

# Annual Report and Financial Statements

For The Year Ended 31 March 2018

Because good homes  
make everything possible



---

## Contents

---

The Board, Executive Officers and advisors	4
Report of the Board	5 – 14
Value for Money Statement for 2017/18	15 – 17
Statement of Group corporate governance	18 – 24
Independent Auditors' report	25 – 27
Consolidated and Association Statement of Comprehensive Income	27
Consolidated and Association Statement of Changes in Reserves	28
Consolidated and Association Statement of Financial Position	29
Consolidated and Association Statement of Cash flow	30
Notes to the Financial Statements	31 – 77

## The Board, Executive Officers and advisors

### The Directors of the Association who were in office during the year and up to the date of signing the financial statements were:

#### Network Homes Limited Board

Bernadette Conroy, Chair  
Peter Fiddeman (resigned 20 March 2018)  
Anne Turner  
Peter Stredder (resigned 19 January 2018)  
Helen Evans, Group Chief Executive  
Chris Kane (resigned 25 July 2017)  
Charmian Boyd (resigned 24 July 2018)  
Trevor Morley  
Nick Sharman  
Alan Hall  
Valerie Vaughan-Dick  
Jon Gooding  
Paul Plummer (appointed 20 March 2018)  
Ronen Journo (appointed 25 July 2017)  
Tabitha Kassem

#### Company secretary

Tabitha Kassem

#### Executive officers

Helen Evans - Group Chief Executive  
Barry Nethercott - Executive Director of Finance and Deputy Chief Executive  
Gerry Doherty - Executive Director of Customer Services  
Vicky Savage - Executive Director of Development (resigned 31 January 2018)  
David Gooch - Executive Director of Development (appointed 5 March 2018)  
Jon Dawson - Executive Director of Strategy and Infrastructure  
Fiona Deal - Executive Director of People and Culture  
Darren Levy - Executive Director of Customer Service (resigned 31 July 2017)  
Olympic Office Centre, 8 Fulton Road, Wembley Middlesex HA9 0NU

#### Registered office

Olympic Office Centre, 8 Fulton Road, Wembley Middlesex HA9 0NU

#### Independent auditors

BDO LLP, Chartered Accountants and Statutory Auditors, 55 Baker Street, London, W1U 7EU

#### Principal Solicitors

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

#### Bankers

Barclays Bank PLC, 27th Floor, 1 Churchill Place, London E14 5HP

#### Registrations

Registered Provider No. 7326, Community Benefit Societies No. 4825

## Report of the Board



# Report of the Board

The Board presents its report and the audited consolidated financial statements for Network Homes Ltd ('the Group', 'the Association') and its subsidiary undertakings for the year ended 31 March 2018.

The consolidated Statement of Comprehensive Income, Statement of Changes in Reserves, Statement of Financial Position and Statement of Cash Flow for the Group are set out on pages 27 to 30.

The Group's principal accounting policies are set out on pages 32 to 36 and these policies have been consistently applied across the Group.

The purpose of the Group, encapsulated in our Five Year Strategy mission statement, is 'to open up possibilities for as many people as we can, by continuing to grow a forward-thinking, service driven and financially strong organisation that builds, sells, rents and manages good homes in thriving communities'.

Network Homes Ltd operates across London, Hertfordshire and the South East of England. The Group now owns and/or manages 20,155 (2017: 19,975) homes for a wide range of customers.

## Chair's review

### I am pleased to be reporting another solid year of results for 2017-18.

Network Homes Ltd achieved a net surplus for the year of £44.3m (2017: £51.8m). Turnover was stable at £234.4m (2017: 241.9m) while the operating margin fell from 32.3% to 30.1%. These small reductions were largely attributable to a lower shared ownership sales programme and the effects of the government's 1% real terms annual rent cut for social housing tenants to 2020. But we were able to transfer a further £44.4m to reserves, bringing total reserves to £372.2m, and our overall asset base rose to £1.77bn (2017: £1.59bn). Gearing rose to 53% (2017: 49%) as we invested in our development programme.

During the year we completed 284 homes, with 224 of these for affordable tenures and the remaining 60 for outright sale. Another 270 homes were deemed practically complete for grant purposes and will transfer into management in the early part of 2018-19: our first development of affordable market rent homes at Sudbury Hill. We started a further 773 homes, made acquisitions for 687 more, and have a solid development pipeline through to 2022 of 3,200 homes.

In July 2017 we were delighted to become one of just eight development Strategic Partners with the Greater London Authority. This was a strong affirmation of confidence and trust in our development performance and ambition from one of our main funders. We have committed to building over 1,750 new homes under the agreement by 2021.

The Board has set a clear strategic objective to 'Maximise growth within our resources' and we have re-affirmed this during the year in our revised Five Year Strategy. The Board believes Network Homes Ltd should 'sweat assets' in pursuit of this strategy. This year we invested £73m in new development activity and £14.8m in maintaining and improving our existing properties.

The Regulator for Social Housing carried out its periodic In-Depth Assessment of Network Homes Ltd during the year, with the Group retaining its top G1 rating for Governance and being regraded to V2 for

Viability. The Regulator has been specific and public in stating that it regards V2 as an entirely acceptable rating provided governance remains strong and effective (as in our case). The regrading reflects the Board's deliberate strategy on growth as we do all we can within our financial capacity and risk appetite to tackle the severe housing crisis in London and the South East of England.

This will forever be remembered as the year of the Grenfell Tower tragedy in social housing. It was a truly shocking event, which has changed the dynamic of the housing association sector. The implications will be far-reaching and long-lasting. Network Homes Ltd has four schemes with ACM cladding which failed the government's tests. Only one of the tower blocks involved is fully clad; the other affected buildings have small amounts of mainly decorative cladding.

During the year we have taken legal advice and worked closely with our contractors, expert fire safety consultants and affected residents to develop appropriate solutions. It has taken time to understand the full nature of the issues, be clear on what will represent 'future-proof' solutions as building regulations change, and to access the right expertise given the sudden demand in the market. However, we will be in a position to start remediation work shortly and allowance has been made in our business plan. We have also been reviewing our development control manual to tighten our procedures and will be recruiting additional internal technical expertise to support our development programme. We have further committed to retrofitting sprinklers in the small number of existing blocks we own of ten storeys or more.

While managing the implications of fire safety has taken considerable resource, Network Homes Ltd still managed to continue to improve overall customer satisfaction to 87.3%. This is an excellent performance and is well ahead of our g15 peer group average.

We were particularly pleased to see Project Vista, our partnership with New Horizon Youth Centre to tackle homelessness amongst young people, win the London Homelessness Awards last autumn. We now provide 20 homes in Islington and

Hackney at discounted rents to NHYC to give young people a stable place to live for a year as they build independent living skills and gain secure work. We donated our share of the £30,000 prize to support NHYC's frontline work. Homelessness has risen rapidly in London and this project is a clear demonstration of our enduring commitment to social purpose and low cost housing. A team of 20 Network Homes Ltd staff also raised £66,000 for homelessness charity, St. Mungo's, by cycling from London to Paris last September.

As the country moves towards Brexit and the government introduces its Social Housing Green Paper, there is little doubt the challenges will keep coming for housing associations. But Network Homes Ltd is well placed to respond. My thanks again this year to our excellent Board and committee members, the Executive who have steered a path through some difficult operational challenges, and to our committed, caring staff.



**Bernadette Conroy, Chair  
Network Homes Limited**

## Group Chief Executive's review

**This year we have revised our Five Year Strategy to take account of the extensive recent changes in the operating environment for housing associations. Since the last iteration in 2016, the vote to leave the EU has taken place, we have had a change of government and a radical, positive change in the housing policy landscape. We have also seen the terrible Grenfell Tower fire, which will have ongoing impacts for the social housing sector.**

These big changes will bring both opportunities and new challenges. As Universal Credit is rolled out into Network Homes Ltd's main areas of operation, there will be growing pressure on our rental income streams. Our cost base will also come under pressure as we manage the implications of change not just in fire safety regulation, but in all likelihood wider consumer regulation of housing associations.

At the same time, the government is investing more heavily in new social rented and affordable housing, along with important infrastructure and planning system change, which will benefit our development programmes and support our ability to build the new homes needed in London and the South East.

While the Board has retained our four overarching strategic objectives for the next five years, our new strategy sets out some changes of approach as we seek to escalate our development activity and reach our 90% customer satisfaction target while improving margins on our core social housing business.

We have completed a review of the customer services directorate to ensure our main front line teams are structured to manage the new environment around welfare reform, health and safety and digital service effectively, and during 2018-19 we will be developing a new, comprehensive service offer for residents. This was the last directorate to require significant restructuring as a result of our 2016 amalgamation of operating associations and the changes will reduce our cost base by close to £900,000 a year.

During the year we have also started to reduce the size of the Senior Management Team to make Network Homes Ltd a leaner, more agile organisation. We will continue this process, together with some smaller team reviews, in the coming year. The effort to lower our costs is starting to bear fruit, with our cost per property falling in 2017-18.

These changes are in line with our new Value for Money Strategy, which came into effect in April 2018. This places a stronger onus on efficient resource and asset use and on the Board's oversight and management of progress towards strategic objectives. Having reviewed the Five Year Strategy, this year we will revise our key next tier strategies, including Growth, Customer Services, IT and Strategic Asset Management. We want to improve the linkages between growth and portfolio management, and take account of the changes in operating practice that are coming through our IT business transformation programme and new customer services structure and offer.

During the year we have also been improving the efficiency of our construction programme. We have seen excellent results from our first offsite construction scheme, started on our first 'construction management' procured scheme, finalised a major joint venture with Stanhope Plc to produce over 550 new homes in Southall, created one of the first London Living Rent schemes in Harrow under our new GLA Strategic Partnership, and secured new financing to support our future programme. We were also very pleased to be able to make an internal appointment as Executive Director of Development. David Gooch has been an instrumental force in our many development successes of recent years.

One of the conclusions of the major research project, the Future Shape of the Sector Commission, which we have been leading in 2017-18 with two other associations, is that to meet the opportunities and challenges of the 2020s housing associations will need to become more agile, 'can-do', collaborative and self-deterministic. Network Homes Ltd has taken important steps this year in making us fit for that future.



*Helen Evans*

**Helen Evans, Group Chief Executive**  
Network Homes Limited

“  
**We have seen excellent results from our first offsite construction scheme, started on our first 'construction management' procured scheme, finalised a major joint venture with Stanhope Plc to produce over 550 new homes in Southall [and] created one of the first London Living Rent schemes in Harrow**  
 ”

## Report of the Board

### Development Performance and Grant Programmes

During the year 284 (2017: 468) new homes were handed over into management. Of these 60 (2017: 66) homes were developed for private sale (see table to the right). Additionally, 270 intermediate rented homes were deemed practically complete for funding programme purposes by the Greater London Authority (GLA) and these will hand over into management in the 2018-19 financial year.

Highlights from the 2017-18 financial year include entering into a special strategic partnership with the GLA under the AHP 2016-21 programme. Network is one of only eight providers in London to be allowed to draw down their entire grant funding allocation (£37,066k) for site purchases under the programme to assist cashflow and bring forward affordable delivery. We have committed to providing 1,752 starts on site in London under the programme. We made significant progress towards this target during 2017-18, achieving 773 starts on site, including completing our first homes under the Mayor's new London Living Rent scheme.

In December 2017 we completed the purchase of Merrick Place, Southall which is planned to deliver 400 homes for sale and rent through our joint venture with Stanhope PLC, alongside 170 affordable homes. Other large development projects committed or already in progress include our first 270 market rent homes at Atrium Point, where we drew down a £21m low cost loan from the GLA through the London Housing Bank this year, the redevelopment of the Olympic Office Centre, and regeneration schemes at Thrayle House, Ridgeway and Rectory Park. These and other smaller schemes are due for completion in the period 2018 to 2022 and will produce around 3,200 new homes in total.

In addition to the funding and low cost loans provided from the GLA (Affordable Housing Programme (AHP) 2016-21 and Mayor's Housing Covenant (MHC) 2015-18), the Group receives development grant funding from Homes England for schemes outside of London through the Affordable Housing Programme (AHP) 2015-18 and the Shared Ownership and Affordable Housing Programme (SOAHP) 2016-21.

