Committee steers a consistent and high quality service to our customers. The Board has delegated various decision-making and operating authorities to the Executive Directors in order to allow management to run the business, within the approved parameters and established internal controls.

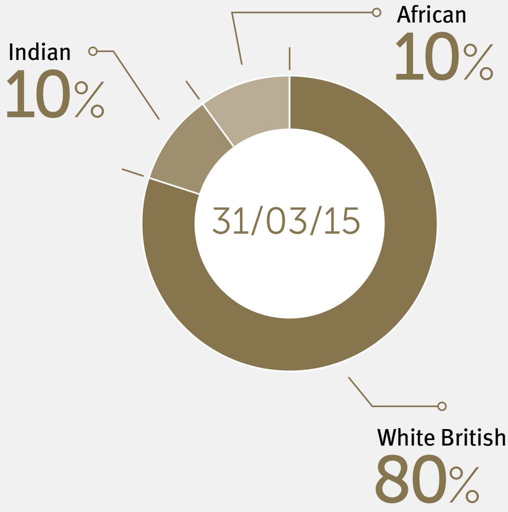
The Board members of Paragon and its subsidiaries and their attendance throughout the year is as follows:

Paragon	Attendance	Richmond	Attendance	Elmbridge	Attendance
John Cudd (Chair)	5/5	**Tracey Lees (Chair) (retired 31/3/15)**	3/5	**David Edwards (Chair)**	5/5
Christine Pockson (Vice Chair)	4/5	Alfons Dankis	4/5	Gemma Saffhill	5/5
Alfons Dankis	4/5	David Hunter	5/5	Heather Kerswell (retired 31/3/15)	4/5
David Edwards	5/5	Jennifer Laney	4/5	Joan Mulcahy	3/5
Dilip Kavi (CEO)	5/5	Kate Howard (retired 31/3/15)	3/5	Lorraine Samuels (retired 18/12/14)	4/4
Ebele Akojie	3/5	Paul Powici	3/5	Michael Durrance (retired 31/3/15)	5/5
Heather Kerswell (retired 31/3/15)	4/5	Suzanne Joseph (retired 11/9/14)	2/3	Richard Harris	5/5
Mark Whitehead	2/5			Ruth Mitchell	5/5
Martyn Kingsford (retired 11/9/14)	3/3				
Tracey Lees (retired 31/3/15)	3/5				

Board Member Gender Mix



Board Member Ethnic Origin



Board members took part in a number of training events and activities in 2014/15. These were provided by high quality industry professionals and are aimed at helping Board members direct and control the business going forward.

- The Board away day included an in-depth session on the housing market and provided members with comprehensive data to enable them to understand the current market and future trends. This was provided by one of the UK's leading property professionals and helped the Board members when they were considering the future development strategy.

- Members also received training on the capital markets ahead of the bond being issued. This was provided by a leading industry professional who was able to relate this directly to Paragon's refinancing needs and the implications of raising finance through a bond.
- Some members attended a session run by Paragon's internal auditors on the risk management and implications of changes in the regulatory environment.

There were a number of other individual training events for members tailored to meet the needs identified through Board members appraisals.

During the year we have undertaken an independent review of Board membership to ensure the appropriate mix of skills and experience. This is even more critical in light of the current years plans to amalgamate the Group in to one entity. Board members remuneration is discussed in Note 10 of these accounts and further details on our Board members are available of the website: https://www.paragonchg.co.uk/boards/board-members

Paragon operates four primary committees:

Audit and Risk Management Committee	Attendance	Investment Committee	Attendance
Ebele Akojie (Chair)	2/4	David Hunter (Chair)	3/3
Joan Mulcahy	4/4	David Edwards	2/3
Paul Powici	2/4	Mark Whitehead	2/3
David Hunter	3/4	Gemma Saffhill	3/3
Alfons Dankis	4/4	Joan Mulcahy	2/3
Heather Kerswell	4/4	Martyn Kingsford (retired 11/9/14)	1/1
		Alfons Dankis	3/3
		Richard Harris	3/3

Nomination and Remuneration Committee	Attendance	Customer Services Committee	Attendance
Christine Pockson (Chair)	2/2	Richard Harris (Chair)	2/2
Suzanne Joseph (retired 11/9/14)	1/1	Michael Durrance	2/2
John Cudd	2/2	Jennifer Laney	2/2
David Edwards	1/2	Ruth Mitchell	2/2
Paul Powici	0/2	Sam Thompson	1/2
Tracey Lees (retired 31/3/15)	1/2	Dave Hobbs	2/2

During the year a Refinancing Committee chaired by Mark Whitehead was established to lead on the refinancing exercise. This Committee has now completed its role and is therefore no longer operating.

Operating review

The 2014/15 financial year provided several challenges and also the opportunity to bring all of Paragon's operational services together into one team based in one office for the first time. This not only delivered a number of financial efficiencies but also ensured that service delivery was consistent and could be effectively developed and improved further over the course of the year. The following list is intended to give a flavour of the challenges and outcomes:

- Increasing customer satisfaction continued to be a priority and a number of services including sheltered housing services and leasehold have been reviewed and restructured with the aim of increasing customer satisfaction. Though our targets for 2014/15 were not achieved, satisfaction for the majority of measures for all three client groups: general needs (75%), leaseholders (58%) and older residents (84%) improved. Paragon is developing further its approach to customer services and the customer experience with its 'Know your Customer' strategy.
- The responsive repairs and voids service which is key to resident satisfaction was re-procured to give the stability of a longer term contract. The new contract went live in June 2014 and by 31 March 2015 was becoming fully embedded with continued performance improvements. A new property 'MOT' service will start in 2015 which will deliver Value for Money (VfM) savings and improve customer satisfaction.
- The gas breakdown and servicing contract was re-procured for a three year period to give stability with this essential service. The service is operating well with 100% gas compliancy at 31 March 2015.
- The planned and major works programmes saw significant volumes of work completed with good levels of customer satisfaction. The 'Better Homes' strategy will ensure that Paragon remains decent homes compliant.
- Paragon continued to develop its approach to compliance by improving services and bringing in house the audit roles for several services including water testing, fire alarm and emergency lighting checks. This has improved consistency but also made large financial savings as part of our approach to deliver VfM.
- Income recovery and financial inclusion continues to be a priority with both elements of the service performing well. At 31 March 2015 net arrears (not including housing benefit owing) stood at 1.3% or £626,223 (target 2.0%) and during the year we secured £912,000 in additional benefits for our customers.
- One of the outcomes of the one team structure has been a dedicated lettings team with sole responsibility for the letting of new properties and voids. This focus has improved the lettings service overall with the number of voids overall reduced to 52 at the end of the year (target: <75). The overall letting time for all voids (including new homes) is also better than target at 34 days (target: <40 days). The re-let time for minor works voids is still over target at 39 days (target: 25 days) and reducing this is a priority for 2015/16.
- The delivery of estate services such as communal cleaning and grounds maintenance as well as the proactive management of communal areas to ensure that they offer a safe and pleasant environment for our residents, has been a focus for the year and led to a review of the delivery and management of these services. The new estate inspection process will, from April 2015, complement the new neighbourhood management structures. This will ensure an improved and consistent approach to the management of complex mixed tenure developments.

The Resident Involvement Team was reviewed and a new structure put into place to support the proactive involvement of our customers at all levels. A new involvement structure has been established through local area forums which will develop and increase the diversity of involved customers. Resident scrutiny of our services has continued to be a key element in our service improvement with inspections of the leasehold, responsive repairs and decent homes services and a review of how Paragon communicates with its customers.

It was very satisfying for Paragon to be awarded the TPAS Southern Region award for excellence in co-regulation which reflected good practice on resident scrutiny and how we use residents' recommendations to improve services.

Capital programmes

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

During 2014/15 Paragon led the Respond Consortium, comprising of four registered providers working together to deliver a significant development programme in Surrey, South West London and Kent. Paragon has completed the final year of the four year programme agreed with the Homes and Communities Agency (HCA) and the Greater London Authority (GLA), exceeding our original new homes commencement targets. The final year of the 2011–2015 NHP programme will see Paragon deliver 424 new home completions.

Looking forward Paragon has ended the Respond consortium arrangements with effect from March 2015, as they no longer delivered the original objectives and placed an increased administrative burden on Paragon as lead sponsor which went against our continuous drive for value for money. We intend to maintain bidding links with Transform Housing and Support, who provide specialist supported housing in Surrey and South London. We believe that operating outside the consortium will reduce costs and create greater freedom, whilst also allowing access to opportunities that deliver improved returns across a wider operating base. Our Development Strategy has been reviewed to reflect this change and the new operating environment.

We have invested in our sales team to enable us to offer better services and deliver our growing shared ownership sales programme. This year saw us deliver over 106 new shared ownership sale completions with receipts of over £11 million. In addition the Sales Team provided agency services for a third party Registered Provider selling 32 shared ownership homes. Given the need to generate cross subsidy to support the development of affordable rented homes the strength of our shared ownership sales programme is of particular significance.

We have entered into contracts with the HCA and GLA in relation to the 2015/18 Affordable Homes Programmes but have done so in a measured way that gives us significant control over risk and exposure. We have committed to deliver 302 homes with 222 of these on site prior to April 2015 when the programme commenced. We will continue to bid for HCA and GLA grant funding beyond the initial 2015/18 allocations, albeit at a considered level and for appropriate projects that deliver the desired outcomes in terms of quality and financial performance.

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

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

Value for Money (VfM)

The VfM standard was published as part of the regulatory framework in April 2012 and requires registered providers to have a strategic approach to achieving VfM in meeting their objectives. Boards are required to demonstrate to stakeholders how they are meeting the standard though an annual self-assessment. Our self-assessment will be considered by the Boards in September and available in the VfM section in 'About us' on our website by 30 September 2015.

Paragon's VfM objectives

For Paragon, VfM means "*providing the right service at the right price at the right time and ensuring the most effective use of assets and resources*".

Our objectives for VfM are to manage our resources economically, efficiently, and effectively to provide quality services and homes, and plan for and deliver on-going improvements in VfM.