Tenure	2018 Units	Funding Programme	2017 Units	Funding Programme
Social Rent	28	MHC 15-18	88	MHC 15-18
Affordable Rent	124	AHP 15-18, MHC 15-18, Unfunded	220	AHP 15-18, MHC 15-18
Shared Ownership	49	AHP 15-18, MHC 15-18, Unfunded	94	AHP 15-18, MHC 15-18
London Living Rent	23	AHP 2016-21	-	-
<b>Total handed over to management</b>	<b>224</b>		<b>402</b>	
Private Sale	60		66	Network Homes Limited
<b>Total</b>	<b>284</b>		<b>468</b>	



# Report of the Board

## Financial Review

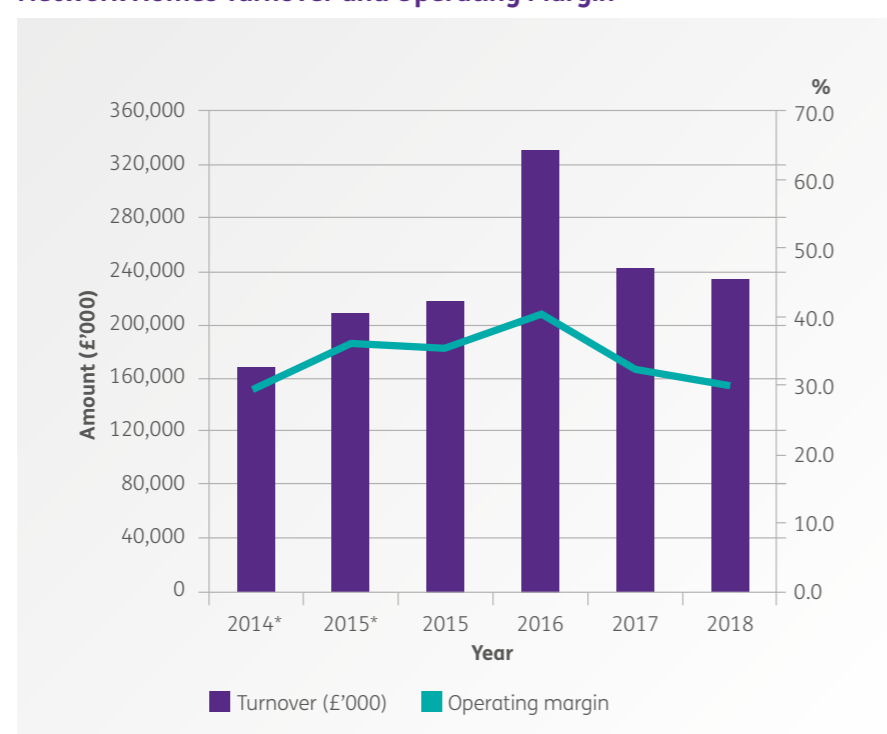
We achieved a net surplus of £44,326k (2017: £51,822k) for the year. Turnover reduced by 3.1% to £234,433k (2017: £241,897k). The major reasons for this were lower property sales and the rent reduction for general needs tenants. Operating costs and cost of sales remained virtually unchanged at £163,753k (2017: £163,771k).

The surplus on property sales was £30,148k (2017: £37,568k). All proceeds from property sales are reported under turnover and the costs to build under cost of sales.

Operating margin fell by 2.2% from 32.3% in 2017 to 30.1% in 2018 mainly attributable to the reduction in turnover and total costs staying constant as stated above.

The trend in turnover and operating margin over the last five financial years is shown by the graph to the right.

## Network Homes Turnover and Operating Margin



\*The comparatives are based on the previous UK GAAP which was replaced by FRS 102.

The tables below show a summary of our consolidated financial performance and position over the last five financial years:

## Consolidated Statement of Comprehensive Income summaries

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2015* £'000	2014* £'000
Turnover	234,433	241,897	329,695	218,184	208,600	168,160
Operating costs	(163,753)	(163,771)	(197,582)	(140,404)	(133,231)	(118,899)
<b>Operating surplus</b>	<b>70,680</b>	<b>78,126</b>	<b>132,113</b>	<b>77,780</b>	<b>75,369</b>	<b>49,261</b>
Share of joint venture loss	(157)	-	-	-	-	-
Net interest and other financial income	(26,050)	(25,796)	(29,139)	(26,785)	(26,134)	(25,958)
Restructuring of financial instruments	87	8,720	52,356	(41,382)	-	-
Tax	(234)	(9,228)	(7)	(1)	(1)	(6)
<b>Surplus for the year</b>	<b>44,326</b>	<b>51,822</b>	<b>155,323</b>	<b>9,612</b>	<b>49,234</b>	<b>23,297</b>
Operating margin	30.1%	32.3%	40.1%	35.6%	36.1%	29.3%

\*The comparatives are based on the previous UK GAAP which was replaced by FRS 102.

# Report of the Board

	Social housing activity	Other social housing activity	Total social housing activity	Non-social housing activity	Total 2018
Turnover (£k)	145,899	32,184	178,083	56,350	234,433
Surplus (£k)	38,099	11,331	49,430	21,250	70,680
<b>Operating margins (%)</b>	<b>26.1%</b>	<b>35.2%</b>	<b>27.8%</b>	<b>37.7%</b>	<b>30.1%</b>
	Social housing activity	Other social housing activity	Total social housing activity	Non-social housing activity	Total 2017
Turnover (£k)	147,426	49,499	196,925	44,972	241,897
Surplus (£k)	38,235	18,370	56,605	21,521	78,126
<b>Operating margins (%)</b>	<b>25.9%</b>	<b>37.1%</b>	<b>28.7%</b>	<b>47.9%</b>	<b>32.3%</b>

Total turnover decreased by £7,464k to £234,433k. Total operating surplus decreased by £7,446k to £70,680k. The reduction was mainly caused by a smaller surplus from first tranche sales of £1,814k in other social housing activities.

The net surplus of £44,326k (2017: £51,822k) comprises operating surplus of £70,680k (2017: £78,126k), plus net impact of restructuring financial instruments of £87k (2017: £8,720k), less £157k (2017: £0) which represents the Group's share in the two joint ventures, net interest charges of £26,050k (2017: £25,796k) and corporation tax of £234k (2017: £9,228k).

The margins on social housing activity increased from 25.9% to 26.1%, other social housing activity margins reduced from 37.1% to 35.2% and non-social housing activity margins reduced from 47.9% to 37.7%. First tranche sales recorded under other social housing reduced from £12,260k in 2017 to £1,814k. Outright sales recorded under non-social housing reduced from £17,983k in 2017 to £17,530k in 2018. Housing property sales recorded under other social housing increased from £7,325k in 2017 to £10,804k in 2018.

# Report of the Board

## Consolidated Statement of Financial Position summaries

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2015* £'000	2014* £'000
Total fixed assets	1,801,974	1,609,990	1,489,907	1,471,430	864,809	749,681
Net current assets	59,967	78,441	127,424	61,176	56,429	55,451
<b>Total</b>	<b>1,861,941</b>	<b>1,688,431</b>	<b>1,617,331</b>	<b>1,532,606</b>	<b>921,238</b>	<b>805,132</b>
Creditors due in more than one year and pension liability	1,480,950	1,349,673	1,326,205	1,396,306	736,111	667,875
Provisions for liabilities and charges	8,770	11,012	14,544	16,358	8,541	9,891
Total reserves	372,221	327,746	276,582	119,942	176,586	127,366
<b>Total</b>	<b>1,861,941</b>	<b>1,688,431</b>	<b>1,617,331</b>	<b>1,532,606</b>	<b>921,238</b>	<b>805,132</b>

\*The comparatives are based on the previous UK GAAP which was replaced by FRS 102.

At the end of the year, the Group's housing properties at cost less depreciation and impairment totalled £1,720,045k (2017: £1,540,248k). This value is reflected in the consolidated Statement of Financial Position.

The accounting policy is to hold the housing properties at historical cost. However during the year, the Group undertook a professional revaluation of some of its housing stock by external valuers. The figures provided below are for information only. The value of the Group's housing stock is as follows:

- Existing Use Value for Social Housing (EUV-SH)  
£1,474,015k (2017: £1,356,483k)
- Market value, tenanted (MV-T)  
£2,456,694k (2017: £2,325,763k)
- Vacant possession market value (VPMV)  
£3,822,723k (2017: £4,532,851k)

The Group continues to borrow to fund its affordable housing development programme. Housing loans increased from £745,253k to £842,077k (note 26). As at 31 March 2018, gearing based on borrowings against historic cost of properties for the Group was 53% (2017: 49%). The most common gearing covenant across the Group's bank facilities is 65% (2017: 65%).



# Report of the Board

## Brexit

The UK is set to leave the EU by the end of March 2019 and negotiations between the UK government and the EU are ongoing. Brexit is likely to cause a level of economic uncertainty and market volatility in the short to medium term. Network Homes Ltd has stress tested its business plan against a range of scenarios, including extreme scenarios, and our judgement is that any impacts on the Group can be contained.

## Grenfell Tower tragedy

In response to the Grenfell Tower fire tragedy in June 2017 and the government's subsequent directives, Network Homes Ltd sent cladding from a number of buildings to the British Research Establishment (BRE) for testing. The cladding from four schemes failed the tests. Only one of the buildings affected is fully clad; the remainder have mainly small amounts of decorative cladding only. The London Fire Brigade carried out a full fire safety inspection of these developments and has confirmed that appropriate fire safety measures are in place to manage the risk of fire and residents do not need to vacate. Network Homes Ltd has been working with its contractors, consultants and specialist building fire safety companies to devise appropriate solutions for each of these buildings. Residents have been kept fully informed throughout.

The timing and full extent of works required for some of the buildings is not completely determined at the time of signing these accounts and it is therefore not yet possible to estimate the financial impact with full accuracy across the Group's housing property portfolio. A figure has been set aside within the Group's business plan for these works which should prove sufficient.

## Sale of assets

Student First Limited, one of the subsidiaries of Network Homes, will sell its only asset, Grosvenor House, a property comprising of 169 self-contained bedsits situated in central London. The Directors of the Society decided to dispose of the asset because they believe they can better pursue their charitable objectives through realising the current market value of this asset. The date of sale is set to be in the coming months at the value of £69,000k. Student First Limited entered into sale contract with GH Partnership LLP in Jan 2016 for £50,000k with a deferred completion and overage arrangement.

## Capital structure

The Group is financed by a combination of retained reserves, which are not distributable, long-term committed loan facilities from banks and other lending institutions and grants awarded by Homes England, the GLA and other organisations to support development activities. Some bank loans are arranged through Network Treasury Services Limited ('NTSL'), the Group's treasury vehicle and on-lent to the Association. These loans are secured against assets of the Association. Total loan facilities as at 31 March 2018 amounted to £1,079,668k, of which £842,077k had been drawn (note 26).

In the year to 31 March 2018 the Association entered into four new facilities with local authorities totalling £40,000k. The total Association facilities as at 31 March 2018 amounted to £391,498k, of which £362,498k had been drawn (note 26).

**Network Homes Ltd**  
has stress tested its  
business plan against  
a range of scenarios

## Treasury policy

Treasury services are provided to the Group by the Association.

Each year the Group's Board approves the treasury management strategy and updates to the treasury policy for the Group. This policy addresses funding and liquidity risk, covenant compliance and investment policy. In addition, the Group Board receives reports on treasury activities. Treasury management activities are regularly monitored by the Board of NTSL which meets at least four times per year.

The Group borrows at both fixed and floating interest rates, with the treasury policy requiring a minimum of 50% of drawn debt to be at fixed interest rates or hedged. As at 31 March 2018, 66.7% (2017: 75.6%) of the Group's debt was at fixed rates and 33.3% (2017: 24.4%) at floating rates.

The Group's treasury team monitors covenant compliance on a regular basis and is required to report on it to the lenders and borrowers on a quarterly basis. At 31 March 2018 the Group complied with its loan covenants. Business plans demonstrate that it will continue to do so in the future.

The borrowings summary and repayment schedule is at the nominal value.

## Investment policy

At 31 March 2018 the sinking funds were in place in respect of:

1. The Housing Finance Corporation (THFC) 2043 Bond
2. Affordable Housing Finance (AHF) 2042 Bond and
3. Affordable Housing Finance (EIB).

### THFC 2043 Bond

A 4.5% gilt with a maturity date of 2042 and a carrying value of £6,435k with a nominal value of £5,200k is held in an Interest Service Reserve Fund. We plan to hold this until the maturity date.

In 2042 the proceeds of the gilt in the Interest Service Reserve Fund will amount to the par value of £5,200k. The excess carrying value in the amount of £1,236k is being amortised over the remaining 24 year life of the gilt.

A Sinking Fund of £880k is held by THFC as replacement for security to account for sales of shared ownership properties (2017: £726k).

### Affordable Housing Finance 2042 Bond

There is currently a Liquidity Reserve Fund £1,158k (2017: £1,155k).

### Affordable Housing Finance (EIB)

There is currently a Liquidity Reserve Fund £756k (2017: £754k).

### Review

In the light of prevailing market conditions, the investment strategy is constantly under review to ensure that the Group's risks relating to the capital invested and income accrued to date are protected so far as possible.

## Cash flows

The statement of cash flow on page 30 shows that during the year the Group generated net cash inflow from operating activities of £57,516k (2017: £29,154k), made net interest payments of £28,645k (2017: £29,719k) and invested a net £132,317k (2017: £22,163k) in assets.

## Liquidity policy

The liquidity policy is to retain sufficient liquidity to fund the business for the next 18 months, while allowing for some uncertainty in sales receipts. This was reviewed in April 2017. Liquidity is defined as cash and facilities available to be drawn at any time. At least £25m or three months cash flow must be held in liquid cash deposits. The treasury policy ensures loan facilities are in place to fund future requirements. At 31 March 2018, the Group had £69,519k (2017: £76,752k) in cash and bank, of which £57,030k (2017: £42,680k) was held as money market cash deposits as part of the Group treasury policy.

Short-term cash balances are placed in AAA rated money market funds or short-term deposits at competitive rates with A1/P1 rated banks or main UK clearing banks.

## Security

As at 31 March 2018 all bank facilities were secured against the Group's properties, with the exception of £17m for the MUFG £50m facility signed 5th May 2017 where security charging is in the process of completing. The EUV-SH for the properties charged was £908,924k (2017: £802,800k) and the number of properties charged was 10,615 (2017: 9,618).

## Summary of borrowings

	2018 £'000	2017 £'000
Fixed	560,973	578,616
Variable	281,104	166,637
<b>Total drawn</b>	<b>842,077</b>	<b>745,253</b>
The debt falls due for repayment in:		
Less than one year	6,550	8,091
Between two and five years	246,169	108,037
After five years	589,358	629,125
<b>Total drawn</b>	<b>842,077</b>	<b>745,253</b>





# Value for Money Statement for 2017/18

## Value for Money

The industry regulator, the Regulator for Social Housing, introduced a new Value for Money Standard in April 2018, which all regulated housing associations are expected to adhere to. The new Standard moves away from the more narrative reporting of previous years and requires housing associations to report against seven key financial metrics. Associations can supplement these with further internally developed metrics which demonstrate value for money by showing how the organisation is progressing towards meeting its strategic objectives.