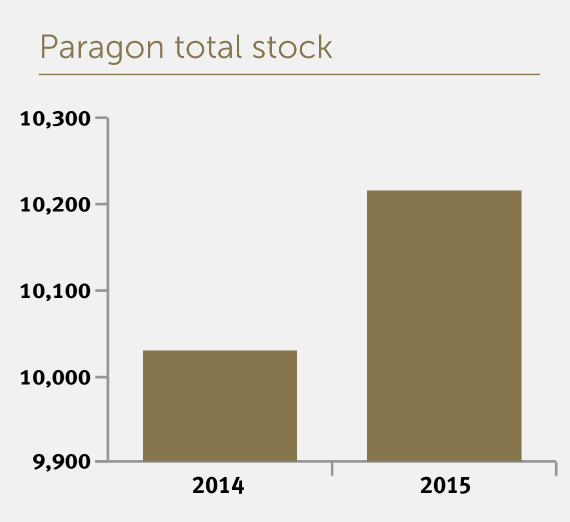
Our principles are:

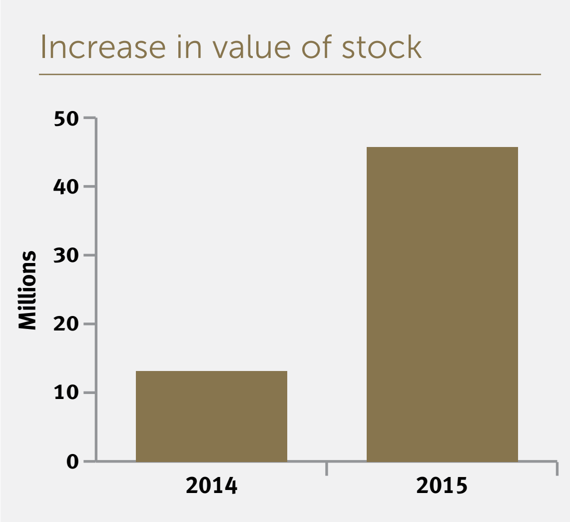
1. Economic, Efficient, Effective
2. Open and Accountable
3. Evidence based

We aim to ensure that VfM is clearly linked to and embedded in, our corporate objectives and we use technology to facilitate the generation and management of value.

We engage positively with our key stakeholders both directly and indirectly in a way that encourages them to make a positive difference.

We are focused on optimising value through a wide commercial awareness but without losing sight of our social ethos and what makes Paragon Paragon. We recognise the strength of our asset base and aim to optimise the use of our assets wherever possible through active asset management and alternative use assessments based on a clear understanding of the opportunity cost inherent in each home, working within the constraints that may be attached to these properties.





Whilst driving forward operational efficiency and effectiveness we also recognise the importance of investment in our homes to improve the quality of the stock. Ensuring our homes comply with decent homes standards maximises the value of our assets and provides adequate security for our debt and new funds for further development aspirations.

We recognise that the most important asset in embedding VfM is our people. Our objective is to ensure Paragon has the skills and depth of knowledge that it needs at all levels and that employees are trained and equipped to meet the needs of current and future residents.

VfM is not just about financial savings but using our resources effectively to:

- Increase the supply of affordable homes to meet identified housing needs
- Continue the traditional services of maintenance and improvement of our housing stock
- Sustain tenancies and provide enhanced management services for the benefit of our residents
- Up-skill our staff and ensure that we have the right mix of staff to meet future housing needs.

Governance arrangements

All three boards meet jointly. They have overall responsibility for the direction of the organisation through the business plan and they agree the annual budgets. The Boards approve the annual self-assessment.

We are intending to re-organise the Group and have undertaken an independent appraisal of board skills to ensure we have the appropriate mix of members.

Treasury controls along with development, acquisition and disposal evaluation are operated through the Investment Committee. The Nomination and Remuneration Committee reviews the Employee Remuneration policy.

Responsibility for implementing these decisions is managed through the Executive Management Team and their line management reports in accordance with Paragon's Governance and Financial Regulations.

Compliance is monitored by internal and external auditors, who report to the Audit and Risk Management Committee.

During the year we have moved away from having a VfM Steering Group as we believe VfM should be a responsibility of the Board. As a result, the Board scrutinises and monitors VfM progress and approves the annual VfM self-assessment statement.

Our approach to Board ownership of VfM is evidence based, providing members with good quality and wide-ranging information on outcomes and intentions as well as encouraging active involvement and challenge.

Impact of what we do and the outputs

Our self-assessment contains the detail of the 2014/15 achievements which include:

- launch of our new asset management system
- conversion of 72 re-lets to affordable rent, at an average of 80% of market rent. This will increase annual rent turnover by £264,000
- disposal of 32 units, generating £5.2 million in cash for re-investment
- investment of £12 million in the improvement of existing homes
- engaging 44 young people through our Youth Projects which has led to the development of our Youth Forum and the launch of our Duke of Edinburgh Project
- engaging with over 500 residents through Paragon at the Pictures, Black History month and our half-term activities
- helping over 200 residents to exchange properties through our Perfect Fit scheme.

What have we achieved in the past year?

The past year's achievements include the completion of a record low cost bond issue generating present value savings of over £30 million against the financial plan assumptions. This also resulted in lender pre-approval to amalgamate the Group so that the legal structure reflects the operational structure.

A full schedule of 2015 VfM achievements will be given in our self-assessment statement and include:

- Expansion of volunteer schemes increasing access to digital engagement and the financial savings that come with this
- Expansion of the handyperson and super-caretaker services delivering over £100,000 in financial savings as well as increasing customer satisfaction. Satisfaction with the handyperson service was at 100% at the year end
- Completion of the majority of catch-up works, replacing 269 kitchens and bathrooms and providing 280 households with new double glazed windows, replacement of the roofs to 4 schemes containing 153 dwellings, and external cyclical repairs and re-painting to over 2,200 homes
- Completion of the review of Sheltered Housing
- Disposal of two of the three care homes
- Undertaking 30,000 responsive repairs
- Electrical tests on over 2,200 homes, bringing them up to current standards
- Asbestos assessments to over 3,500 homes
- Customers referred to the debt advice service, with 61 (57%) engaged producing an average reduction in rent arrears of £306 per case
- Expansion of Financial Inclusion initiatives which have helped residents in immediate hardship, providing money management guidance and debt advice reducing their rent arrears. 73 customers were assisted through the Hardship fund with an average spend per customer of £95. We assisted with energy bills, travel costs, food bills, and council tax bills, resulting in an overall average arrears reduction of £240 per case.

We have continued with our commitment to work with our residents to mitigate the impact of welfare reform. Our award winning "Wise Money" Campaign has continued to be popular and we have remained committed to providing a number of other enhanced services at no extra cost to residents with the following VfM outcomes:

- Increase in satisfaction
- Increased efficiency in service delivery and use of resources
- Improved health and safety compliance
- Reduction in anti-social behaviour and associated costs.

The aim was to increase overall customer satisfaction by 10% from the previous level of 72%. The overall figure has increased slightly to 75% and steady improvement for the majority of satisfaction measures has been made across all three tenures (general needs, homeowners and housing for older people).

What do we plan to do in the next year?

In ICT, we will continue to upgrade infrastructure to ensure we have accurate and comprehensive data sources as well as reduce the level of manual intervention and enhance the ability of staff to work agilely:

- Electronic document management system to go live, including dynamic interaction from front line tablets to give staff instant access to information and reduce the need for office space
- Complete implementation of additional fixed asset modules to further enhance our ability to sweat our assets
- Procure a new Housing Management System based on a resident's needs, rather than the traditional property based system
- Implement new financial accounting modules including P2P and updated service charge accounting modules
- Implement a new Customer Relationship Management system giving staff a single and effective way of responding to residents' needs
- Complete the roll-out of a new HR management system.

In Development we will be:

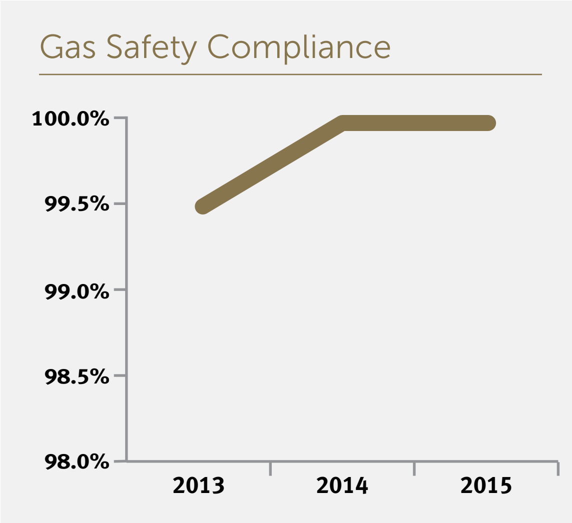
- Completing delivery of our current commitments and beginning our 2015–18 programme of 302 new homes in addition to further aspirational development, providing a total of 1,000 homes over the next 5 years
- Implementing a new approach to development finance, applying additional market intelligence to ensure that lead and lag indicators are monitored and flagged in good time to enable appropriate flexing and amendments to the programme to ensure delivery within the agreed risk parameters.
- Delivering environmental and social VfM, recognising that a good quality home is just one aspect of providing excellent service and opportunity for our customers
- Undertaking a very modest level of development for sales and private rent.

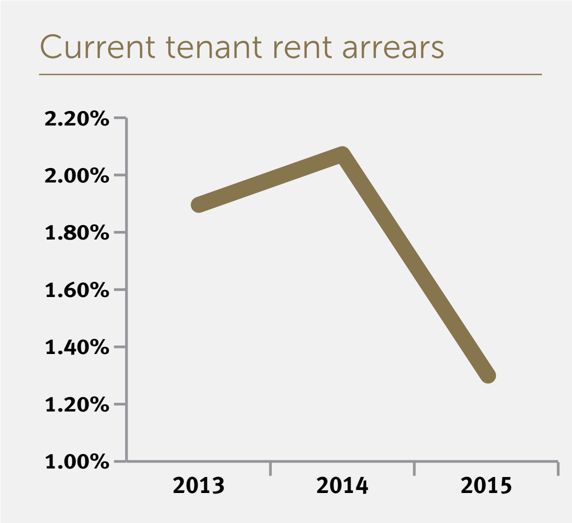
What are our VfM performance indicators and benchmarks?

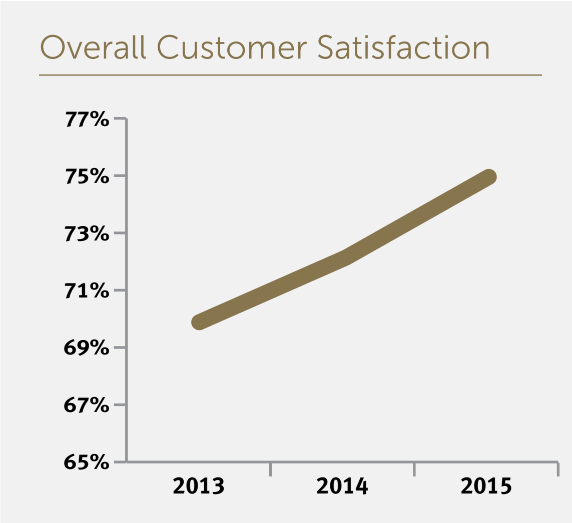
Paragon services 5,883 gas boilers a year and at the end of March 2015 only one was past its expiry date. To further ensure our residents' safety, carbon monoxide alarms are being installed in every home with a gas supply. This will be completed by December 2015.

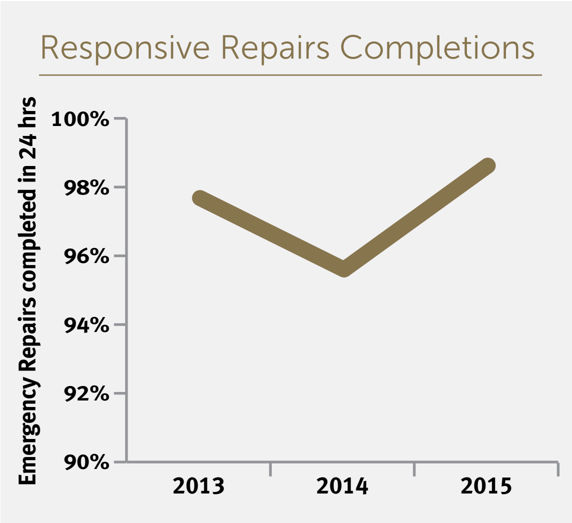
There is an extremely positive story to report around arrears, both net and gross. Net arrears have reduced to 1.30%, an improvement on the last year end figure of 2.07% and overall current gross arrears have reduced to 3.66%. This is a remarkable achievement given the current climate and is an improvement on last year's level.

Satisfaction of general needs residents rose steadily over the year to 75%, which is encouraging given the changes being introduced on estate inspection, Know Your Customer, and anti-social behaviour.









As well as internal KPIs, we use or are implementing a number of benchmarking groups including:

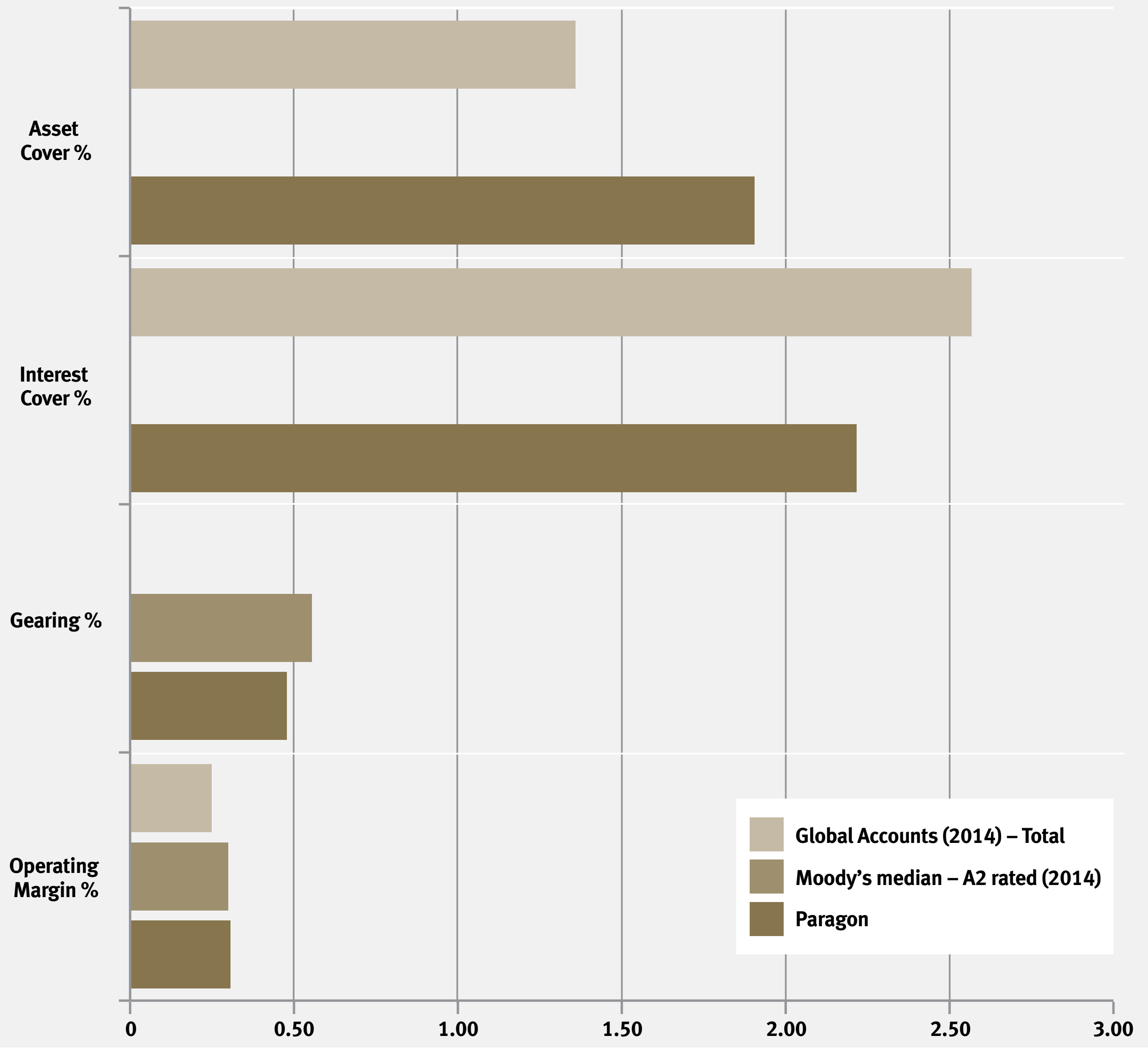
- HouseMark
- Sector global accounts
- Moody's rated peers

We look at the financial outcomes in more detail in our VfM self-assessment and where possible identify the reason for differentials with a view to improving our own approach and performance.

We have also developed relationships with European peers to benchmark comparable services and share best practice and are looking at other potential sector benchmarking initiatives.

Moody's and Global Accounts benchmarking

	Operating margin	Gearing	Interest cover	Asset cover
Paragon (2015)	30.90%	48.09%	222%	1.91
Paragon (2014)	36.60%	47.30%	276%	2.29
Moody's median (2014)	29.91%	49.43%	–	–
Moody's median – A2 rated (2014)	30.20%	55.66%	–	–
Global accounts (2014) – Total	26.50%	–	257%	1.52
Global accounts (2014) – Traditional	26.08%	–	246%	1.44
Global accounts (2014) – LSVT	27.16%	–	279%	1.66



We also undertake regular exercises to assess performance on:

- Staff targets
- Corporate objectives
- Service satisfaction

As we develop our tenant portal we will be using digital engagement to obtain further relevant information from our customers through alternative channels rather than traditional postal surveys.

Return on assets

Return on assets continues to be a major focus, reflecting the quality and location of our stock.

As we continue to develop our Asset and Liability register we will be more extensively monitoring property yields, taking into account capital value (on a restricted and unrestricted basis), forecast capital investment, and the opportunity cost of retaining each property either in its current use or as an asset more generally. This will identify properties that no longer meet economic, social, or environmental requirements to accelerate in to our asset management disposal programme.

The implementation of our new asset management software greatly enhances our ability to do this forensic analysis as well as providing more consistent and accurate reporting on the portfolio to ensure that the Corporate Asset Management Plan is effectively delivered. In addition this will assist in identifying and managing major works programmes and compliancy servicing, testing and any resulting works.

When approaching our works programme we have a 100% 5-year rolling stock condition survey programme, regular tenders of key services, pre-inspection reports, and the roll-out of our electronic document management system will facilitate even greater property data capture from all staff on the front line.

We monitor performance on our services and compare this with providers with top quartile performance information. We review our performance against targets each year and use the top quartile performance to set challenging targets for the next year. E.g. Lettings performance is a key target for improvement and although last year's performance was better than the previous year we will improve this further in order to house people more quickly and increase our income streams.

We are incorporating VfM achievements in to our monthly management accounts, challenging each budget holder to achieve and record the targets set as well as ensuring continual commitment to VfM.

As well as economic VfM we also target environmental and social VfM for example through:

- Aids and adaptations
- Volunteer schemes
- Community involvement
- Financial inclusion
- Minimum environmental build standards

Stakeholder engagement

The influence of residents in shaping services has grown as a result of a rise in the number of involved residents from 12% in 2013/14 to just over 15%. A variety of techniques are used to encourage residents to become involved and provide feedback. This includes:

- external rolling programme of satisfaction surveys
- the use of service improvement panels
- participation in procurement decisions
- an extensive programme of community events and initiatives
- working closely with residents groups
- supporting local residents' associations.

A review of the Resident Involvement Strategy was undertaken in 2014/15 with a primary focus on increasing the numbers and diversity of those involved. This increased the active involvement of residents from 1,000 to 1,750 (excluding the 6,500 survey responses received from our external satisfaction surveys). This helps to strengthen the link between grass roots involvement and the more formal scrutiny of services undertaken by the Resident Council, in order to influence and shape our services. More detail is included within the VfM self-assessment.

We also engage actively with a multitude of other stakeholders including our regulator, staff, board members, local authorities, development partners, and other suppliers.

System of VfM assurance

Paragon is dedicated to business improvement and being transparent in its performance. The Boards are committed to ensuring that performance is continually reviewed against objectives. Quarterly management accounts and performance dashboards are reviewed by the Boards and they receive comprehensive annual reports on key service areas. We publish our performance and highlight the cause of any variances.

The Board reviews the peer benchmark reports and our approach is being further developed to compare detailed benchmarking on a service by service basis with similar organisations operating in our area.

Paragon's internal auditors continue to produce quarterly compliance checks which can be used to provide further assurance that our services are effective:

- Procurement is undertaken in accordance with the Tender Management policy which sets out strict criteria and processes for awarding contracts.
- Our development expenditure was subject to external verification on a scheme by scheme basis by cost consultants, and benchmarked to our peers by using SDS Catalyst.
- Corporate and operational risk registers are maintained and updated so that they are relevant to business operations and plans.
- Progress against the objectives in the 5 year Corporate Plan is referred to in Board reports and performance reports and linked to employee performance appraisals.

Paragon continues to investigate the possibilities of strategic alliances with other organisations with similar values in order to increase our potential to grow the business and deliver and develop services to our customers more efficiently.

Paragon is committed to providing social dividends to its customers, providing benefits that augment their environment and services that support issues relevant to their needs.

Financial Review

Paragon has experienced another great year, building on the previous year's performance, focusing on continual service improvement, engagement with our residents and delivering new homes in areas where demand remains high.

Paragon's operating margin remains strong, gaining an A2 rating with Moody's which allowed access to capital markets and issuing a £250 million bond at a record low coupon rate.

Income and expenditure

The Group surplus for 2014/15 was £13.1m. Turnover increased by £11.7m to £70.2m. This has been through a combination of an increase in first tranche sales, the annual increase on rents, and the completion of affordable rent developments.