There is deliberate overlap between the seven VFM Standard financial metrics and the Sector Scorecard benchmarking, which Network Homes Ltd and many other housing associations agreed to report on as of last year. As this is the first year of reporting under the new VFM Standard, the Regulator has acknowledged that full comparables with peer group organisations will not be available for this year's reports.

In May 2018 the Group Board approved a new Five Year Strategy, with the following four strategic objectives and accompanying ambitions:

### 1. Maximising growth within our resources

*Ambition: 5,000 new homes in 5 years*

### 2. Delivering first class customer service

*Ambition: 90% overall customer satisfaction*

### 3. Increasing financial strength

*Ambition: 35% operating margin on core social housing business*

### 4. Building a great organisation

*Ambition: A Sunday Times Best 100 Company to Work For*

The Board also approved a 'roadmap' of targets, which will allow them to monitor progress towards the five year ambitions on a year by year basis. We have included our first year results with any pre-existing target for 2017/18 shown, where applicable. A few metrics will be measured for the first time only from next year, when system changes allow. Where no target previously existed, this is shown as not applicable for this year.

## VFM Standard

The Group's current position on the seven VFM Standard financial metrics and the internally driven metrics linked to our strategic objectives is as follows:

	2018	2017
<b>Ambition: 35% minimum net surplus on social housing business</b>		Restated
Reinvestment %	5.1	6.6
New Supply Delivered % (social housing)	1.2	2.1
New Supply Delivered % (non-social housing)	0.3	0.3
Gearing %*	42.1	40.7
EBITDA MRI Interest (exc. sales)	186.3	210.5
Headline social housing cost per unit (£)	5,973	6,249
Operating Margin (social housing lettings only)%	26.1	25.9
Operating Margin (overall)%	28.4	31.5
Return on capital employed (ROCE)	3.8	4.6

\*Note: Gearing definition is different for VFM Standard compared to the Group's lending covenant reporting.

	2018	Target
<b>Ambition: 5,000 homes in 5 years</b>		
Homes completed and handed over	284	356
Homes started	773	344
% homes started for social rent; LAR; LLR; s.106 LA rent	38%	>25%
% secured pipeline affordable tenures	79%	>60%
Secured pipeline	2,995	>2,000
Customer satisfaction with new homes	74%	85%
<b>Ambition: 90% overall customer satisfaction</b>		
% satisfied with Network Homes services	87.3%	86.0%
% satisfied with repairs service	81.7%	85.0%
Failure demand – repeat case call within 14 days**		
% of customers using portal for self-service*	2,887	2,100
% of customer transactions with no back office intervention**		
Rent collected % (gen needs and HfOP)	100.8%	>100%
Occupancy % (all rented)	98.3%	>99%
<b>Ambition: A Sunday Times Best 100 Company</b>		
Development – stakeholder net promoter %	82%	N/A
Services – stakeholder net promoter %	73%	N/A
Sickness absence (average days)	6 days	6 days
Staff turnover	19.2%	15.0%
Staff – net promoter ('proud to work for Network Homes')	78.5%	N/A
Re-accreditation Sunday Times / IiP Gold**	N/A	N/A

\* Current measure is people registered, will move to % transactions in April 2019

\*\* These metrics will be measured from April 2019

# Value for Money Statement for 2017/18

The Group's current position on the Sector Scorecard measures is as follows:

	2018	2017	G15 Median 2017
Operating margin (overall)	28.4%	31.5%	32.3%
Operating margin (social housing lettings)	26.1%	25.9%	34.5%
EBITDA MRI (as % interest)	186.3%	210.5%	203.0%
New supply delivered % – Social housing units	1.2%	2.1%	1.5%
New supply delivered %– non-social housing units	0.3%	0.3%	
Gearing*	42.1%	40.7%	47.3%
Reinvestment %	5.1%	6.6%	
Investment in communities £000	492	714	
Return on capital employed (ROCE)	3.8%	4.6%	3.8%
Occupancy (general needs only)	99.2%	98.8%	99.7%
Ratio of responsive repairs to planned maintenance	0.70	0.64	0.46
Headline social housing cost per unit £	5,973	6,249	4,477
Management cost per unit £	1,962	1,969	1,190
Maintenance cost per unit £	898	898	1,115
Major Repairs cost per unit £	1,286	1,406	775
Service charge cost per unit £	698	808	668
Other social housing costs per unit £	1,129	1,169	531
Rent collected as % of rent due (GN)	101.0%	100.9%	99.6%
Overhead costs as a percentage of turnover	11.5%	11.0%	11.9%

On many important metrics, Network Homes Ltd is performing well. We take our social purpose as an organisation seriously and are pleased to report that the percentage of homes in our pipeline for affordable tenures and for 'genuinely affordable rents' is well above our internal minimum targets. We missed our overall new homes completion targets due to delays within one scheme, however our new starts were well above target.

Overall customer satisfaction now stands at over 87%, an increase on last year and up 14% since 2013. Satisfaction with the repairs service has flatlined this year and is below target. New procedures have been put in place to improve co-ordination of repairs and there is now a single line of accountability and ownership over repairs from reporting to completion. We believe these measures will help improve repairs satisfaction further during 2018-19. On new homes satisfaction we are making substantial improvements to our Aftercare services. It should be mentioned that this measure currently relies on limited survey evidence and we are looking to introduce more robust measurement in the coming year.

We have begun to reduce our operating costs, but currently our costs per unit remain too high, with obvious impacts on our margins. During the year we have put additional resources into responding to the implications of the Grenfell Tower tragedy for our properties, including managing increases in responsive works and bringing some works forward, and we are continuing to invest substantially in our IT business transformation programmes.

A full review and restructure of our customer services directorate was completed shortly after the year end, which will have a substantial and positive effect in reducing our costs from 2018-19 and we have also started to reduce the size of our Senior Management Team. This and other smaller restructures have had a short-term impact on staff turnover, though it remains in line with peer group average for previous years. Our sickness absence levels are low compared to peer group on previous trends. Overhead costs as a percentage of turnover are below the peer group average.



**The governance of the Group is summarised in the following paragraphs.**

**Amalgamation**

Network Homes Limited is a charitable Registered Society (registration number RS007326) under the Co-operative and Community Benefit Societies Act 2014. Network Homes is a registered provider of social housing (registered provider number 4825), and a member of the National Housing Federation. The Group is regulated by the Regulator for Social Housing.

As the parent company, Network Homes Limited has overall control of the business of the Association and its members. It will assist and support all subsidiaries in achieving compliance with regulatory requirements. The Board's responsibilities are set out in detail in the Board's Terms of Reference. On 31 March 2016, SW9 Community Housing became a subsidiary of Network Housing Group (now Network Homes Limited) and since that date has taken over property management services that were previously provided by Community Trust Housing Limited. SW9 is a charitable company limited by guarantee (number 09574528).

This relationship is governed by an Intra-Group Agreement, Management Agreement and Options Review Agreement between the two entities as well as the Articles of Association of SW9 Community Housing which further set out the mutual obligations.

**Governance review**

An independent review of the Group's governance was conducted in March 2017 by Central Consulting. This review concluded the arrangements were compliant with the industry's NHF Code of Governance 2015.

**Risk management**

Risk management procedures and considerations are embedded in the culture of Network Homes Limited with staff taking responsibility for identifying and assessing the risks faced by the Group and using a risk management framework to manage these risks.

The following committees have been established by the Board to consider specific aspects of the Group's affairs, providing recommendations and support to the Group and subsidiary boards.

The Chairs of the committees report back at the next Board meeting following each committee meeting. The committees and their main roles and responsibilities are set out in written terms of reference and summarised below:

Network Treasury Services Limited Board (NTSL)

- NTSL board sets the treasury strategy for the Group
- NTSL board reviews treasury activities and cash management on behalf of the Group board, making recommendations as appropriate

Investment Committee (IC)

- recommends the Group's investment strategy to the Group Board and subsidiary boards
- monitors the performance and delivery of the development programme, including post implementation review, and other new business activity against the investment strategy and agreed targets
- scrutinises proposed investments before submission to subsidiary or Group boards for decision; monitors the Group's resource capacity and capability to deliver the programmes

Audit and Risk Committee (ARC)

- reviews audit and risk management activities across the Group and delivers an annual assessment of the quality of the internal control environment and the effectiveness of risk and audit systems to Group Board
- provides assurance to subsidiary boards on all matters covered by the compliance framework
- keeps under review the effectiveness of the Group's internal controls and risk management systems
- monitors risk management activity across the Group to ensure consistent and effective usage of internal systems, and identify trends and aggregate risks

- monitors the Group's financial performance against its business plan and budget targets
- reviews the long term financial model, tests scenarios including risk stress testing and recommends financial targets to the Group Board
- monitors the impact of the external environment on Group's financial status
- considers and reports on financial implications of other significant risks and exposures being undertaken by the Group
- acts on behalf of the Group in reviewing and approving changes to financial delegations

People, Governance & Culture Committee

- has responsibility for overseeing the Group's remuneration policies for paid staff and for non-executive members of the Group Board and the subsidiary boards. It has particular responsibility for keeping under review the terms and conditions of employment of the Group chief executive and other members of the Group Executive Leadership Team (ELT)
- is responsible for overseeing the recruitment of new independent Board members for the Group Board and making recommendations on appointments to the Group Board and Group committees

Customer Services Committee

- role is to agree customer facing strategy and policy and oversee performance so that Network meets its strategic objective of delivering a first class customer service ensuring compliance with legal and regulatory requirements
- meeting the consumer standards and provide assurance to the Board of compliance
- customer facing services are value for money and these are continually improving

# Statement of Group corporate governance

Each corporate Group member is responsible for producing a risk map for its own business. The central services directors produce risk maps for their functions. The corporate risk map, which contains strategic level risks is produced and reviewed by the Executive Leadership Team and is informed by information from directorate risk registers.

There are three officer led risk panels. The Risk Panel, which comprises the Chief Executive, other executive members and the Senior Internal Audit Manager, reviews the corporate risk map and the operational/functional risk maps for consistency and completeness. Risk Panel is responsible for ensuring that actions identified in the risk maps are followed through. The Scheme Risk Appraisal Panel reviews risks associated with development schemes. The Health and Safety Panel reviews and considers risks, issues, control and management of the Group's health and safety arrangements.

## Statement of compliance

The Group confirms that the Report of the Board has been prepared in accordance with the principles set out in paragraphs 4.6 and 4.7 of the 2014 SORP for registered social landlords. The Board confirms that the Group has assessed its compliance with the Governance and Financial Viability Standard at least once during the year and they certify that the Group is in compliance with the Governance and Financial Viability Standard in all areas but for the Data Protection Act 2018 where an action plan is in place to achieve compliance.



# Statement of Group corporate governance

## Significant risks 2017/18

The Group has identified a list of strategic level risks, of which the following five have been identified as having the highest priority:

Risk	Responsible Officer	Mitigating Action	Progress made in the Financial Year
Health and safety failure causes <b>death or harm to residents</b> , results in serious detriment, regulatory and statutory non-compliance causing negative operational and reputation impact. (Consumer Standard)	Executive Director of Customer Services	<ul style="list-style-type: none"> <li>Centralised Customer Services Directorate (including Asset Management).</li> <li>Annual gas safety servicing programme.</li> <li>Co2 detectors checked and fitted across stock as part of gas safety check.</li> <li>Development handover processes implemented to ensure gas equipment is added to servicing schedules before properties are occupied.</li> <li>100% completion of Fire Risk Assessments.</li> <li>Lift contractor completes monthly servicing and annual inspections. Zurich complete 6 monthly inspections as our insurers.</li> <li>Programme of 5-year electrical dwelling and communal testing.</li> <li>Electrical tests take place at each void.</li> <li>Risk based asbestos analysis of whole stock completed.</li> <li>Water safety testing and inspection programme in place.</li> <li>Cleaning and ground maintenance contracts, including playgrounds.</li> <li>Roof top amenity spaces, closed where necessary.</li> </ul>	<ul style="list-style-type: none"> <li>Network has 9 high rise blocks with ACM cladding. Only one is fully clad (Park Heights). Fire brigade inspected all 9 blocks which residents can continue to occupy.</li> <li>Developing plans with Wates to replace cladding.</li> <li>Reviewing the entire external wall system design for all 9 blocks.</li> <li>Transition completed from PH Jones to Oakray for London region's gas contracts.</li> <li>Implementation has commenced for asbestos compliance.</li> <li>Innovation Apex for compliance implementation underway and scheduled to finish in 2018.</li> <li>New cleaning and ground maintenance contractor approved by Board in March 2018.</li> <li>Residents' view on current service provision gathered.</li> <li>Estate inspections carried out twice a day on blocks above 6 floors.</li> </ul>
<b>Breach of loan covenant and worsening covenant performance</b> impacts ability to draw down existing debt and/or raise new finance.	Executive Director of Finance & Governance	<ul style="list-style-type: none"> <li>Post amalgamation loans matrix in place. Has been prepared by lawyers; this lists various clauses from the loan documents where consent may be required.</li> <li>Schedule of information requirements is maintained.</li> <li>Covenants are forecast against the business plans and dashboard in place to monitor headroom in covenants.</li> <li>Stress testing of the business plan enables us to understand trigger points for potential deterioration and to consider plans to manage these.</li> </ul>	<ul style="list-style-type: none"> <li>Covenant renegotiations taking impact of FRS102 into account. Most documentation completed. Outstanding banks: Barclays.</li> <li>Treasury Management System being populated with covenant calendar.</li> <li>NTSL has issued shares to Network Homes at a premium to increase share capital in NTSL.</li> </ul>