Operating costs have increased by £5.7m primarily due to increased planned maintenance expenditure of £3.2m, a result of both the identified programme for 2014/15 plus a catch up due to poor contractor performance in 2013/14, £0.6m increase in responsive repairs and a general increase and therefore demand on management services of £1.8m.

£5.2m has been generated from property fixed asset sales, an increase of £4.0m from 2013/14. These sales are part of the asset disposal strategy.

Financial Performance

	2014/15	2013/14	2012/13	2011/12	2010/11
Turnover	70.2	58.5	56.5	53.7	46.7
Cost of sales	(8.2)	(2.4)	(3.3)	(3.4)	(2.2)
Operating costs	(40.4)	(34.7)	(32.6)	(32.1)	(29.5)
Operating surplus	21.6	21.4	20.6	18.2	15.0
Surplus on sale of assets	5.2	1.2	1.2	0.5	11.5
Net interest charges	(13.7)	(9.3)	(10.4)	(9.7)	(9.8)
Surplus for the year	**13.1**	**13.3**	**11.4**	**9.0**	**16.7**

Housing Properties

At 31 March 2015, Paragon owned 9,191 rented housing properties, garages and parking spaces (2014: 8,976) including 633 units of shared ownership (2014: 509).

The value of completed properties, on an existing use for social housing basis, was £602 million (2014: £512 million) and this has been reflected in the valuation of properties in the financial statements. On valuation, the surplus of £337 million (2014: £286 million) over the carrying value has been taken to the property revaluation reserve.

As well as maintaining our existing stock portfolio, Paragon is committed to developing new housing. £48.7 million (2014: £35.7 million) was invested in the development of new housing in the year, funded through a mixture of social housing grant, property sales and loan finance.

Treasury Management Policy

On 21 January 2015 we completed our debut capital markets issue, issuing a £250m bond at a record breaking low cost of funds with a coupon rate of 3.625%. The bond matures in 2047 and is fully amortising in the last five years. The bond was issued through our funding SPV, Paragon Treasury Plc. Of the total issue we retained £25m and used £127m to refinance legacy debt.

Borrowings continue to be held in each subsidiary although the Group has a formal Treasury Management policy approved by the Boards which was updated during the year to reflect latest best practice and the ever changing market. The policy addresses funding, the level of fixed rate debt, liquidity management, security, counter-party risk and covenant compliance.

Loans summary

As at 31 March 2015 we had three key bank funders: Dexia, Lloyds, and RBS. All covenants were complied with during the year. Paragon's loan portfolio now totals £344m and is fully secured. In addition £50m remains undrawn (including the £25m retained bond).

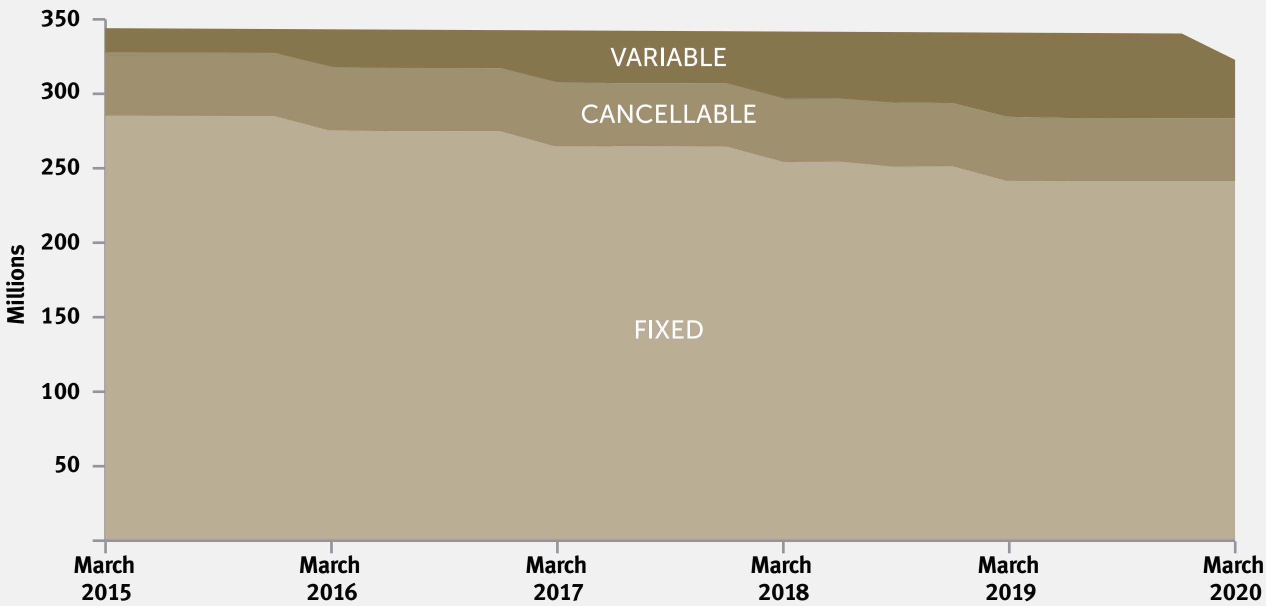
		Elmbridge		**Richmond**		**Total**
	2015	*2014*	*2015*	*2014*	*2015*	*2014*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Fixed	199.9	50.0	96.1	37.6	286.0	87.6
Cancellable	31.4	31.4	11.2	24.2	42.6	55.6
Variable	0.0	68.6	5.1	34.2	15.1	102.8
Total drawn	**231.3**	**150.0**	**112.4**	**96.0**	**343.7**	**246.0**
Total facility	**256.3**	**200.0**	**137.4**	**96.0**	**393.7**	**246.0**

Our business plan is fully funded and we have no expectation of raising additional funds in the next 12 months. We anticipate releasing the retained bond over the next 2-3 years though this is subject to our development pipeline. £0.7m of debt is repayable in 2016 and there is no significant refinancing risk with only 6% of our debt repayable in the next 5 years.

Following the issue of the bond and repayment of other debt during the year, Paragon's loan portfolio of £394m is comprised substantially of fixed rate debt. The interest rate hedging policy requires that the Group maintains its proportions of fixed rate and variable rate within limits specified in the Treasury Management Policy. Other forms of hedging are allowed within the loan agreement and are undertaken.

The Treasury Management Policy sets a target range for fixed rate debt of 75-90% +/-10%. As at 31 March 2015 our fixed element was 96% which remains relatively steady over the next five years:

Paragon Group by Interest Rate type



The vast majority of the fixed rate debt is as a result of the bond but we have also fixed £42.6m (12%) through embedded cancellable derivatives. We do not use standalone derivatives and were therefore not subject to any margin calls during the year.

Credit Rating

On 6 January 2015 Paragon Treasury Plc received an A2 (stable) rating from Moody's.

Cash flows

Cash inflows and outflows during the year are shown in the cash flow statement (page 39).

The cash inflow from operating activities for the year to 31 March 2015 was £29.4 million (2014: £22.5 million, 2013: £25.2 million). There was £127.2 million of loans repaid during the year.

Current Liquidity

The Group has cash of £109.8 million (2014: £33.5 million) and additional available funds of £50 million (2014: £50 million). All loan covenants were met in the year.

05 Independent Auditor's Report

We have audited the financial statements of Paragon Community Housing Group Limited for the year ended 31 March 2015 which comprise the consolidated and association income and expenditure accounts, the consolidated and association balance sheets, the consolidated statement of total recognised surpluses and deficits, the consolidated note of historical cost surpluses and deficits, the consolidated cash flow statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the board and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent association's affairs as at 31 March 2015 and of the group's and parent association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2012.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- the information given in the Report of the Board for the financial year for which the financial statements are prepared is not consistent with the financial statements;
- adequate accounting records have not been kept by the parent association, or returns adequate for our audit have not been received from branches not visited by us; or

- a satisfactory system of control has not been maintained over transactions; or
- the parent association financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

BDO LLP, statutory auditor
Gatwick, West Sussex
United Kingdom

BDO LLP

23 July 2015

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

06 Income & Expenditure Accounts

For the year ended 31 March 2015		Group		Company	
	Note	*2015 £'000*	*2014 £'000*	*2015 £'000*	*2014 £'000*
Turnover	2	70,215	58,490	12,479	8,282
Cost of sales	2	(8,161)	(2,337)	–	–
Operating costs	2	(40,360)	(34,740)	(12,479)	(8,282)
Operating surplus	**2**	**21,694**	**21,413**	**–**	**–**
Surplus on sale of fixed assets	6	5,232	1,185	–	–
Interest receivable and other income	7	311	212	–	–
Interest payable and similar charges	8	(14,091)	(9,512)	–	–
Surplus on ordinary activities before taxation		**13,146**	**13,298**	**–**	**–**
Taxation	11	–	–	–	–
Surplus for the year	**23**	**13,146**	**13,298**	**–**	**–**

The turnover and surplus for the current and prior years relate to continuing activities.

The notes on pages 42 to 76 form part of these financial statements.

07 Consolidated Statement of Total Recognised Surpluses & Deficits

For the year ended 31 March 2015		2015	2014
	Note	*£'000*	*£'000*
Surplus for the year		13,146	13,298
Actuarial (deficit)/ surplus on pension scheme	9	(743)	72
Unrealised surplus on property revaluation	12 & 23	50,700	16,436
Total surplus recognised since the last annual report		**63,103**	**29,806**

08 Consolidated Note of Historical Cost Surpluses and Deficits

For the year ended 31 March 2015		2015	2014
	Note	*£'000*	*£'000*
Reported surplus on ordinary activities before tax		13,146	13,298
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	23	(566)	(533)
Realisation of property revaluation gains of previous years	23	1,112	1,060
Historical cost surplus for the year on ordinary activities before taxation		**13,692**	**13,825**
Historical cost surplus for the year retained after tax		**13,692**	**13,825**

The notes on pages 42 to 76 form part of these financial statements.

09 Balance Sheets

At 31 March 2015	Note	Group 2015 £'000	Group 2014 £'000	Company 2015 £'000	Company 2014 £'000
Tangible fixed assets					
Housing properties at valuation/cost	12	650,732	562,992	–	–
Other tangible fixed assets	13	4,762	4,470	–	–
		655,494	**567,462**		**–**
Investment in subsidiary	**14**	**–**	**–**	**13**	**–**
Current assets					
Properties for sale	15	10,331	9,377	–	–
Debtors	16	6,725	5,024	3,384	3,265
Cash at bank and in hand		109,814	33,540	10,384	2,564
		126,870	**47,941**	**13,768**	**5,829**
Creditors: amounts falling due within one year	17	(21,568)	(18,123)	(13,781)	(5,829)
Net current assets/ (liabilities)		**105,302**	**29,818**	**(13)**	**–**
Total assets less current liabilities		**760,796**	**597,280**	**–**	**–**
Creditors: amounts falling due after more than one year	18	348,283	248,446	–	–
Net pension liability	9	1,816	1,240	–	–
		350,099	**249,686**	**–**	**–**
Capital and reserves:					
Non equity share capital	22	–	–	–	–
Revenue reserve	23	73,916	60,967	–	–
Restricted reserve	23	235	235	–	–
Revaluation reserve	23	336,546	286,392	–	–
		410,697	**347,594**	**–**	**–**
		760,796	**597,280**	**–**	**–**

The notes on pages 42 to 76 form part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 23 July 2015 and signed on its behalf by:

John Cudd
Chair

Marion Hall
Company Secretary

Dilip Kavi
Board Member

10 Consolidated Cash Flow Statement

For the year ended 31 March 2015		2015	2014
	Note	*£'000*	*£'000*
Net cash inflow from operating activities	**26**	**29,409**	**22,504**
Returns on investments and servicing of finance			
Interest received		200	216
Interest paid		(15,064)	(10,797)
		(14,864)	**(10,581)**
Taxation			
Corporation tax paid		–	–
		–	–
Capital expenditure			
Purchase and construction of housing properties		(48,699)	(35,680)
Social housing grant received		1,995	2,029
Purchase of other fixed assets		(1,058)	(654)
Sales of fixed asset housing properties		11,690	5,707
		(36,072)	**(28,598)**
Financing			
Loans received		224,959	–
Loan repaid		(127,158)	(1,105)
	27	**97,801**	**(1,105)**
Increase / (Decrease) in cash	**27**	**76,274**	**(17,780)**

The notes on pages 42 to 76 form part of these financial statements.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Notes to the Financial Statements

Notes to the Financial Statements

Contents

01 Accounting Policies

Basis of Accounting

The financial statements of the group and company are prepared in accordance with applicable accounting standards and the Statement of Recommended Practice: Accounting by Registered Social Housing Providers (Update 2010) and comply with the Accounting Direction for Private Registered Providers of Social Housing 2012.

The financial statements are prepared on the basis of historical cost accounting as modified by the revaluation of fixed asset housing properties.

Basis of Consolidation

The group financial statements consolidate the financial statements of the company and its subsidiaries.

Turnover

Turnover comprises rental income and service charge income receivable in the year; other services included at the invoiced value (excluding VAT) of services supplied in the year, revenue grants, and proceeds from first tranche sales of shared ownership properties.

Value Added Tax

The Group is registered for VAT but a large proportion of its income, including rents, is exempt for VAT purposes. The majority of its expenditure is subject to VAT, which cannot be reclaimed, and expenditure is therefore shown inclusive of VAT.

Leased Assets

Assets held under finance leases are included in the balance sheet and depreciated in accordance with the Group's normal accounting policies. The present value of future rentals is shown as a liability.

The interest element of rental obligations is charged to the income and expenditure account over the period of the lease in proportion to the balance of capital repayments outstanding.

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

Leaseholder Residents' Service Charge Funds

Charges which are made to leaseholders for the replacement of equipment, future cyclical maintenance and major repair costs within their estates are held in specific funds which are ring-fenced for the use on those estates. Such specific funds are disclosed on the balance sheet under creditors due within one year.

02 Turnover, Cost of Sales, Operating Costs & Operating Surplus

Group	Year to 31 March 2015				Year to 31 March 2014			
	Turnover	Cost of sales	Operating costs	Operating surplus/ (deficit)	Turnover	Cost of sales	Operating costs	Operating surplus/ (deficit)
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Social housing lettings (note 3)	56,350	–	(38,543)	17,807	53,010	–	(31,791)	21,219
Other social housing activities								
Development services	992	–	(689)	303	565	–	(1,131)	(566)
Management services	1,064	–	(1,071)	(7)	1,355	–	(1,558)	(203)
First tranche shared ownership sales	11,675	(8,161)	–	3,514	3,180	(2,337)	–	843
	13,731	**(8,161)**	**(1,760)**	**3,810**	**5,100**	**(2,337)**	**(2,689)**	**74**
Non social housing activities								
Commercial lettings	134	–	(57)	77	380	–	(260)	120
	70,215	**(8,161)**	**(40,360)**	**21,694**	**58,490**	**(2,337)**	**(34,740)**	**21,413**

Company	Year to 31 March 2015				Year to 31 March 2014			
	Turnover	Cost of sales	Operating costs	Operating surplus/ (deficit)	Turnover	Cost of sales	Operating costs	Operating surplus/ (deficit)
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Management services	**12,479**	**–**	**(12,479)**	**–**	**8,282**	**–**	**(8,282)**	**–**

03 Turnover, Cost of Sales, Operating Costs & Operating Surplus (continued)

	General needs	Affordable rent	Housing for older people	Supported housing	Temporary housing	Key worker	Residential care homes	Leasehold /shared ownership	2015 Total	2014 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Rents receivable	34,103	4,662	5,862	234	159	823	–	1,711	47,554	44,101
Service and other charges receivable	1,643	–	1,615	24	53	90	–	1,006	4,431	4,843
Charges for support services	–	–	395	–	–	–	–	–	395	516
Net rental income	**35,746**	**4,662**	**7,872**	**258**	**212**	**913**	**–**	**2,717**	**52,380**	**49,460**
Placement fees	–	–	–	–	–	–	2,137	–	2,137	2,345
Other revenue grants & other income	512	–	13	651	–	–	3	654	1,833	1,205
Turnover from social housing lettings	**36,258**	**4,662**	**7,885**	**909**	**212**	**913**	**2,140**	**3,371**	**56,350**	**53,010**
Management	8,840	850	1,558	401	44	169	521	1,033	13,416	11,576
Services	2,084	59	2,075	153	31	70	414	768	5,654	4,799
Care and support	4	–	261	1	–	–	1,364	20	1,650	2,107
Routine maintenance	4,521	712	1,040	127	115	141	14	69	6,739	6,111
Planned maintenance	5,092	184	1,240	182	7	20	18	377	7,120	3,883
Bad debts	131	54	18	4	–	1	–	1	209	151
Depreciation	2,279	396	397	91	9	74	13	391	3,650	3,099
Other costs	105	–	–	–	–	–	–	–	105	65
Expenditure for social housing lettings	**23,056**	**2,255**	**6,589**	**959**	**206**	**475**	**2,344**	**2,659**	**38,543**	**31,791**
Operating surplus/ deficit for social housing lettings	**13,202**	**2,407**	**1,296**	**(50)**	**6**	**438**	**(204)**	**712**	**17,807**	**21,219**
Rent losses from voids	**793**	**144**	**64**	**23**	**23**	**56**	**–**	**–**	**1,103**	**1,032**

04 Accommodation In Management and Development

The parent company does not own, manage or develop any properties in its own right. All property is held within the Group's subsidiaries. At the end of the period, accommodation in management for each class of accommodation in the Group was as follows:

		Group
	2015	2014
Social housing – managed directly	**Number**	**Number**
General needs housing		
Social	5,201	5,270
Affordable	585	393
Housing for older people	1,051	1,051
Key worker housing	108	108
Supported housing	35	35
Temporary housing	25	25
Shared ownership	633	509
Registered care homes	38	75
Total directly managed units	**7,676**	**7,466**
Supported housing – managed by agencies	227	220
Total social housing units owned	**7,903**	**7,686**
Non social housing		
Market rent	11	12
Commercial units	15	14
Garages and parking spaces	**1,262**	**1,264**
Total units in ownership	**9,191**	**8,976**
Services provided		
Leasehold and improvement for sale	992	975
Accommodation managed on behalf of others	42	87
Total units managed or owned	**10,225**	**10,038**
Units in development at the year end	**600**	**605**

05 Operating Surplus

This is arrived at after charging:

	Group		Company	
	2015 £'000	*2014 £'000*	*2015 £'000*	*2014 £'000*
Depreciation of housing assets	3,650	3,099	–	–
Depreciation of other tangible fixed assets	766	589	–	–
Operating leases- land and buildings	309	309	–	–
Auditors' remuneration (excluding VAT)				
– for audit services	46	49	4	4
– for non audit services	32	18	–	–

06 Surplus on Sale of Fixed Assets – Housing Properties & Other Assets

The parent company has not disposed of any assets in the period, consequently all asset disposals relate to subsidiaries in the Group.

	Property fixed assets	**Shared ownership staircasing sales**	**Total 2015**	**Total 2014**
	£'000	*£'000*	*£'000*	*£'000*
Gross proceeds of sales	8,678	3,012	11,690	5,707
Amounts payable to Elmbridge Borough Council under RTB sharing agreement	(103)	–	(103)	(1,163)
Cost of sales	(1,129)	(1,883)	(3,012)	(2,563)
Transfer to Recycled Capital Grant Fund	(2,079)	(501)	(2,580)	(503)
Transfer to Disposal Proceeds Fund	(505)	–	(505)	(219)
Incidental sales expenses	(249)	(9)	(258)	(74)
Surplus	**4,613**	**619**	**5,232**	**1,185**

07 Interest Receivable & Other Income

	Group		Company	
	2015 £'000	*2014 £'000*	*2015 £'000*	*2014 £'000*
Bank interest receivable	200	215	–	1
Interest received on net pension assets (note 9)	122	3	–	–
	322	**218**	–	1
Interest credited to Recycled Capital Grant Fund/ Disposal Proceeds Fund	(11)	(6)	–	–
	311	**212**	**–**	**1**

08 Interest Payable & Similar Charges

	Group		Company	
	2015 £'000	*2014 £'000*	*2015 £'000*	*2014 £'000*
Interest on loans	10,572	10,280	–	–
Break costs	4,419	–	–	–
Fees payable, including arrangement and monitoring fees	330	481	–	–
	15,321	**10,761**	–	–
Interest capitalised in housing properties under construction	(1,230)	(1,249)	–	–
	14,091	**9,512**	**–**	**–**
Capitalisation rate used to determine finance costs capitalised during the period	3.84%	4.06%	–	–

09 Employees

	Group		Company	
	2015	*2014*	*2015*	*2014*
Average monthly number of employees expressed in full time equivalents:	**Number**	**Number**	**Number**	**Number**
Administration	123	77	123	77
Development	12	13	12	13
Housing, support and care	121	182	–	–
	256	**272**	**135**	**90**

Full time equivalents are calculated based on a standard working week of 35 hours other than Care staff who are calculated using a 37 hour week.