# Statement of Group corporate governance

Risk	Responsible Officer	Mitigating Action	Progress made in the Financial Year
<b>Deterioration in ability to charge properties.</b>	Executive Director of Finance & Governance	<ul style="list-style-type: none"> <li>Recent development files provide copy of S106.</li> <li>Valuations are carried out prior to property charging.</li> <li>Mortgagee exclusion clauses checked by lawyers and Development prior to S106 being signed.</li> <li>Group retain a number of uncharged properties</li> <li>Group are working to remove excess properties from charge where appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>Lawyers requested to provide guidance on security questions to ask acquisition lawyers.</li> <li>Treasury working on enhancing information and reporting.</li> </ul>
<b>Poor data integrity, use of systems, information management and KPIs</b> impacts on operational and strategic planning and achievement of key ambitions thereby increasing the risk of service failures and diversion of valuable resources to remedial actions.	Executive Director of Strategy & Infrastructure	<ul style="list-style-type: none"> <li>Data Quality team.</li> <li>Understanding Our Customers project.</li> <li>Scrutiny by review by Data Quality team and functional managers.</li> <li>Handover procedure.</li> <li>Development Control Manual.</li> <li>Exception and anomaly reporting.</li> <li>Data Quality Strategy developed and approved.</li> <li>Information Management Steering Group in place and monthly meetings set up.</li> <li>Delivery of Information Management governance performance and control.</li> </ul>	<ul style="list-style-type: none"> <li>Implement actions and recommendations from report.</li> <li>Established access controls for Northgate – need to apply changes to roles and permissions.</li> </ul>
Changes in the post Referendum <b>economic and political environment</b> results in new properties not being affordable and uncertain potential long-term impact of welfare reform.	Executive Director of Strategy & Infrastructure	<ul style="list-style-type: none"> <li>Rents within the market are monitored regularly at a local authority level. Many Network rents are determined by the grant programme conditions set by GLA/Homes England. Choices made re whether to bid for grant.</li> <li>Rents are set within the existing Affordable Rents Policy.</li> <li>Changes in political and economic policy continually monitored through Strategy &amp; External Affairs team.</li> <li>Welfare Reform and Income maximisation project group and Board in place to assess and address impact of Welfare Reform on rent and service charges income.</li> <li>Financial modelling, impact of Universal Credit completed by May 2017.</li> </ul>	<ul style="list-style-type: none"> <li>Research and analysis undertaken and discussion of options at ELT level. Sub-group of ELT with support from Strategy &amp; External Affairs established to take forward.</li> <li>Government has agreed rent regime for 2020-2025 at CPI +1%.</li> <li>Strategy &amp; External Affairs have conducted further analysis on rents and affordability. Their final report went to Board for decision in March 2018. Board agreed to retain the current strategy and policy.</li> <li>Consultant engaged to assist with the automation of a number of income processes.</li> <li>All residents affected by the Bedroom Tax contacted during October 2017.</li> <li>Community Investment Strategy drafted and discussed at ELT/SMT</li> <li>Income segmentation research conducted to identify new ways to engage with customers in arrears.</li> </ul>

# Statement of Group corporate governance

<p><b>Internal controls assurance statement</b></p> <p>The Board has overall responsibility for establishing, maintaining and reviewing the effectiveness of the system of internal control.</p> <p>The system of internal control is designed to manage risk and provide reasonable (not absolute) 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, the safeguarding of Network's assets and interests and compliance with relevant legislation, law and regulations. The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk.</p> <p><b>Assurance framework</b></p> <p>The assurance framework adopted by the Board is modelled on the "Three Lines of Defence Model" endorsed by the Institute of Internal Auditors and the Financial Conduct Authority. The assurance framework is designed to provide sufficient, continuous and reliable assurance on organisational stewardship and the management of the major risks to organisational success and delivery of improved value for money.</p> <p>Key elements of the control framework include:</p> <p><b>Risk assessment</b></p> <p>In meeting its responsibilities, the Board has adopted a risk-based approach to internal control, which is embedded within the normal management and governance processes. By embedded we mean that the controls are considered to be integral to the day-to-day procedures of the organisation.</p> <p>Executive responsibility has been clearly defined for the identification, evaluation and control of significant risks. The Executive Leadership Team (acting as the Risk Panel) and Board carry out evaluations of the risks which impact on the Group's ability to meet key business objectives. Risk assessments are carried out throughout the year and are aligned to the business planning process. Business risk assessments are also carried out throughout the Group at departmental levels, for projects and for new business opportunities. This process is applied through a quarterly reporting framework co-ordinated by the Risk Panel. The</p>	<p>Executive Leadership Team considers reports on significant risks facing the Group and the Chief Executive is responsible for reporting to the Board any significant changes affecting key risks or the breakdown of internal control. The Group's most significant risks are further analysed and quantified, and reviewed by the Risk Panel and the Audit and Risk Committee and reported to the Board.</p> <p><b>Monitoring</b></p> <p>As part of the risk management process, managers carry out control evaluation relating to key risks and confirm that key controls are in place and working effectively, or require improvement. Actions arising from identified control weaknesses are documented in the risk assessment. Management reporting on control provides hierarchical assurance to successive levels of management and to the Board. A process is in place for corrective action in relation to any material control issues arising from independent internal and external audit reports. The Audit and Risk Committee (ARC) reviews the work of the internal and external auditors and annual reports from auditors are received by the Board.</p> <p>The Internal Audit function carries out risk-based internal audits across the Group. The ARC approves the audit plan and receives an annual report and Assurance Statement on internal control effectiveness. The Board receives a copy of this report. The internal control framework and the risk management process are subject to review by Internal Audit, which is responsible for providing independent assurance to the Board and the ARC.</p> <p><b>Control environment and activities</b></p> <p>The Board retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues. The Board has adopted the National Housing Federation's Code of Governance 2015. This sets out the Group's policies with regards to the quality, integrity and ethics of its employees.</p> <p>The governance framework is supported by a framework of policies and procedures with which employees must comply. Standing Orders and Contract Standing Orders cover issues such as delegated authority, segregation of duties and procurement. Other Group policies cover health and safety, data and asset</p>	<p>protection and fraud detection and prevention. During the year the ARC approved the Group's annual counter fraud work plan.</p> <p>The Group complied with the Code of Governance.</p> <p><b>Information and communication</b></p> <p>Financial reporting procedures include detailed budgets for the year ahead and forecasts for subsequent years. These are reviewed and approved by the Board. The Board also regularly reviews key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes.</p> <p>Guidance has been produced on responsibility at Board level for audit, risk and control issues across the Group.</p> <p>The Group's Board has received the Chief Executive's annual assurance statements on the effectiveness of internal controls; has conducted its annual review of the effectiveness of the system of internal control and has re-confirmed the organisation's risk appetite.</p> <p><b>Continuous improvement</b></p> <p>The Board confirms that there is an on-going process for identifying, evaluating and managing significant risks faced by the Group. This process has been in place throughout the year under review, up to the date of the annual report, and is reviewed by the Board.</p> <p>The Board has reviewed the effectiveness of the systems of internal control, including the agreed sources of assurance and confirm they are appropriate for that purpose.</p> <p>The Board is satisfied there is sufficient evidence to confirm that adequate systems of internal control existed and operated throughout the year. Up to the date of signing of these financial statements those systems were directed at the management of the significant risks facing the Group. No weaknesses were identified which would have resulted in material misstatement or loss that would have required disclosure in the financial statements.</p>
--	--	---

# Statement of Group corporate governance

## Statement of Board's responsibilities

The Board is responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Registered Provider of Social Housing (RSPH) and of the surplus or deficit for that period. In preparing these financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards 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 RSPH will continue in business.

The Board is responsible for keeping proper accounting records. These must be sufficient to show and explain the RSPH's transactions, disclose with reasonable accuracy at any time the financial position, and enable the Board to ensure the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and Regulations, the Housing and Regeneration Act 2008 and the Accounting Direction for Social Housing in England from April 2015. It is also responsible for safeguarding the assets of the RSPH including taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for ensuring the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and its subsidiaries included in the consolidation, together with disclosure of the principal risks and uncertainties they face.

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

## Disclosure of information to auditors

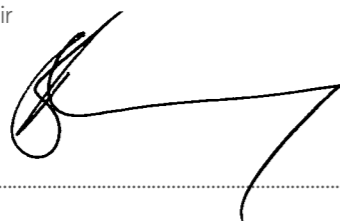
The Directors who held office at the date of approval of this Report of the Board confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to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

## Independent Auditors

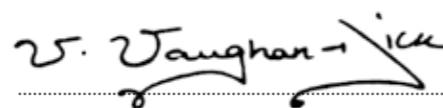
The current auditors, BDO LLP, were appointed as statutory auditors at the Network Homes board meeting on 25 July 2017.

The report of the Directors incorporating the strategic report was approved on 24 July 2018 and signed by order of the Board by:

**Bernadette Conroy,**  
Chair



**Valerie Vaughan-Dick,**  
Board member



# Independent Auditors' report



# Independent Auditors' report

## to the members of Network Homes Limited for the year ended 31 March 2018

### Opinion

We have audited the financial statements of Network Homes Limited ("the Association") and its subsidiaries ("the Group") for the year ended 31 March 2018 which comprise the consolidated and Association statement of comprehensive income, the consolidated and Association statement of financial position, the consolidated and Association statement of changes in reserves, the consolidated and Association cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice). In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Association's affairs as at 31 March 2018 and of the Group's and the Association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with 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 2015.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance

with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the board members use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the board members have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The board are responsible for the other information. Other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information including the Chair's review, the Group Chief Executive's review and the Report of the Board, including the Strategic Report, the Value for Money Statement and the Statement of Group Corporate Governance, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. We have nothing to report in this regard.

### 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 by the Co-operative or Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 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
- 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.

### Responsibilities of the board

As explained more fully in the statement of board's responsibilities statement, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the board are responsible for assessing the Group and the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board either intend to liquidate the Group or the Association or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report. This report is made solely to the members of the Association, as a body, in accordance with the Housing and Regeneration Act 2008 and 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 members as a body,

for our audit work, for this report, or for the opinions we have formed.



BDO LLP  
Statutory Auditor  
London

Date: 27 July 2018

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

## Consolidated and Association Statement of Comprehensive Income for the year ended 31 March 2018

	Note	Group		Association	
		2018 £'000	2017 £'000	2018 £'000	2017 £'000
Turnover	3	234,433	241,897	178,391	195,771
Cost of sales	3	(49,489)	(45,203)	(17,473)	(26,413)
Operating costs	3	(114,264)	(118,568)	(109,153)	(111,884)
Gift aid receivable		-	-	17,028	21,604
<b>Operating surplus</b>		<b>70,680</b>	<b>78,126</b>	<b>68,793</b>	<b>79,078</b>
Interest receivable and other income	7	283	422	283	415
Restructuring of financial instruments	7	87	8,720	87	8,720
Interest and financing costs	8	(26,333)	(26,218)	(28,418)	(28,245)
Share of joint venture loss	15	(157)	-	-	-
<b>Surplus on ordinary activities before taxation</b>		<b>44,560</b>	<b>61,050</b>	<b>40,745</b>	<b>59,968</b>
Tax charge on surplus on ordinary activities	10	(234)	(9,228)	-	-
<b>Surplus for the year</b>		<b>44,326</b>	<b>51,822</b>	<b>40,745</b>	<b>59,968</b>
Actuarial gain/(loss) on defined benefit pension scheme	37	382	(658)	382	(658)
<b>Total comprehensive income for the year</b>		<b>44,708</b>	<b>51,164</b>	<b>41,127</b>	<b>59,310</b>

All activities are classed as continuing.  
Notes on pages 32 to 77 forms part of the financial statements.

## Consolidated and Association Statement of Changes in Reserves for the year ended 31 March 2018

	Group		
	£'000 Revenue reserve	£'000 Fair value reserve	£'000 Total
<b>At 31 March 2016</b>	<b>276,582</b>	<b>-</b>	<b>276,582</b>
Surplus for the year	51,822	-	51,822
Reserve transfer	(3,941)	3,941	-
Actuarial loss on defined benefit pension scheme	(658)	-	(658)
<b>At 31 March 2017</b>	<b>323,805</b>	<b>3,941</b>	<b>327,746</b>
Surplus for the year	44,326	-	44,326
Reserve transfer	(1,005)	1,005	-
Pension re-measurement	382	-	382
Adjustment	(233)	-	(233)
<b>At 31 March 2018</b>	<b>367,275</b>	<b>4,946</b>	<b>372,221</b>

	Association		
	£'000 Revenue reserve	£'000 Fair value reserve	£'000 Total
<b>At 31 March 2016</b>	<b>290,363</b>	<b>-</b>	<b>290,363</b>
Surplus for the year	59,968	-	59,968
Reserve transfer	(2,134)	2,134	-
Actuarial loss on defined benefit pension scheme	(658)	-	(658)
<b>At 31 March 2017</b>	<b>347,539</b>	<b>2,134</b>	<b>349,673</b>
Surplus for the year	40,745	-	40,745
Reserves transfer	(1,311)	1,311	-
Pension re-measurement	382	-	382
Adjustment	(233)	-	(233)
<b>At 31 March 2018</b>	<b>387,122</b>	<b>3,445</b>	<b>390,567</b>

The Association has a share capital of £10. The movement in share capital is disclosed in note 32. Notes on pages 32 to 77 forms part of the financial statements.

## Consolidated and Association Statement of Financial Position at 31 March 2018 Co-operative and Community Benefit Societies No. RS007326

	Note	Group		Association	
		2018 £'000	2017 £'000	2018 £'000	2017 £'000
<b>Fixed assets</b>					
<b>Intangible assets</b>					
Computer software	12	2,945	1,542	2,945	1,542
<b>Tangible fixed assets</b>					
Housing properties at cost less depreciation and impairment	11	1,720,045	1,540,248	1,704,050	1,524,146
Other fixed assets	12	23,050	24,746	23,050	24,745
Investment properties	14	30,126	29,274	25,751	25,537
Total tangible fixed assets		1,773,221	1,594,268	1,752,851	1,574,428
Investments in joint ventures	15	13,765	-	-	-
Investments (financial)	16	6,436	6,487	6,436	6,487
Investments (shares)	17	-	-	75,000	65,000
Shared equity loans	18	5,528	6,624	5,528	6,624
Debtors: amounts falling due after more than one year	19	79	1,069	65	984
<b>Total fixed assets</b>		<b>1,801,974</b>	<b>1,609,990</b>	<b>1,842,825</b>	<b>1,655,065</b>
<b>Current assets</b>					
Stock	20	54,732	39,330	43,986	14,142
Debtors: amounts falling due within one year	21	24,875	25,904	56,111	47,453
Cash and cash equivalents	22	69,519	76,752	62,965	68,527
		149,126	141,986	163,062	130,122
Less: creditors amounts falling due within one year	23	(89,159)	(63,545)	(115,648)	(74,743)
Net current assets		59,967	78,441	47,414	55,379
<b>Total assets less current liabilities</b>		<b>1,861,941</b>	<b>1,688,431</b>	<b>1,890,239</b>	<b>1,710,444</b>
Creditors: amounts falling due after more than one year	24	(1,481,541)	(1,348,889)	(1,491,727)	(1,348,975)
Provisions for liabilities and charges	25	(8,770)	(11,012)	(8,536)	(11,012)
Pension surplus/(liability)	37	591	(784)	591	(784)
<b>Total net assets</b>		<b>372,221</b>	<b>327,746</b>	<b>390,567</b>	<b>349,673</b>
<b>Capital and reserves</b>					
Non-equity share capital	32	-	-	-	-
Revenue reserve		367,275	323,805	387,122	347,539
Fair value reserves		4,946	3,941	3,445	2,134
<b>Total reserves</b>		<b>372,221</b>	<b>327,746</b>	<b>390,567</b>	<b>349,673</b>

Notes on pages 32 to 77 form part of the financial statements.

These financial statements on pages 27 to 77 were approved and authorised for issue by the Board on 24 July 2018.

Bernadette Conroy, Chair

Valerie Vaughan-Dick, Board member

Tabitha Kassem, Company Secretary

The Directors have the power to amend the financial statements after this date.

## Consolidated and Association Statement of Cash flow for the year ended 31 March 2018

	Note	Group		Association	
		2018 £'000	2017 £'000	2018 £'000	2017 £'000
<b>Net cash inflow from operating activities</b>	36	57,516	29,154	51,446	56,552
<b>Cash flow from investing activities</b>					
Purchase of tangible fixed assets – housing properties		(241,074)	(113,695)	(206,352)	(108,748)
Purchase of tangible fixed assets – other fixed assets		(2,402)	(550)	(2,402)	(550)
Proceeds from disposal of tangible fixed assets		79,397	85,769	27,035	28,695
Grants received		44,958	8,128	44,958	8,128
Sale / Purchase of investments		443	(2,434)	(72)	(1,310)
Shared equity investments		-	197	1,096	197
Interest received		283	422	283	415
Investment in shares		-	-	(10,000)	(20,000)
Investment in joint ventures		(13,922)	-	-	-
Gift aid received		-	-	21,327	56,544
<b>Net cash used in investing activities</b>		<b>(132,317)</b>	<b>(22,163)</b>	<b>(124,127)</b>	<b>(36,629)</b>
<b>Cash flow from financing activities</b>					
Interest paid		(28,928)	(30,141)	(31,469)	(32,176)
New borrowings		187,759	68,860	186,360	68,650
Repayment of borrowings		(90,577)	(34,655)	(87,772)	(47,335)
<b>Net cash received from financing activities</b>		<b>68,254</b>	<b>4,064</b>	<b>67,119</b>	<b>(10,861)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(6,547)</b>	<b>11,055</b>	<b>(5,562)</b>	<b>9,063</b>
Cash and cash equivalents at the beginning of the year		76,066	65,011	68,527	59,464
<b>Cash and cash equivalents at 31 March</b>		<b>69,519</b>	<b>76,066</b>	<b>62,965</b>	<b>68,527</b>
<b>Cash and cash equivalents consist of:</b>					
Cash at bank and in hand		69,519	76,752	62,965	68,527
Bank overdraft		-	(686)	-	-
<b>Cash and cash equivalents</b>		<b>69,519</b>	<b>76,066</b>	<b>62,965</b>	<b>68,527</b>

Notes on pages 32 to 77 forms part of the financial statements.

## Notes to the Financial Statements for the year ended 31 March 2018





# Notes to the Financial Statements

## for the year ended 31 March 2018

### 1. Accounting policies

The Association is incorporated in England and is registered under the Co-operative and Community Benefit Societies Act 2014 and registered with the Homes and Communities Agency (now Regulator of Social Housing) as a provider. The Association and a Group member meet the criteria for being a public benefit entity under FRS 102 section 34. The Group's registered address is Olympic Office Centre, 8 Fulton Road, Wembley, Middlesex HA9 0NU, United Kingdom.

The following policies have been applied consistently from one financial year to another and in dealing with items which are considered to be material in relation to the financial statements of the Group.

#### Basis of preparation and statement of compliance

The financial statements have been prepared under the historical cost convention as modified for the revaluation of financial investments, investment in properties and financial liabilities measured at fair value through profit or loss, and in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Statement of Recommended Practice for social housing providers (Housing SORP 2014) and comply with the Accounting Direction for Private Registered Providers of Social Housing from April 2015 (the Accounting Direction 2015).

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The Group and Association's presentation currency is Great British Pounds. Amounts are presented in thousands unless otherwise stated.

The Group's Board has a reasonable expectation that the Association will continue in operational existence for the foreseeable future. These financial statements are prepared on a going concern basis.

#### Exemptions for qualifying entities under FRS 102

The Association has elected to apply the following reduced disclosures, which are permitted in accordance with FRS 102:

- Exemption from making disclosures in relation to financial instruments in accordance with FRS 102 1.12(c) as the Association is a qualifying entity and the parent Network Homes Limited produces a consolidated statement.
- The Group discloses transactions with related parties which are not wholly owned with the same group. The Group does not disclose transactions with members of the same group that are wholly owned as allowed by FRS 102 paragraph 33.1A. Intra-group transactions required to be disclosed by The Accounting Direction 2015 are provided in note 40.

#### Basis of consolidation

As the parent company, Network Homes Limited has overall control of the business of the Association and its members. It will assist and support all subsidiaries in achieving compliance with regulatory requirements. The Board's responsibilities are set out in detail in the Board's Terms of References.

SW9 Community Housing a subsidiary of Network Homes Limited is a Charitable Company limited by guarantee (number 09574528). The relationship is governed by an Intra-Group Agreement, Management Agreement and Options Review Agreement between the two entities as well as the Articles of Association of SW9 Community Housing which further set out the mutual obligations.

The Group consolidated financial statements include the financial statements of the Association and all of its subsidiary undertakings. A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Any subsidiary undertakings acquired or sold during the year are included up to, or from, the date of change of control.

In accordance with FRS 102, jointly controlled entities, which is the parent company's indirect investment in GH

Partnership LLP and Merrick Road LLP, is shown under investments in joint ventures in the Consolidated Statement of Financial Position using the equity method of consolidation. The Group's share of joint ventures profit or loss for the year is included in the Consolidated Statement of Comprehensive income.

All intra Group transactions, balances, income and expenses are eliminated on consolidation.

#### Turnover

Turnover represents rental and service charge income receivable, income from the management of properties, income from sale of assets, revenue grants receivable from local authorities and the Homes and Communities Agency (now Homes England), amortisation of deferred capital grants, management fees, gift aid receivable by Network Homes from its own subsidiaries, fair value uplift on investment valuation and other income. Turnover excludes value added tax where applicable.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for services rendered. All income is recognised on a receivable basis as per specific criteria described below:

##### a. Rents receivable

All rents are recognised on a receivable basis. Rental income from properties owned by the Association is recognised on an accruals basis (net of void losses) as it falls due.

##### b. Property sales and profit on sale of fixed assets

Income from property sales and sales of fixed assets is recognised at the point of the legal completion of the sale and recognised within turnover. The profit or loss recognised in the Statement of Comprehensive Income is calculated by deducting the property's carrying amount and the incidental cost of sale from the sale proceeds.

# Notes to the Financial Statements

## for the year ended 31 March 2018

#### c. Amortised government grants

Revenue grants are recognised when the conditions for receipt of agreed grant funding have been met. Income from capital grants is recognised on a systematic basis over the useful economic life of the asset (usually the properties' fabric) for which it was received.

#### d. Gift aid receivable

Gift aid from the Association's wholly owned subsidiaries is recognised at year-end on receivable basis and is disclosed on the Statement of Comprehensive Income. Gift aid is eliminated on consolidation in the Group. Once the gift aid is declared, it is not reversible. The Boards of the wholly owned subsidiaries have put in place deeds of covenants which will allow Companies to recognise and action gift aid payments.

#### e. Service charges receivable

Service charge income is recognised on an accruals basis as it falls due. The Association operates both fixed and variable service charges on a scheme-by-scheme basis in full consultation with residents. The service charges on all schemes are set on the basis of budgeted spend.

Where variable service charges are used the budget will include an allowance for the surplus or deficit from prior years, with a surplus being returned to residents in the form of a reduced charge for the year and a deficit being recovered via a higher service charge or by alternative methods if the contract allows.

#### f. Management fees

Network Homes Limited manages properties owned by entities outside the Group on behalf of local authorities. Management fees receivable (excluding VAT) for services provided to entities outside the Group are recorded when they fall due.

Internal fees are charged by parent Network Homes Limited to the subsidiaries for management and support services provided. These fees are apportioned as per the Board approval. Intra group fees receivable in the parent company from the wholly owned subsidiaries are eliminated on consolidation.

#### g. Supporting people contracts

Support service income for provision of extra care for residents with specific needs is recognised on an accruals basis as the services are provided.

#### h. Commercial activities

Income from the letting of commercial properties including rent and other income like electricity, mobile aerials insurance is recognised as it falls due on an accruals basis.

#### Cost of sales

Cost of sales comprise of costs of stock sold and the marketing costs incurred. Properties developed for outright sales or the first tranche component of shared ownership properties are held at the lower of cost of developing the unit or at the estimate of fair value less cost to sell. Fair value less cost to sell is only used when the Association cannot fully recover through sales the cost of developing the units or when there is impairment of the property. The difference between the costs of the development and the estimated fair value less cost to sell are accounted as part of the cost of sales.

#### Taxation

The Association has charitable status and is therefore not subject to corporation tax on its charitable activities. Any non-charitable trading activities are carried out in the subsidiaries and they pay gift aid out of their profits to the Association (their parent company). Further details are provided in the gift aid accounting policy below. The Group may be liable to corporation tax based on any taxable profit for the year taking into account differences between certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have occurred but not reversed as at the reporting date. Deferred tax relating to investment property that is measured at fair value in accordance with Section 16 Investment Property has been measured using the tax rates and allowances that apply to sale of the asset.

#### Interest payable and similar charges

Interest on borrowings is charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method, if the loan is a basic financial liability, to ensure that the amount charged is at a constant rate on the carrying amount.

Costs of issuing debt are recognised as a reduction in the associated financial instrument. Directly attributable costs of obtaining undrawn facilities are amortised over the life of the facility. Both costs are amortised over the life of loan facility using the effective interest rate method.

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

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

#### Housing properties

Housing properties are principally properties available for rent and shared ownership properties. Housing properties constructed or acquired in the open market are stated at cost less accumulated depreciation.

The cost of housing properties includes their purchase price, costs of improvement, capitalised interest and directly attributable development overheads.

Direct overheads involved with administering of development activities are capitalised to the extent that they are directly attributable to the development process and in bringing the properties into their intended use. Interest is capitalised up to the date of practical completion of a property.

Any properties acquired in the year are recognised at the cost of acquisition and disclosed separately in the housing note 11.

# Notes to the Financial Statements

## for the year ended 31 March 2018

Housing properties under construction are reclassified as completed housing properties three months after practical completion.

Works to existing properties which replace a component that has been identified separately for depreciation purposes, along with those works that result in enhancing the economic benefits of the properties, are capitalised as improvements. Where a component is replaced the cost and related depreciation are eliminated from the housing properties.

Economic benefits are enhanced if work performed results in an increase in rental income, a reduction in future maintenance costs or a significant extension to the useful economic life of a property. Shared ownership properties are split between current and non-current assets based on the anticipated proportion to be a first tranche sale with the first tranche proportion recognised as a current asset.

Properties sold as uncompleted or completed are disclosed separately as disposals on the housing note 11 and not depreciated.