	Group		Company	
	2015	*2014*	*2015*	*2014*
Employee costs:	*£'000*	*£'000*	*£'000*	*£'000*
Wages and salaries	8,396	7,780	5,906	3,225
Social security costs	749	664	572	306
Other pension costs	1,085	923	976	422
	10,230	**9,367**	**7,454**	**3,953**
Other pension costs comprise:				
Regular costs	419	295	343	422
Contributions to fund Surrey County Council Pension Fund Deficit & SHPS deficit fund	666	628	633	–
	1,085	**923**	**976**	**422**

Salary bandings for employees earning over £60,000 (excluding pension contributions)	Group		Company	
	2015	*2014*	*2015*	*2014*
£60,001 to £70,000	3	2	3	2
£70,001 to £80,000	3	2	3	2
£80,001 to £90,000	–	1	–	–
£90,001 to £100,000	1	2	1	2
£100,001 to £110,000	2	–	2	–
£110,001 to £120,000	1	–	1	–
£120,001 to £130,000	–	–	–	–
£130,001 to £140,000	–	1	–	1
£140,001 to £150,000	1	–	1	–
	11	**8**	**11**	**7**

The Group's employees are members of the Surrey County Council Pension Fund (SCCPF) or the Social Housing Pension Scheme (SHPS). Further information on each scheme is given below.

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

The additional annual payments are £84,616 in respect of former employees, payable until March 2031.

The additional payments in respect of former employees are increased annually on 1 April in line with the amount specified in the Pensions Increase (Review) Order. By making these payments to Elmbridge Borough Council, the Council accepts responsibility for meeting the Trust's payments due to the Pension Fund in respect of that past service deficit.

Surrey County Council Pension Fund

The SCCPF is a multi-employer scheme administered by Surrey County Council under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme. In accordance with FRS17 'retirement benefits', the figures included in the financial statements in respect of this scheme are based on an actuarial valuation carried out at 31 March 2013. This does not take into account any impact of changes in general stock market values since that date. Any such impact will be reflected in the next formal triennial valuation, due as at 31 March 2016. In the meantime, based on actuarial assumptions the position at 31 March 2015 is reflected in the financial statements.

The employer's contributions, relating to current employees, to the SCCPF by the Trust for the year ended 31 March 2015 were £75,939 (2014: £68,555) and the employer's contribution rate has been fixed as 23.6% of pensionable pay up until 31 March 2017.

Reconciliation of present value of plan liabilities	2015	2014
	£'000	*£'000*
At beginning of year	**11,316**	**10,528**
Current service cost	92	95
Interest cost	483	469
Contributions by members	22	23
Actuarial losses / (gains)	1,502	534
Estimated benefits paid	(281)	(333)
At the end of the year	**13,134**	**11,316**

Reconciliation of fair value of plan assets	2015	2014
	£'000	*£'000*
Opening fair value of plan assets	**10,076**	**9,156**
Expected return on assets	605	472
Contributions by members	22	23
Contributions by the employer	137	152
Actuarial gains / (losses)	759	606
Benefits paid	(281)	(333)
At the end of the year	**11,318**	**10,076**

Balance sheet	2015	2014
	£'000	*£'000*
Fair value of plan assets	11,318	10,076
Present value of funded liabilities[1]	(13,134)	(11,316)
Net liability	**(1,816)**	**(1,240)**
Amount in the balance sheet:		
Liabilities	1,816	1,240
Net liability	**(1,816)**	**(1,240)**

[1] It is estimated that this liability comprises of approximately £3,362k, £3,715k and £5,557k in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2015.

Liabilities as at 31 March 2015 are based on the current benefit structure of the LGPS. The liabilities include an allowance in respect of retrospective changes to member benefits that came into affect on 1 April 2008 as follows:

- £63,000 in respect of the extension of the death grant upon death after retirement to 10 times the pension less the total pension payments already paid; and
- £22,000 in respect of the extension of the eligibility criteria for dependents' pensions upon death to include a nominated cohabitee.

Recognition in the income and expenditure account	**2015**	**2014**
	£'000	*£'000*
Operating costs		
Current service cost	92	95
Losses on curtailments and settlements	–	–
	92	**95**
Finance costs		
Interest cost	483	469
Expected return on employer assets	(605)	(472)
	(122)	(3)
	(30)	**92**

Amount recognised in consolidated statement of total recognised surpluses and deficits	**2015**	**2014**
	£'000	*£'000*
Actuarial (losses)/gains	**(743)**	**72**
Cumulative actuarial losses	**(1,897)**	**(1,154)**

Composition of plan assets	**2015**	**2014**
	£'000	*£'000*
Equities	8,602	7,758
Bonds	1,811	1,612
Property	679	605
Cash	226	101
Total plan assets	**11,318**	**10,076**

The above asset values as at 31 March 2015 are at bid value as required under FRS17.

The recommended financial assumptions are summarised below:

Financial assumptions	2015	2014
	% p.a.	*% p.a.*
Inflation / pension increase rate	2.4	2.8
Salary increase rate	3.8	4.1
Expected return on assets	3.2	6.0
Discount rate	3.2	4.3

Salary increases are assumed to be 1% per annum until March 2015, then reverting to the long term assumption.

Breakdown of the expected return on assets by category	2015	2014
	% p.a.	*% p.a.*
Equities	3.2	6.7
Bonds	3.2	3.8
Property	3.2	4.8
Cash	3.2	3.7

Mortality

Life expectancy is based on the Fund's VitaCurves with improvements from 2007 in line with the medium cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.5 years	24.6 years
Future pensioners	24.5 years	26.9 years

Future pensioners are assumed to be 45 as at the last formal valuation date.

	2015	2014	2013	2012
	£'000	*£'000*	*£'000*	*£'000*
Present value of plan liabilities	(13,134)	(11,316)	(10,528)	(9,135)
Present value of plan assets	11,318	10,076	9,156	8,021
(Deficit) on scheme	**(1,816)**	**(1,240)**	**(1,372)**	**(1,114)**
Experience adjustment arising on: plan assets	759	606	798	(404)
	759	**606**	**798**	**(404)**

Historic mortality

Life expectancies for the prior period end are based on the Fund's VitaCurves. The allowance for future life expectancy is shown in the following table:

Years ended	Prospective pensioners	Pensioners
31 March 2014	CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a.	CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a.
31 March 2013	year of birth, medium cohort and 1% p.a. minimum improvements from 2007	year of birth, medium cohort and 1% p.a. minimum improvements from 2007
31 March 2012	year of birth, medium cohort and 1% p.a. minimum improvements from 2007	year of birth, medium cohort and 1% p.a. minimum improvements from 2007
31 March 2011	calendar year 2033	calendar year 2017
31 March 2010	calendar year 2033	calendar year 2017
31 March 2009	calendar year 2033	calendar year 2017
31 March 2008	calendar year 2033	calendar year 2017

Age ratings are applied to the above tables based on membership profile. The allowance for future life expectancy has changed at this year end.

Commutation

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post April 2008 service.

Social Housing Pension Scheme

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

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

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

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

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

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

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

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

The Group has elected to operate final salary with a 1/60th accrual rate benefit structure for active members as at 31 March 2007 and the career average revalued earnings with a 1/60th accrual rate benefit structure for new entrants from 1 April 2007. This does not reflect any benefit structure changes made from April 2010.

During 2012/13 the defined benefit scheme was closed to all new members but the Trust continues to offer the defined contribution scheme to new and existing employees. As a result, in common with other employers that have closed the defined benefit section of the Scheme to new entrants, the Trust is required to pay an additional employer contribution loading of 2.5% to reflect the higher costs of a closed arrangement.

The Trustee commissions an actuarial valuation of the Scheme every 3 years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, in respect of each benefit structure, so that the Scheme can meet its pension obligations as they fall due. From April 2007, the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate. From 1 April 2010 the requirement for employers to pay at least 50% of the total contribution rate no longer applies.

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

During the accounting period (March 2015), the Group paid contributions at the rate of 3.0% to 10.6%. Member contributions varied between 3.0% to 9.4%.

As at the balance sheet date, there were 147 active members of the Scheme employed by the Group. The annual pensionable payroll in respect of these members was £4,601,068. The Group continues to offer defined benefit membership of the Scheme to its employees already in the Scheme and defined contribution membership to all employees.

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

The last formal valuation of the Scheme was performed at 30 September 2011 by a professionally qualified actuary using the Projected Unit Method. The market value of the scheme's assets at that date was £2,062 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £1,035 million, equivalent to a past service funding level of 67.0%. As a result of this deficit the Group has agreed to pay an additional annual amount of £446,275 for 2015/16.

The Scheme Actuary is currently finalising the 2014 valuation but key provisional results have been confirmed. As at September 2014, the market value of the scheme assets was £3,123 million. There was a shortfall of assets compared with the value of liabilities of £1,323 million, equivalent to a past service funding level of 70%.

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

Valuation discount rates	% p.a.
Pre retirement	7.0
Non pensioner post retirement	4.2
Pensioner post retirement	4.2
Pensionable earnings growth (per annum for 3 years then 4.4)	2.5
Price inflation	2.9
Pension Increases	
Pre 88 GMP	0.0
Post 88 GMP	2.0
Excess over GMP	**2.4**

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

The valuation was carried out using the following demographic assumptions.

Mortality pre-retirement – 41% SAPS S1 Male/Female All Pensioners (amounts), Year of Birth, CMI_2009 projections with long term improvement rates of 1.5% p.a for Males and 1.25% p.a Females.

Mortality post retirement – 97% SAPS S1 Male/Female All Pensioners (amounts), Year of Birth, CMI_2009 projections with long term improvement rates of 1.5% p.a for Males and 1.25% p.a for Females.

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

Benefit structure	Long-term joint contribution rate (% of pensionable salaries)
Final salary with 1/60th accrual rate	19.4
Final salary with 1/70th accrual rate	16.9
Career average related earnings with 1/60th accrual rate	18.1
Final salary with 1/80th accrual rate	14.8
Career average related earnings with 1/80th accrual rate	14.0

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

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

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

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

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

The formal valuation of the Scheme has taken place and will give an update on the financial position as at 30 September 2014. The results of this valuation will be available in Spring 2016.

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

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

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

A copy of the Recovery Plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under Part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or Recovery Plan are inappropriate.

For example the Regulator could require that the Trustee strengthens the actuarial assumptions (which would increase the Scheme liabilities and hence impact on the Recovery Plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the Recovery Plan). A response regarding the 30 September 2011 valuation is awaited.

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

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

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

The Group 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 2014. As of this date the estimated employer debt for the Group was £25,993,607.

Pension Costs

The Group participates in two funded multi-employer defined benefit schemes, the SHPS and the SCCPF.

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

For the SCCPF, the operating costs of providing retirement benefits to participating employees are recognised in the accounting periods in which the benefits are earned. The related finance costs, expected return on assets and any other changes in fair value of the assets and liabilities, are recognised in the accounting period in which they arise. The operating costs, finance costs and expected return on assets are recognised in the income and expenditure account with any other changes in fair value of assets and liabilities being recognised in the statement of total recognised surpluses and deficits.