### Depreciation of housing properties

Freehold land and housing properties under construction are stated at cost and are not depreciated. Proportion of shared ownership properties expected to be sold in the first tranche is held as stock.

Housing properties are split into their major components. Each component is depreciated on a straight line basis over its estimated useful economic life to its estimated residual value. Useful economic lives for major component categories are as follows:

Component Category	Life (Years)
Fabric	100
Windows and doors	25
Kitchens	25
Bathrooms	25
Boilers	20
Mechanical electrical	30
Service contractors	20

Service contractors comprise capital costs relating to lifts, CCTV, warden call systems and other similar communal capital costs. Housing properties held on long leases are depreciated in the same manner as freehold properties, except where the

unexpired lease term is shorter than the longest component life envisaged, in which case the unexpired term of the lease is adopted as the useful economic life of the relevant component category.

### Impairment of housing properties and other fixed assets

Tangible fixed assets (mainly housing properties) are assessed for indicators of impairment at each reporting date. Where indicators are identified a detailed assessment is then undertaken to determine the assets or cash generating units (CGU) recoverable amount.

The recoverable amount will be the higher of fair value less costs to sell, or Existing Use Value for Social Housing (EUUV-SH), or Value in Use (in respect of assets held for their service potential) (VIU-SP). As allowed by Housing SORP 2014 the Group uses depreciated replacement cost as a reasonable estimate of VIU-SP.

### Depreciation of other tangible fixed assets

Depreciation is charged on a straight line basis over the expected useful economic lives of other tangible fixed assets to write off the cost less estimated residual values. The useful economic lives for other tangible fixed assets are as follows:

Asset	Life (Years)
Computer hardware and software	3 to 5
Office fixtures and furniture	10
Office equipment	10
Office property	50

If an impairment loss exceeds the accumulated gains in the reserves in respect of that asset or CGU, the excess will be recognised in the Statement of Comprehensive Income. The Group defines CGUs as schemes except where its schemes are not sufficiently large enough in size or where it is sensible to group schemes into larger CGUs.

### Investment properties

Investment properties consist of commercial properties and other properties not held for social benefit or for use in the business. Completed investment properties are measured at cost on initial recognition and subsequently at fair value at the reporting date, with changes in fair value recognised in the Statement of Comprehensive Income.

Investment properties under construction are measured in the statement of financial position using the purchase price, construction costs to date, directly attributable development overheads and capitalised interest. Any additional new properties are measured at acquisition cost.

Fair value is determined annually, and is derived from current market rents and investment property yields for comparable properties, adjusted if necessary for any difference in the nature, location or condition of the specific asset. Any impairment is recognised in the Statement of Comprehensive Income in the year when the impairment occurs. Investment properties are not depreciated.

### Intangible assets

Intangible assets consist of software that is either acquired externally or is developed internally. Software is measured at cost less accumulated amortisation and impairment losses.

Software is recognised as an intangible asset when the following criteria are met:

- it is feasible that the software will be available for use to the Association and the software will generate probable future economic benefits such as improving efficiencies or reducing costs
- adequate financial and other resources are available to complete the development and implementation of the software
- the software is identifiable and we have an intention to implement and use it
- the costs attributable to the software during its development can be reliably measured

Amortisation is charged using the straight-line method to allocate the cost of software over the estimated useful economic life. Software costs are amortised over a 3 to 5 year useful economic life.

### Stock

Stock represents both completed properties and properties under construction:

- for outright sales carried out in subsidiaries of Network Homes
- the proportion of shared ownership properties that are anticipated to be sold as a first tranche

# Notes to the Financial Statements

## for the year ended 31 March 2018

Stock is valued at the lower of cost and net realisable value. Cost includes acquisition and development costs together with capitalised interest. Net realisable value is based on the estimated selling price less selling costs.

### Shared equity loans

Under the shared equity scheme, the Association lends the acquirer of one of its properties 20% of the purchase price as an interest free loan for up to five years. The acquirer may repay the loan at any time, but after five years the acquirer will be required to pay an interest rate as instructed by the Homes and Communities Agency (now Homes England).

The Association receives a grant from the Homes and Communities Agency (now Homes England) to part finance the shared equity loan scheme. The grant is repayable to the extent that the loan is repaid in excess of the 10% purchase price. The loans are considered to be Public Benefit Entity Concessionary Loans (as defined by FRS 102 Paragraph PBE34.88) and are consequently measured at the amount advanced, less any provisions for impairment.

### Financial assets

Basic financial assets, including tenant debtors and other receivables, cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the Statement of Comprehensive Income.

### Financial liabilities

Basic financial instruments, including trade and other payables, bank loans and loans from fellow Group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the instrument is

measured at the present value of the future payments discounted at a market rate of interest. These instruments are subsequently carried at amortised cost, using the effective interest rate method.

Non-basic financial instruments including loans that contain terms giving the lender the unilateral option to change the terms of the loan (for example from a pre-determined fixed rate to a variable rate or to a different fixed rate chosen by the lender), are initially recognised at their fair value (normally their transaction price), and are subsequently re-measured at each reporting date at their fair value.

Fair values are determined in line with paragraph 11.27 of FRS 102 using exit prices quoted by the counterparty as the best estimate of fair value where available. Where the terms of a financial liability are renegotiated with substantially different terms, the original financial liability is derecognised and a new financial liability is recognised. The difference between the carrying amount of the financial liability derecognised and the consideration paid (including any non cash assets transferred or liabilities assumed) for the new financial liability is recognised in the Statement of Comprehensive Income.

### Social housing grant (SHG) and other capital grants

SHG is receivable from the Homes and Communities Agency (now Homes England) and other grants are receivable from local authorities.

SHG and other capital grants (grant) are accounted for using the accrual model. Grant is recognised as deferred income in the Statement of Financial Position, and released to the Statement of Comprehensive Income on a systematic basis over the useful economic life of the asset for which it was received, usually a housing property's fabric.

Upon the sale of a grant funded property, any attributable grant becomes recyclable and is transferred to a recycled capital grant fund (RCGF) or disposal proceeds fund (DPF) for right to acquire units until it is reinvested in a replacement property. The related grant amortisation is charged to the Statement of Comprehensive Income and is disclosed as part of the contingent liabilities until the property it funds is disposed of or ceases to be used for social

housing purposes. The only exemption to this is the £10m grant received from local authority for properties in Lambeth. This grant is not repayable and there is no need to recycle any part of it.

### Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The unwinding of the provisions discount due to the passage of time is recognised as a finance cost.

The Group provides for rent arrears based on the aging of the debt as well as the type of debtor (current and former). The level of provisioning was based on the collection rates for each aging group and on cash collected over a 12 month period.

### Operating leases

Rentals payable under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

### Employee benefits – short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period which the service is received.

### Employee benefits – long term benefits

The Association operates both defined benefit schemes and defined contribution schemes.

#### (a) Defined benefit schemes

The Group operated a defined benefit plan for employees in the past. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

# Notes to the Financial Statements

## for the year ended 31 March 2018

The liability recognised in the Statement of Financial Position in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the plan assets at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. Annually the Association engages independent actuaries, Hymans and Robertson LLP to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Group's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 're-measurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

(a) the increase in pension benefit liability arising from employee service during the period; and

(b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as 'finance expense'.

### (b) Defined contribution scheme

Contributions are recognised as an expense in the Statement of Comprehensive Income when due.

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Association and

SW9 Community Housing pay fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the statement of financial position. The assets of the plan are held separately from the Association in independently administered funds.

### (c) Multi-employer pension scheme

The Group is a member of a multi-employer Social Housing Pension Scheme (SHPS). The Pension Trust, which administers this scheme, has not been able to provide sufficient information to enable it to be accounted as a defined benefit plan; therefore this has been accounted as a defined contribution plan.

The pension plan is in deficit and the Association has agreed to participate in a deficit funding arrangement and has recognised a liability for this obligation. The amount recognised is the net present value of the contributions payable under the agreement that relates to the deficit. This amount is expensed in the Statement of Comprehensive Income. The unwinding of the discount is recognised as a finance cost.

### Value added tax (VAT)

The Group is partially exempt in relation to VAT and accordingly is able to recover from HM Revenue and Customs part of the VAT incurred on expenditure. At the year end VAT recoverable or payable is included in the Statement of Financial Position. Irrecoverable VAT is accounted for in the Statement of Comprehensive Income within the relevant expense line.

Where the Group has entered into VAT shelter arrangement (usually to assist with the regeneration of local authority housing stock), the financial statements reflect the underlying substance of the transaction on a gross basis. The receivable from the local authority is shown in current and non-current debtors, and the Group's legally binding obligation to the local authority under the refurbishment contract is shown in provisions for liabilities and charges.

### Gift aid

Gift aid payments are treated as distributions of reserves by the paying entity and as income from an investment in a subsidiary by the receiving entity. Gift

aid from the Association's wholly owned subsidiary is recognised at year-end on receivable basis and is disclosed in the Statement of Comprehensive Income. Gift aid across the Group is eliminated on consolidation; however the gift aid payments by the subsidiaries are disclosed separately in their individual financial statements.

## 2. Critical accounting judgements and estimation uncertainty

The preparation of financial statements in conformity with FRS 102 requires management to exercise its judgement in the process of applying the Association's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (a) Critical judgements in applying the Group's accounting policies

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

#### (i) Capitalisation of property development costs

Management decision to allow capitalisation of development costs requires judgement. Once the Board decision is made and a planning permission is granted, a project will continue and development costs will be capitalised. After capitalisation management monitors the project and considers whether events indicate that an impairment review is required.

#### (ii) Determining whether an impairment review is required (note 11)

Tangible fixed assets (mainly housing properties) are assessed for indicators of impairment at each reporting date in accordance with FRS102 27.7. Indicators include: changes in government policy, a reduction in the market value of properties where the occupant has the right to acquire, a reduction in the demand for a property, losses from operating that property, obsolescence of a property or contamination of a site. Impairment is tested at CGU level which is at scheme

# Notes to the Financial Statements

## for the year ended 31 March 2018

level. Indicators for properties under construction include any unforeseen additional costs that do not add value.

If there is no such indication, it may be assumed that there is no impairment. Any assets which elicit indicators of impairment are reviewed at each reporting date. However the main recurring areas of review in respect of impairment are as follows:

- Mixed tenure development schemes (part rented and part shared ownership);
- Shared ownership schemes (newly-developed units);
- Properties intended for demolition;
- Work in progress; and
- Units with high void rates

Where the carrying value of the asset is higher than its recoverable amount, impairment is required. The recoverable amount is the higher of value in use or fair value less costs to sell as represented by VIU-SP or EUV-SH. The Group uses Depreciated Replacement Cost (DRC) as a proxy of VIU-SP for recoverable amount.

For calculating DRC, the Association has estimated that the average build cost of developing new properties is between £2,645 and £3,736 per square metre depending on the property type (whether the building is tall or normal based on number of storeys). This cost per square metre is multiplied by the size of individual units and then depreciated over the remaining useful life of the asset.

The net calculation per unit is then grouped together into cash generating units (CGU). The calculated DRC is compared against the net book value (NBV) of the CGU. For this calculation the Association included all components, excluding cost of land.

As a result of the impairment review, no units were impaired (2017: 17 properties at £542k).

### (b) Key accounting estimates and assumptions

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

### (i) Useful economic lives of tangible fixed assets (note 11)

Management reviews the useful economic lives of depreciable assets annually based on the expected utility of the assets. They are amended when necessary to reflect current estimates based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

The key judgements and estimates applied in respect of housing properties are disclosed in note 12 and include:

- the useful economic life of property fabric at 100 years
- properties have no residual value at the end of useful life.

These assumptions have been aligned with general practice followed by registered housing providers.

### (ii) Provisions (note 25)

Provisions in the year are made for dilapidations on lease termination, which requires management's best estimate of the costs that will be incurred at the time of lease handover. Timing of the cash flows is per lease agreement. Discount rates used to establish net present value of the dilapidations obligations are based on statistical information.

### (iii) Stock (note 20)

Net realisable value is based on the estimated selling price less selling costs. Estimated selling prices were provided by external valuers Lamberts Chartered Surveyors and Savills. Estimated costs are based on approved budgets and forecasts.

### (iv) Allocation of costs for mixed tenure developments (notes 11 and 20)

The Association develops mixed scheme properties and receives invoices for development costs that are not split for each property tenure such as shared ownership, outright sales or affordable rents in the mixed scheme. As a result the Association makes estimates based on floor area or unit numbers as advised by the Board in advance of scheme development. The Board also makes decisions in advance regarding the split of costs between mixed tenure and shared ownership units within mixed tenure schemes.

### (v) Market interest rates for financing transactions (note 26)

On calculating the net present value of the new restructured loans the Group had to estimate what the market interest rate would be for these loans, as fixed rate loans with maturities in excess of 40 years are not readily available. The Group estimated that the rate would be 3.94%, being a combination of the rate on an equivalent maturity instrument and an estimate of the Group's margin over that rate.