10 Board Members & Executive Team

	Basic salary	Benefits in kind	Pension conts.	2015 Total	2014 Total
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Board members					
Sub total – board	107	–	–	107	106
Executive					
Sub total – executive	556	47	40	643	621
Total	**663**	**47**	**40**	**750**	**727**

The highest paid director was Dilip Kavi, Chief Executive. Emoluments, excluding pension contributions, were £150k (2014: £150k).

The Chief Executive is a member of the Social Housing Pension Scheme. He is an ordinary member and no enhanced or special terms apply.

11 Taxation

The charge for taxation is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

The subsidiaries as Trustees of leasehold sinking funds, pay tax in respect of investment income arising. However, as a registered provider of social housing with charitable status for tax purposes, its other sources of income and gains, received under Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992, are exempt from taxation to the extent that they are applied exclusively to its charitable objectives.

	Group		Company	
	2015 £'000	*2014 £'000*	*2015 £'000*	*2014 £'000*
Tax on surplus on ordinary activities				
United Kingdom corporation tax at 23% (2014:24%)	–	–	–	–
	–	–	–	–
Factors affecting the tax charge for the period				
No tax charge arises in respect of the current or the prior year				
Surplus for the period	13,146	13,298	1	1
UK corporation tax at 21% (2014:23%)	2,761	3,059	–	–
Effects of:				
– capital allowances in (excess)/deficit of depreciation	–	–	–	–
– under provision in respect of previous years	–	–	–	–
– exemption for charitable activities	(2,761)	(3,059)	–	–
Current tax charge for the period	**–**	**–**	**–**	**–**

Factors that may affect future tax charges

No provision has been made for deferred tax on gains recognised on the revaluing of property to its market value or on the sale of properties where chargeable gains have been rolled over into replacement assets.

12 Tangible Fixed Assets – Group Housing Properties

Shared Ownership Properties

The costs of shared ownership properties are split between current and fixed assets on the basis of first tranche portion. The first tranche portion is accounted for as a current asset and the sales proceeds are shown in turnover at the legal completion of the initial sale. The remaining element of the shared ownership property is accounted for as a fixed asset and subsequent sales are treated as sales of fixed assets. All related Social Housing Grant (SHG) is allocated to the fixed asset element of the shared ownership property.

Donated Land

Land donated or transferred at a price less than the open market value of the land is included in the balance sheet at the current value at the date it is received. When the land is donated or transferred from central or local government or other public authority, the difference between the current value and the transfer price is treated as a government grant.

Social Housing Grant

SHG is receivable from the HCA, GLA or local authorities and is utilised to reduce the capital costs of housing properties, including land costs. The amount of SHG receivable is calculated on a fixed basis depending on the size, location and type of housing property. SHG due or received in advance is included as a current asset or liability. SHG received in respect of revenue expenditure is credited to the income and expenditure account in the same period as the expenditure to which it relates.

SHG is subordinated to the repayment of loans by agreement with the HCA. SHG released on the sale of a property may be repayable but is normally available to be recycled and is credited to a Recycled Capital Grant Fund and included in the balance sheet in creditors.

Other Grants

Other grants are receivable from local authorities and other organisations. Capital grants are utilised to reduce the capital costs of housing properties, including land costs. Grants in respect of revenue expenditure are credited to the income and expenditure account in the same period as the expenditure to which they relate.

Capitalisation of Development Costs

Development costs are capitalised where they are directly attributable to bringing the properties into working condition for their intended use. Such costs generally include the labour costs of own employees arising directly from the acquisition or development of the property and incremental costs that would only have been avoided if the property concerned had not been acquired or constructed.

Capitalised Interest

Interest on a fair proportion of total borrowings on development costs, less SHG in advance, is capitalised during the period of development.

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

Works to Existing Properties/ Major Repairs

The Group has a continuing programme of major repairs. Those repairs that are not defined as improvements or components are written off to the income and expenditure account in the year in which they are incurred.

Depreciation of Housing Properties

Depreciation is charged so as to write down the value of freehold housing properties to their estimated residual value, on a straight-line basis, over their estimated useful economic lives in the business. The useful economic life of housing properties has been estimated at 100 years.

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

Other property assets which have been replaced in existing properties have been depreciated over the following useful economic lives:

- New windows: 30 years
- New central heating/boilers: 12 years
- New kitchens: 20 years
- New bathrooms: 30 years
- Rewiring: 50 years
- Roof and enveloping works: 100 years.

Disposal of Housing Properties

The surplus or deficit on the disposal of housing properties held as fixed assets and other fixed assets is accounted for in the income and expenditure account after the operating result.

Impairment

Fixed asset housing properties are subject to impairment reviews annually. Other fixed assets are reviewed for impairment, if there is an indication that impairment may have occurred. Impairment is recognised when the carrying value of revenue generating assets exceeds the higher of net realisable value or value in use. A revenue generating asset can be a single property, or a group of properties whose income and expenditure can be separately identified.

Tangible Fixed Assets and Depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged on a straight-line basis over the expected economic useful lives of the assets at the following annual rates:

- Freehold office premises: 2.5%
- Freehold office improvements: 10%
- Office leasehold improvements: over the unexpired period of the lease
- Fixtures and equipment/ IT equipment: 33%
- Motor vehicles: 33%.

	Rented available for letting	Rented under construction	Shared ownership for letting	Shared ownership under construction	Total
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Cost/valuation					
At 1 April 2014	469,233	39,997	42,823	16,178	568,231
Reclassification	(121)	–	121	–	–
Transfers to current assets	–	–	(50)	–	(50)
Additions – construction costs	21	28,534	–	11,150	39,705
Additions – components replaced	5,832	–	–	–	5,832
Schemes completed	25,868	(25,868)	15,312	(15,312)	–
Disposals	(1,129)	–	(1,883)	–	(3,012)
Revaluation	45,150	–	346	–	45,496
At 31 March 2015	**544,854**	**42,663**	**56,669**	**12,016**	**656,202**
Social Housing Grant					
At 1 April 2014	–	3,900	–	–	3,900
Additions	–	594	–	239	833
Schemes completed	567	(567)	179	(179)	–
Transfer from RCGF	–	359	–	–	359
Eliminated on revaluation	(567)	–	(179)	–	(746)
At 31 March 2015	**–**	**4,286**	**–**	**60**	**4,346**
Other Grants					
At 1 April 2014	–	481	–	–	481
Receivable in year	78	1,085	–	–	1,163
Schemes completed	730	(730)	–	–	–
Eliminated on revaluation	(808)	–	–	–	(808)
At 31 March 2015	**–**	**836**	**–**	**–**	**836**
Depreciation					
At 1 April 2014	–	–	–	–	–
Charge for the year	3,260	–	390	–	3,650
Eliminated on revaluation	(3,260)	–	(390)	–	(3,650)
At 31 March 2015	**–**	**–**	**–**	**–**	**–**
Impairment					
At 1 April 2014	–	668	–	190	858
Impairment charge reversal	–	(380)	–	(190)	(570)
Eliminated on revaluation	–	–	–	–	–
At 31 March 2015	**–**	**288**	**–**	**–**	**288**
Net book value					
At 31 March 2015	**544,854**	**37,253**	**56,669**	**11,956**	**650,732**
At 31 March 2014	**469,233**	**34,948**	**42,823**	**15,988**	**562,992**

Expenditure on works to existing properties	2015	2014
	£'000	*£'000*
Components capitalised	5,832	4,657
Amounts charged to income and expenditure	7,120	3,883
	12,952	**8,540**

Completed housing properties comprise	2015	2014
	£'000	*£'000*
Freehold	549,902	470,363
Long leasehold	51,150	41,230
Short leasehold	471	463
	601,523	**512,056**

Social Housing Grant	2015	2014
	£'000	*£'000*
Total social housing grant receivable to date:		
SHG and other capital grants deducted from housing properties	175,564	175,788
Cumulative amount credited to income and expenditure account	106	106
	175,670	**175,894**

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

	2015	2014
	£'000	*£'000*
Historical costs	523,504	482,317
Social housing and other grants	(175,564)	(175,788)
Depreciation and impairment	(33,754)	(29,929)
	314,186	**276,600**

Housing Properties

Completed housing properties are principally properties available for rent and are stated at Existing Use Value for Social Housing (EUV-SH). A full valuation is carried out every year. Housing properties under construction are stated at cost less social housing grant and other capital grants. Cost includes the cost of acquiring land and buildings, development costs, interest charges incurred during the development period and expenditure incurred in respect of improvements.

Improvements are works which result in an increase in the net rental income, such as additional rent receivable or a reduction in future maintenance costs in excess of the previously assessed standard of performance when the assets were first acquired, constructed or last replaced.

Where individual components of a property are replaced, the costs are capitalised.

At the balance sheet date, properties under construction include all costs certified to date including retentions under the construction contract.

The cumulative capitalised interest as at 31 March 2015 was £15.4 million (2014: £14.2 million).

Completed housing properties are stated at EUV-SH, based on a valuation undertaken 31 March 2015. The Company's housing properties were valued by professional valuers Savills (UK) Limited in accordance with the Royal Institution of Chartered Surveyors' Valuation – Professional Standards, effective 6 January 2014. The properties are valued every year.

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

Discount rate	5.25%
Annual inflation rates	Year 3 onwards 2.0%
Level of annual rent increase	3.0%
Management and maintenance	3.0%

13 Tangible Fixed Assets – Other

	Freehold offices	Freehold office improvements	Leasehold office improvements	Fixtures, equipment and I.T.	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 April 2014	4,721	2,240	516	3,522	14	11,013
Additions	–	346	45	588	79	1,058
Disposals	–	–	–	(1,436)	(5)	(1,441)
At 31 March 2015	**4,721**	**2,586**	**561**	**2,674**	**88**	**10,630**
Depreciation						
At 1 April 2014	1,653	1,657	186	3,033	14	6,543
Charge for the year	118	136	34	452	26	766
Disposals	–	–	–	(1,436)	(5)	(1,441)
At 31 March 2015	**1,771**	**1,793**	**220**	**2,049**	**35**	**5,868**
Net Book Value						
At 31 March 2015	**2,950**	**793**	**341**	**625**	**53**	**4,762**
At 31 March 2014	**3,068**	**583**	**330**	**489**	**–**	**4,470**

14 Investments in Subsidiaries

The financial statements consolidate the results of Elmbridge and Richmond, PDCSL as well as Paragon Treasury Plc which were subsidiaries of the Company at the end of the financial year. The Company has the right to appoint members to the boards of the Elmbridge and Richmond subsidiaries and thereby exercises control over them. Elmbridge and Richmond are Registered Providers of social housing. Paragon is the ultimate parent undertaking.

During the year the Company provided management services to the subsidiaries and charged Elmbridge £6.9m and Richmond £5.5m with £27k charged to the managed charities.

There is share capital of £1 in PDCSL reflecting the parent company Elmbridge Housing Trust's control.