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 3. Turnover, operating costs and operating surplus

Group	2018				2017			
	Turnover £'000	Cost of sales £'000	Operating costs £'000	Operating surplus / (deficit) £'000	Turnover £'000	Cost of sales £'000	Operating costs £'000	Operating surplus / (deficit) £'000
<b>Social housing lettings (Note 4)</b>	<b>145,899</b>	<b>-</b>	<b>(107,800)</b>	<b>38,099</b>	<b>147,426</b>	<b>-</b>	<b>(109,191)</b>	<b>38,235</b>
<b>Other social housing activities</b>								
Supporting people contract income	212	-	(212)	-	236	-	(236)	-
Housing management administration	-	-	(1,198)	(1,198)	-	-	(987)	(987)
Community development	-	-	(492)	(492)	-	-	(714)	(714)
Sale of first tranche properties	8,201	(5,586)	(801)	1,814	31,711	(18,682)	(769)	12,260
Housing property sales	23,335	(11,887)	(644)	10,804	17,066	(6,743)	(2,998)	7,325
Other	436	-	(33)	403	486	-	-	486
<b>Other social housing activities</b>	<b>32,184</b>	<b>(17,473)</b>	<b>(3,380)</b>	<b>11,331</b>	<b>49,499</b>	<b>(25,425)</b>	<b>(5,704)</b>	<b>18,370</b>
<b>Total social housing activities</b>	<b>178,083</b>	<b>(17,473)</b>	<b>(111,180)</b>	<b>49,430</b>	<b>196,925</b>	<b>(25,425)</b>	<b>(114,895)</b>	<b>56,605</b>
<b>Non-social housing activity</b>								
Student accommodation	1,776	-	(117)	1,659	1,734	-	(121)	1,613
Outright sale of properties	49,914	(31,775)	(609)	17,530	39,165	(19,778)	(1,404)	17,983
Garage rent	508	-	(40)	468	486	-	(51)	435
Commercial activities	2,362	(241)	(608)	1,513	1,626	-	(567)	1,059
Revaluation surplus/(loss) on investment properties	1,005	-	-	1,005	1,347	-	-	1,347
Other	785	-	(1,710)	(925)	614	-	(1,530)	(916)
<b>Total non-social housing activity</b>	<b>56,350</b>	<b>(32,016)</b>	<b>(3,084)</b>	<b>21,250</b>	<b>44,972</b>	<b>(19,778)</b>	<b>(3,673)</b>	<b>21,521</b>
<b>Total</b>	<b>234,433</b>	<b>(49,489)</b>	<b>(114,264)</b>	<b>70,680</b>	<b>241,897</b>	<b>(45,203)</b>	<b>(118,568)</b>	<b>78,126</b>

Association	2018				2017			
	Turnover £'000	Cost of sales £'000	Operating costs £'000	Operating surplus / (deficit) £'000	Turnover £'000	Cost of sales £'000	Operating costs £'000	Operating surplus / (deficit) £'000
<b>Social housing lettings (Note 4)</b>	<b>138,246</b>	<b>-</b>	<b>(100,862)</b>	<b>37,384</b>	<b>139,780</b>	<b>-</b>	<b>(101,782)</b>	<b>37,998</b>
<b>Other social housing activities</b>								
Supporting people contract income	212	-	(212)	-	236	-	(236)	-
Housing management administration	4,299	-	(4,877)	(578)	3,155	-	(4,140)	(985)
Community development	-	-	(469)	(469)	-	-	(663)	(663)
Sale of first tranche properties	8,201	(5,586)	(801)	1,814	31,711	(18,683)	(1,400)	11,628
Housing property sales	23,335	(11,887)	(1,270)	10,178	17,066	(6,743)	(2,998)	7,325
Other	324	-	(27)	297	1,087	-	-	1,087
<b>Other social housing activities</b>	<b>36,371</b>	<b>(17,473)</b>	<b>(7,656)</b>	<b>11,242</b>	<b>53,255</b>	<b>(25,426)</b>	<b>(9,437)</b>	<b>18,392</b>
<b>Total social housing activities</b>	<b>174,617</b>	<b>(17,473)</b>	<b>(108,518)</b>	<b>48,626</b>	<b>193,035</b>	<b>(25,426)</b>	<b>(111,219)</b>	<b>56,390</b>
<b>Non-social housing activity</b>								
Outright sale of properties	-	-	-	-	971	(987)	(2)	(18)
Garage rent	508	-	(40)	468	486	-	(51)	435
Commercial activities	1,847	-	(608)	1,239	1,626	-	(567)	1,059
Revaluation surplus/(loss) on investment properties	1,311	-	-	1,311	(460)	-	-	(460)
Other	108	-	13	121	113	-	(45)	68
<b>Total non-social housing activity</b>	<b>3,774</b>	<b>-</b>	<b>(635)</b>	<b>3,139</b>	<b>2,736</b>	<b>(987)</b>	<b>(665)</b>	<b>1,084</b>
<b>Total</b>	<b>178,391</b>	<b>(17,473)</b>	<b>(109,153)</b>	<b>51,765</b>	<b>195,771</b>	<b>(26,413)</b>	<b>(111,884)</b>	<b>57,474</b>



## Notes to the Financial Statements for the year ended 31 March 2018

### 4. Income and expenditure from social housing lettings

Group 2018	General rented £'000	Sheltered £'000	Leasehold and Shared ownership £'000	Supported housing £'000	Short stay £'000	Intermediate £'000	Total 2018 £'000
<b>Income from lettings</b>							
Rent receivable	78,380	9,275	7,286	4,679	18,219	8,957	126,796
Charges for supporting services	-	54	-	-	-	-	54
Service charges receivable	3,385	3,346	3,254	141	1	445	10,572
Amortised government grants	5,288	681	339	1,080	(3)	35	7,420
Other income	-	-	-	-	1,057	-	1,057
	<b>87,053</b>	<b>13,356</b>	<b>10,879</b>	<b>5,900</b>	<b>19,274</b>	<b>9,437</b>	<b>145,899</b>
<b>Expenditure on letting activities</b>							
Management	27,091	636	1,283	1,240	1,274	2,258	33,782
Service charge costs	5,490	2,844	3,502	129	27	35	12,027
Support costs	-	13	-	-	-	-	13
Routine maintenance	12,791	996	172	283	734	491	15,467
Other maintenance	6,107	487	80	129	334	223	7,360
Property lease charges	45	-	-	631	16,251	607	17,534
Total depreciation	14,811	2,069	1,174	2,367	80	697	21,198
Rent (write backs)/losses from bad debts	154	15	131	(30)	102	47	419
	<b>66,489</b>	<b>7,060</b>	<b>6,342</b>	<b>4,749</b>	<b>18,802</b>	<b>4,358</b>	<b>107,800</b>
<b>Operating surplus on lettings</b>	<b>20,564</b>	<b>6,296</b>	<b>4,537</b>	<b>1,151</b>	<b>472</b>	<b>5,079</b>	<b>38,099</b>
<b>Void losses</b>	<b>(854)</b>	<b>(273)</b>	<b>10</b>	<b>(47)</b>	<b>(429)</b>	<b>(709)</b>	<b>(2,302)</b>

Group 2017	General rented £'000	Sheltered £'000	Leasehold and Shared ownership £'000	Supported housing £'000	Short stay £'000	Intermediate £'000	Total 2017 £'000
<b>Income from lettings</b>							
Rent receivable	75,578	9,275	6,662	4,593	19,694	8,331	124,133
Charges for supporting services	-	53	-	-	-	-	53
Service charges receivable	3,244	3,834	5,012	160	30	420	12,700
Amortised government grants	7,674	681	339	340	542	35	9,611
Other income	-	-	-	-	929	-	929
	<b>86,496</b>	<b>13,843</b>	<b>12,013</b>	<b>5,093</b>	<b>21,195</b>	<b>8,786</b>	<b>147,426</b>
<b>Expenditure on letting activities</b>							
Management	27,614	761	1,195	1,214	743	2,434	33,961
Service charge costs	6,626	2,662	3,879	200	205	363	13,935
Support costs	-	8	-	-	-	-	8
Routine maintenance	12,235	1,324	317	320	639	646	15,481
Other maintenance	2,880	2,137	693	1,242	(145)	1,751	8,558
Property lease charges	8	-	3	631	17,119	454	18,215
Total depreciation	12,795	1,880	1,053	683	1,218	607	18,236
Impairment of housing properties	(275)	-	-	-	-	-	(275)
Rent losses from bad debts	347	49	343	53	222	58	1,072
	<b>62,230</b>	<b>8,821</b>	<b>7,483</b>	<b>4,343</b>	<b>20,001</b>	<b>6,313</b>	<b>109,191</b>
<b>Operating surplus on lettings</b>	<b>24,266</b>	<b>5,022</b>	<b>4,530</b>	<b>750</b>	<b>1,194</b>	<b>2,473</b>	<b>38,235</b>
<b>Void losses</b>	<b>(905)</b>	<b>(268)</b>	<b>39</b>	<b>(20)</b>	<b>(592)</b>	<b>(979)</b>	<b>(2,725)</b>

## Notes to the Financial Statements for the year ended 31 March 2018

### 4. Income and expenditure from social housing lettings – continued

Association 2018	General rented £'000	Sheltered £'000	Leasehold and Shared ownership £'000	Supported housing £'000	Short stay £'000	Intermediate £'000	Total 2018 £'000
<b>Income from lettings</b>							
Rent receivable	73,444	8,866	7,030	4,679	18,219	8,957	121,195
Charges for supporting services	-	54	-	-	-	-	54
Service charges receivable	2,384	3,102	2,445	141	1	445	8,518
Amortised government grants	5,288	681	339	1,080	(3)	35	7,420
Other income	-	-	-	-	1,059	-	1,059
	<b>81,116</b>	<b>12,703</b>	<b>9,814</b>	<b>5,900</b>	<b>19,276</b>	<b>9,437</b>	<b>138,246</b>
<b>Expenditure on letting activities</b>							
Management	22,928	499	1,250	1,240	1,274	2,258	29,449
Service charge costs	4,307	2,669	3,164	129	27	35	10,331
Support costs	-	13	-	-	-	-	13
Routine maintenance	12,441	955	177	283	734	491	15,081
Other maintenance	5,659	435	81	129	334	223	6,861
Property lease charges	45	-	-	631	16,251	607	17,534
Total depreciation	14,811	2,069	1,174	2,367	80	697	21,198
Rent (write backs)/losses from bad debts	154	16	106	(30)	102	47	395
	<b>60,345</b>	<b>6,656</b>	<b>5,952</b>	<b>4,749</b>	<b>18,802</b>	<b>4,358</b>	<b>100,862</b>
<b>Operating surplus on lettings</b>	<b>20,771</b>	<b>6,047</b>	<b>3,862</b>	<b>1,151</b>	<b>474</b>	<b>5,079</b>	<b>37,384</b>
<b>Void losses</b>	<b>(757)</b>	<b>(260)</b>	<b>(6)</b>	<b>(47)</b>	<b>(429)</b>	<b>(709)</b>	<b>(2,208)</b>

Association 2017	General rented £'000	Sheltered £'000	Leasehold and Shared ownership £'000	Supported housing £'000	Short stay £'000	Intermediate £'000	Total 2017 £'000
<b>Income from lettings</b>							
Rent receivable	70,705	8,908	6,396	4,593	19,694	8,331	118,627
Charges for supporting services	-	53	-	-	-	-	53
Service charges receivable	2,201	3,578	4,171	160	30	420	10,560
Amortised government grants	7,674	681	339	340	542	35	9,611
Other income	-	-	-	-	929	-	929
	<b>80,580</b>	<b>13,220</b>	<b>10,906</b>	<b>5,093</b>	<b>21,195</b>	<b>8,786</b>	<b>139,780</b>
<b>Expenditure on letting activities</b>							
Management	23,346	636	1,162	1,214	743	2,434	29,535
Service charge costs	5,215	2,549	3,407	200	205	363	11,939
Support costs	-	8	-	-	-	-	8
Routine maintenance	11,639	1,287	286	320	639	646	14,817
Other maintenance	2,600	2,131	654	1,242	(145)	1,751	8,233
Property lease charges	8	-	3	631	17,119	454	18,215
Total depreciation	12,795	1,880	1,053	683	1,218	607	18,236
Impairment of housing properties	(275)	-	-	-	-	-	(275)
Rent losses from bad debts	349	49	343	53	222	58	1,074
	<b>55,677</b>	<b>8,540</b>	<b>6,908</b>	<b>4,343</b>	<b>20,001</b>	<b>6,313</b>	<b>101,782</b>
<b>Operating surplus on lettings</b>	<b>24,903</b>	<b>4,680</b>	<b>3,998</b>	<b>750</b>	<b>1,194</b>	<b>2,473</b>	<b>37,998</b>
<b>Void losses</b>	<b>(775)</b>	<b>(239)</b>	<b>20</b>	<b>(20)</b>	<b>(592)</b>	<b>(979)</b>	<b>(2,585)</b>

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 5. Employee information

The monthly average number of persons employed during the year, including the Executive Officers, is based on an assumption that a full time equivalent employee (FTE) works 35 hours and includes employees on both permanent and fixed term contracts:

	Group		Association	
	2018 FTE	2017 FTE	2018 FTE	2017 FTE
Office-based staff	494	467	467	443
Scheme-based staff	26	23	24	22
<b>Total</b>	<b>520</b>	<b>490</b>	<b>491</b>	<b>465</b>

Staff costs for the above employees were:

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Wages and salaries	21,437	19,462	20,396	18,507
Social security costs	2,296	2,095	2,188	1,993
Pension costs	805	1,573	775	1,553
<b>Total</b>	<b>24,538</b>	<b>23,130</b>	<b>23,359</b>	<b>22,053</b>

The pension costs incurred in Association in 2017 included two one-off expenses in respect of staff previously employed by Community Trust Housing (CTH). The final settlement was agreed by the pension fund administered by Lambeth at £1,089k and also with SHPS and in 2017 the Association made a payment in amount of £299k to SHPS in respect of withdrawal from the scheme (provision was made in 2016).

In 2018, the Association made one-off pension contribution towards past service deficit of £1,000k to the pension fund administered by Hertfordshire Local Government. There are no active members participating in this scheme.