PDCSL was established to support the development and construction activities of the Group, enabling Paragon to commission construction work directly through a subsidiary to reduce construction lead in times and to reduce costs by allowing elements of construction to be commissioned directly rather that employing a main contractor as an intermediary.

During the year Paragon invested in Paragon Treasury Plc, a wholly owned subsidiary, purchasing 50,000 £1 ordinary shares at 25 pence each.

15 Properties held for Sale

Properties developed for outright sales and first tranche shared ownership sales are included in turnover and cost of sales when sold.

They are included in current assets as they are intended to be sold and are held at the lower of cost and net realisable value.

	Completed	**Under construction**	**Total**
	£'000	*£'000*	*£'000*
As at 1 April 2014	1,155	8,222	9,377
Additions – construction costs	–	8,982	8,982
Schemes completed	10,406	(10,406)	–
Disposals to cost of sales	(8,078)	–	(8,078)
Transfer from fixed assets	50	–	50
At 31 March 2015	**3,533**	**6,798**	**10,331**

16 Debtors

	Group		Company	
	2015	*2014*	*2015*	*2014*
	£'000	*£'000*	*£'000*	*£'000*
Rent and service charges receivable	2,735	2,192	–	–
Less: provision for bad and doubtful debts	(853)	(734)	–	–
	1,882	1,458	–	–
Amounts due from group undertakings	–	–	1,048	1,431
Other debtors	4,449	3,159	2,063	1,602
Prepayments and accrued income	394	407	289	232
	6,725	**5,024**	**3,400**	**3,265**

17 Creditors: Amounts Falling Due within One Year

	Group		Company	
	2015	*2014*	*2015*	*2014*
	£'000	*£'000*	*£'000*	*£'000*
Housing Loans (note 21)	732	1,620	–	–
Recycled capital grant fund (note 19)	–	359	–	–
Trade creditors	1,833	1,326	1,833	1,228
Rents and service charges received in advance	1,493	1,277	–	–
Amounts owed to group undertakings	–	–	5,727	1,352
Other taxation and social security	196	279	196	279
Other creditors	7,526	4,698	5,424	2,178
Accruals and deferred income	9,788	8,564	601	792
	21,568	**18,123**	**13,781**	**5,829**

18 Creditors: Amounts Falling Due After More Than One Year

	Group		Company	
	2015	*2014*	*2015*	*2014*
	£'000	*£'000*	*£'000*	*£'000*
Housing loans (note 21)	343,063	244,374	–	–
Less: loan issue costs	(2,531)	(329)	–	–
	340,532	244,045	–	–
Recycled capital grant fund (note 19)	3,591	1,003	–	–
Disposal proceeds fund (note 20)	728	220	–	–
Leaseholder sinking fund	3,121	2,892	–	–
Other creditors	311	286	–	–
	348,283	**248,446**	**–**	**–**

19 Recycled Capital Grant Fund

Following certain relevant events, primarily the sale of dwellings, the Homes and Communities Agency can direct the Group to recycle the Social Housing Grant (SHG) or repay the recoverable capital grant back to the agency. Where the grant is recycled the recoverable capital grant is credited to a Recycled Capital Grant Fund which is included as a creditor due within one year or due after more than one year as appropriate.

	Group		Company	
	2015	*2014*	*2015*	*2014*
	£'000	*£'000*	*£'000*	*£'000*
At 1 April 2014	1,362	1,354	–	–
Additions in the year	2,580	503	–	–
Interest accrued	8	5	–	–
Utilised in development of property	(359)	(500)	–	–
At 31 March 2015	**3,591**	**1,362**	**–**	**–**
Disclosed as:				
Due in less than one year	–	359		
Due after more than one year	3,591	1,003		
	3,591	1,362		
Amount due for repayment to the HCA	**–**	**–**		

20 Disposal Proceeds Fund

Receipts from Right to Acquire sales are required to be retained in a ring fenced fund that can only be used for providing replacement housing. The sales receipts less eligible expenses are credited to the Disposal Proceeds Fund. The Disposal Proceeds Fund can be included as a creditor due in one year or creditor due after more than one year as appropriate.

	Group		Company	
	2015	*2014*	*2015*	*2014*
	£'000	*£'000*	*£'000*	*£'000*
At 1 April 2014	220	–	–	–
Additions in the year	505	219	–	–
Interest accrued	3	1	–	–
Utilised in development of property	–	–	–	–
At 31 March 2015	**728**	**220**	**–**	**–**
Disclosed as:				
Due in less than one year	–	–		
Due after more than one year	728	220		
	728	**220**		
Amount due for repayment to the HCA	**–**	**–**		

21 Debt Analysis

Loan Finance Issue Costs

These are written off evenly over the life of the related loan. Loans are stated in the Balance Sheet at the amount of the net proceeds after issue, plus increases to account for any subsequent amounts written off. Where loans are redeemed during the year, any redemption penalty and any connected loan finance issue costs are recognised in the income and expenditure account in the year in which the redemption took place.

The Company does not hold any debt in its own right. All debt is attributable to the Group via the Group's subsidiaries.

		Group
	2015	*2014*
	£'000	*£'000*
Due within one year		
Bank Loans (note 17)	732	1,620
Due after more than one year		
Bank Loans (note 18)	340,532	244,045
Total debt		
Within one year	732	1,620
Between one and two years	756	1,572
Between two and five years	19,119	24,976
After five years	323,188	217,826
Total debt	343,795	245,994
Less: loan facility costs	(2,531)	(329)
	341,264	**245,665**

Housing loans are secured by specific charges on the Group's housing properties. The loans to Elmbridge Housing Trust are also secured by a floating charge over its assets. Rates of interest range between 0.75% and 10.82%.

22 Non Equity Share Capital

	2015	2014
	£	*£*
Shares of £1 each issued and fully paid		
At 1 April 2014	9	7
Shares issued during the year	–	3
Shares surrendered during the year	(2)	(1)
At 31 March 2015	**7**	**9**

The shares provide members with the right to vote at annual general meetings, but do not provide any rights to dividends or distributions on a winding up of the Company.

23 Reserves – Group

Restricted Reserves

Where the use of funds is subject to external restrictions, these funds are held in restricted reserves. Expenditure is not directly set against such reserves but is taken through the income and expenditure account, and a transfer from the reserve is made back to revenue reserves to match such expenditure.

Specific Homes and General Charitable Funds

The Group has received funds in respect of residential care homes and supported housing schemes for specific purposes from third parties to be applied in accordance with the terms of donation. Expenditure is not directly set against such reserves but is taken through the income and expenditure account, and a transfer from the reserve is made back to revenue reserves to match such expenditure.

Group	Revenue reserve	Restricted reserve	Revaluation reserve	Total reserves
	£'000	*£'000*	*£'000*	*£'000*
Balance at 1 April 2014	60,967	235	286,392	347,594
Surplus for the year	13,146	–	–	13,146
Surplus on revaluation of housing properties	–	–	50,700	50,700
Transfers	546	–	(546)	–
Actuarial deficit on pension scheme	(743)	–	–	(743)
Balance at 31 March 2015	**73,916**	**235**	**336,546**	**410,697**

Revaluation Reserve transfers represent:

- the difference between depreciation for the period calculated on the basis of historical cost of properties, net of Social Housing Grant and actual depreciation charged; and
- the difference between the gain or loss on disposal of housing properties calculated on property valuations compared to historic cost.

24 Financial Commitment – Group

	2015	2014
	£'000	*£'000*
Capital expenditure commitments are as follows:		
Expenditure contracted for but not provided in the accounts	58,375	65,251
Expenditure authorised by the Board but not contracted	5,571	4,127
	63,946	**69,378**
The Group expects to finance the expenditure by:		
SHG receivable	4,285	4,945
Shared ownership sales	15,280	8,470
Voluntary sales	4,920	2,850
Loans	39,461	53,113
	63,946	**69,378**
Operating leases:		
As at 31 March, the Group had annual commitments under non cancellable operating leases for land and buildings as follows:		
Leases which expire		
Within 1 year	–	–
Within 2 to 5 years	–	–
In over 5 years	309	309
	309	**309**

The majority of leases are of land and buildings which are subject to rent reviews.

25 Contingent Liabilities

There were no contingent liabilities at 31 March 2015 (2014: £nil).

26 Reconciliation of Operating Surplus to Net Cash Flow from Operating Activities

	2015	2014
	£'000	*£'000*
Operating surplus	21,694	21,413
Depreciation charge	4,416	3,688
Impairment charge reversal	(570)	–
Pension operating charge	92	95
Pension contribution	(137)	(152)
	25,495	**25,044**
Change in debtors	1,815	(2,192)
Change in creditors	48	1,739
Change in properties for sale	2,051	(2,087)
Net cash inflow from operating activities	**29,409**	**22,504**

27 Reconciliation of Net Cash Flow to Movement in Net Debt

	2015	2014
	£'000	*£'000*
Increase/(decrease) in cash	76,274	(17,780)
Cash (inflow)/outflow from decrease in debt	(97,801)	1,105
(Increase) in net debt from cash flows	**(21,527)**	**(16,675)**
Net debt at the start of the year	(212,454)	(195,779)
Net debt at the end of the year	**(233,981)**	**(212,454)**

28 Analysis of Net Debt

	1 April 2014	Cash flow	31 March 2015
	£'000	*£'000*	*£'000*
Cash at bank and in hand	33,540	76,274	109,814
Loans due within 1 year	(1,620)	888	(732)
Loans due after 1 year	(244,374)	(98,689)	(343,063)
Net debt	**(212,454)**	**(21,527)**	**(233,981)**

29 Related Parties

The Group has taken advantage of the exemption conferred by FRS 8, not to disclose transactions with wholly owned subsidiary undertakings.

Transactions with non-regulated entities

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

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

The total management and administration costs apportioned in the year were £87k. Amounts owing from PDCSL at 31 March 2015 were £87k.

As mentioned earlier, during 2014/15, PTP secured funding through the capital markets and on-lent these funds to other group entities. The details of the transactions can be found in the financial statements of EHT and RuTCHT.

Other related parties

Richmond also has one tenant board member, Jennifer Laney. The tenancy is on normal commercial terms and she is not able to use her position to her advantage.

30 Provision of Management & Other Services

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

31 Non-Adjusting Event after the Balance Sheet Date

On 8 July 2015 the UK chancellor announced a number of proposals that would impact on Paragon and the affordable housing sector, including a 1% decrease in rents each year, for four years, commencing in 2016/17.

This event occurred after the balance sheet date and does not provide additional information about, nor represent a change in, conditions that existed at that date. Therefore, in accordance with Financial Reporting Standard 21 "Events after the balance sheet date", the Government's budget statement is a non-adjusting post balance sheet event.

Until further details of the intentions are made available, the Group is unable to determine the specific financial impact but, if implemented, this proposal is very likely to have an adverse impact on the valuation of housing assets for accounting purposes.

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