The Association participates in SHPS defined contributions scheme and costs paid in the year were £880k (2017: £641k).

The number of staff (including the Chief Executive Officer) receiving remuneration in excess of £60,000 per annum at 31 March 2018 is as follows:

	Group		Association	
	2018 FTE	2017 FTE	2018 FTE	2017 FTE
£60,000 - £69,999	20	15	20	15
£70,000 - £79,999	11	8	11	8
£80,000 - £89,999	2	4	2	4
£90,000 - £99,999	9	6	8	6
£100,000 - £109,999	4	3	4	2
£110,000 - £119,999	2	1	2	1
£120,000 - £129,999	1	1	1	1
£130,000 - £139,999	2	2	2	2
£140,000 - £149,999	1	-	1	-
£150,000 - £159,999	1	1	1	1
£160,000 - £169,999	-	1	-	1
£170,000 - £179,999	1	-	1	-
£180,000 - £189,999	1	1	1	1
£190,000 - £199,999	-	1	-	1
£210,000 - £219,999	-	1	-	1
<b>Total</b>	<b>55</b>	<b>45</b>	<b>54</b>	<b>44</b>

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 6. Directors' emoluments

The Directors are defined as members of the Board and the Executive Leadership Team (ELT). Their emoluments for 2017-18 are:

	Appointed (A) / Resigned (R)	Basic salary / fees	Expenses	Total remuneration	Bonus / other payments	Pension contribution	Benefits in kind (BUPA)	Total
								emoluments
<b>Non-Executive Officers</b>								
Bernadette Conroy	Chair	£ 22,500	£ 28	£ 22,528	£ -	£ -	£ -	£ 22,528
Trevor Morley	Deputy Chair	13,500	-	13,500	-	-	-	13,500
Charmian Boyd	Committee Chair/Board member	R 24/7/2018 10,500	-	10,500	-	-	-	10,500
Nick Sharman	Board member	8,000	-	8,000	-	-	-	8,000
Peter Stredder	Committee Chair/Board member	R 19/1/2018 7,000	-	7,000	-	-	-	7,000
Anne Turner	Committee Chair/Board member	10,500	1,779	12,279	-	-	-	12,279
Chris Kane	Board Member	R 25/7/2017 2,667	-	2,667	-	-	-	2,667
Alan Hall	Board Member	8,000	196	8,196	-	-	-	8,196
Valerie Vaughan-Dick	Committee Chair/Board member	8,833	-	8,833	-	-	-	8,833
Peter Fiddeman	Board Member	R 20/3/2018 8,000	394	8,394	-	-	-	8,394
Jon Gooding	Committee Chair/Board member	10,500	-	10,500	-	-	-	10,500
Ronen Journo	Board Member	A 25/7/2017 5,487	-	5,487	-	-	-	5,487
Paul Plummer	Board Member	A 20/3/2018 277	-	277	-	-	-	277
		<b>115,764</b>	<b>2,397</b>	<b>118,161</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>118,161</b>
<b>Executive Officers</b>								
Helen Evans		185,122	1,994	187,116	13,090	13,351	1,882	215,439
Barry Nethercott		168,438	-	168,438	7,070	15,453	-	190,961
Vicky Savage	R 31/1/2018	135,963	275	136,238	11,433	12,148	1,121	160,940
Gerry Doherty		166,394	1,318	167,712	9,252	2,654	1,419	181,037
Fiona Deal		108,474	-	108,474	9,757	9,952	1,376	129,559
Jon Dawson		128,413	472	128,885	7,317	11,765	1,431	149,398
Darren Levy	R 31/7/2017	141,717	-	141,717	5,494	3,736	422	151,369
David Gooch	A 19/3/2018	11,045	808	11,853	-	336	31	12,220
		<b>1,045,566</b>	<b>4,867</b>	<b>1,050,433</b>	<b>63,413</b>	<b>69,396</b>	<b>7,682</b>	<b>1,190,924</b>
		<b>1,161,330</b>	<b>7,264</b>	<b>1,168,594</b>	<b>63,413</b>	<b>69,396</b>	<b>7,682</b>	<b>1,309,085</b>

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 6. Directors' emoluments – continued

The Directors are defined as members of the Board and the Executive Leadership Team (ELT). Their emoluments for 2016-17 are:

	Appointed (A) / Resigned (R)	Basic salary / fees	Expenses	Total remuneration	Bonus / other payments	Pension contributions	Benefits in kind (BUPA)	Total
		£	£	£	£	£	£	£
<b>Non-Executive Officers</b>								
Andrew Watson	Chair R 28/7/2016	7,356	-	7,356	-	-	-	7,356
Bernadette Conroy	Chair A 28/7/2016	15,173	-	15,173	-	-	-	15,173
Trevor Morley	Deputy Chair	14,625	109	14,734	-	-	-	14,734
Charmian Boyd	Committee Chair/Board member	10,535	-	10,535	-	-	-	10,535
Alan Head	Committee Chair/Board member	7,875	-	7,875	-	-	-	7,875
Nick Sharman	Board member	9,702	-	9,702	-	-	-	9,702
Peter Stredder	Committee Chair/Board member	10,500	299	10,799	-	-	-	10,799
Anne Turner	Committee Chair/Board member	11,746	2,029	13,775	-	-	-	13,775
Chris Kane	Board Member	8,000	-	8,000	-	-	-	8,000
Alan Hall	Board Member	8,551	221	8,772	-	-	-	8,772
Valerie Vaughan-Dick	Board Member	8,448	105	8,553	-	-	-	8,553
Peter Fiddeman	Board Member	9,069	1,128	10,197	-	-	-	10,197
Jon Gooding	Board Member A 24/1/2017	1,992	-	1,992	-	-	-	1,992
		<b>123,572</b>	<b>3,891</b>	<b>127,463</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>127,463</b>
<b>Executive Officers</b>								
Helen Evans		178,346	815	179,161	16,200	13,090	1,968	210,419
Barry Nethercott		186,242	5,115	191,357	-	8,080	-	199,437
Vicky Savage		156,866	399	157,265	14,150	11,434	1,419	184,268
Gerry Doherty		122,939	513	123,452	11,450	2,312	1,425	138,639
Fiona Deal		132,934	532	133,466	6,038	9,757	1,389	150,650
Jon Dawson		113,944	2,071	116,015	8,280	8,363	1,503	134,161
Darren Levy		149,722	47	149,769	4,760	10,989	1,356	166,874
		<b>1,040,993</b>	<b>9,492</b>	<b>1,050,485</b>	<b>60,878</b>	<b>64,025</b>	<b>9,060</b>	<b>1,184,448</b>
		<b>1,164,565</b>	<b>13,383</b>	<b>1,177,948</b>	<b>60,878</b>	<b>64,025</b>	<b>9,060</b>	<b>1,311,911</b>

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 6. Directors' emoluments – continued

	2018 £'000	2017 £'000
Aggregate emoluments payable to Executive Directors	1,122	1,120
Aggregate emoluments payable to non-executive Directors	118	128
	<b>1,240</b>	<b>1,248</b>
Pension contributions payable to Executive Directors	<b>69</b>	<b>64</b>
<b>Total emoluments</b>	<b>1,309</b>	<b>1,312</b>
<b>Emoluments paid to the highest paid Director, excluding pension contributions</b>	<b>202</b>	<b>197</b>

The Chief Executive is an ordinary member of the Social Housing Pension Scheme on the same basis as that available to all staff. Pension contributions paid into a defined contribution scheme on behalf of the Chief Executive were £13,351 (2017: £13,090). The Association did not make any contribution to any individual pension arrangement on her behalf. The notice period for termination of her contract is six months.

No pension contributions were made on behalf of any non-executive Directors.

#### Ratio of highest to lowest earners

The ratio of the highest earner in the Group compared to the average earner (annualised salary) is as follows:

	2018	2017
Ratio of highest to average earner	4.6 : 1	5.1 : 1

Chief Executive, Chairman's and Board member' remuneration as a £ per owned unit basis:

	2018 (based on total no of units)	2017 (based on total no of units)
Chief executive remuneration per home (£)	10.7	10.5
Board Chair's remuneration per home (£)	1.1	1.1
Total Board members remuneration per home (£)	5.9	6.4

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 6. Directors' emoluments – continued

#### Other directorships

Board members had the following external directorships, not including directorships of subsidiaries or associates of Network Homes Limited.

Board Member	Organisation	Position
Trevor Morley	Cerberus Innovations Limited	Director
	Direction Homes Investments Limited	Director
	Direction Law LLP	Director
	Cherry Management Ltd	Director
	Wearr CIC	Director
Valerie Vaughan-Dick	V&A UK Ltd	Director
	RCGP Conferences Ltd	Director
	RCGP Enterprises Ltd	Director
Alan Hall	Director of Communities, Epping Forest District Council	Director
	Board Member, ARCH	
Peter Fiddeman	None	
Anne Turner	ASRA Housing Group Ltd	Director
Peter Stredder	None	
Charmian Boyd	Seamless Relocation Ltd	Director
Nick Sharman	None	
Helen Evans	Trustee, Joseph Rowntree Foundation	
Jon Gooding	None	
Bernadette Conroy	NED/Lay Member, Barnet CCG	Director
	Chair of Buildings and Estates, Cambridge University, Community Health Partnership, Bancroft School; St Paul's Way Trust School; North London Estates Partnership, NED for Milton Keynes Development Partnership	Director
Paul Plummer	CEO of Rail Delivery Group	Director
Barry Nethercott	TEAM ONYX Limited	Secretary, Director





# Notes to the Financial Statements

## for the year ended 31 March 2018

### 7. Interest receivable and other income

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Interest receivable on deposits	279	295	191	282
Interest receivable on investments	4	127	4	127
Interest receivable on loans to Group undertakings	-	-	88	6
<b>Total interest income on financial assets measured at amortised cost</b>	<b>283</b>	<b>422</b>	<b>283</b>	<b>415</b>
<b>Restructuring of financial instruments</b>	<b>87</b>	<b>8,720</b>	<b>87</b>	<b>8,720</b>

### 8. Interest and financing costs

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Housing loans	30,176	29,571	32,261	31,599
Less: interest capitalised	(5,528)	(4,691)	(5,528)	(4,691)
Unwinding of SHPS discount rate	-	245	-	245
Loan cost amortisation	906	479	906	479
Other finance costs	779	614	779	613
<b>Total interest expense on financial liabilities measured at amortised cost</b>	<b>26,333</b>	<b>26,218</b>	<b>28,418</b>	<b>28,245</b>
Interest capitalisation rate	3.94%	4.42%	3.94%	4.42%

### 9. Surplus on ordinary activities before taxation

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
The surplus on ordinary activities before taxation is stated after charging:				
Depreciation	20,669	19,517	20,565	19,413
Software amortised costs	721	543	721	543
Impairment of housing properties	-	(275)	-	(275)
Amortised government grant	(7,421)	(9,611)	(7,421)	(9,611)
Auditors' remuneration (including expenses, excluding VAT):				
Fees for the audit of the financial statements – current year	137	128	100	87
Fees for the audit of the Association's financial statements – prior year	-	66	-	66
Fees in respect of other non-audit services	1	154	1	154
Operating lease payments	17,534	18,215	17,534	18,215

Reversal of impairment in 2017 was primarily in relation to properties that were written off after reconciliation between the property and financial systems.

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 10. Tax on surplus on ordinary activities

(a) Analysis of charge in year	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Tax on profit on ordinary activities				
<b>UK corporation tax</b>				
Current tax on profit for the year	-	-	-	-
Prior year corporation tax	-	-	-	-
Deferred tax	234	-	-	-
<b>Total tax charge</b>	<b>234</b>	<b>-</b>	<b>-</b>	<b>-</b>

The Association is exempt from tax on its charitable activities under tax law.

The tax assessed for the year is the same as the standard rate of corporation tax in the UK (19%) (2017: 20%).

(b) Factors affecting tax charge for the year	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
<i>Current tax reconciliation</i>				
Profit on ordinary activities before tax	44,560	61,050	40,746	59,968
Adjusted for:				
Deferred tax	234	-	-	-
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19% (2017: 20%)	8,432	12,210	7,741	11,994
Prior year corporation tax	-	9,226	-	-
<b>Effects of:</b>				
Taxable activities	-	-	81	-
Group relief claimed	-	-	(81)	-
Non-taxable charitable activities	(8,432)	(12,208)	(4,506)	(7,674)
Gift aid received	-	-	(3,235)	(4,320)
<b>Total tax charge</b>	<b>-</b>	<b>9,228</b>	<b>-</b>	<b>-</b>

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 11. Housing properties

Group	Under Development		Completed (available for letting)		Total £'000
	General rented £'000	Shared ownership £'000	General rented £'000	Shared ownership £'000	
<b>Cost</b>					
At 1 April 2017	106,537	32,178	1,416,294	134,531	1,689,540
Adjustment to opening balance	-	-	(1,481)	-	(1,481)
Additions	151,426	46,940	16,011	1,041	215,418
Transfer to stock	(298)	-	(219)	-	(517)
Transfer to investment properties	(73)	-	-	-	(73)
Transfer on completion	(56,167)	(14,509)	56,167	14,509	-
Disposals	-	(1,091)	(2,742)	(11,929)	(15,762)
Components replaced	-	-	(1,351)	(2)	(1,353)
Write offs	-	-	203	-	203
<b>At 31 March 2018</b>	<b>201,425</b>	<b>63,518</b>	<b>1,482,882</b>	<b>138,150</b>	<b>1,885,975</b>
<b>Accumulated depreciation</b>					
At 1 April 2017	-	-	138,070	6,823	144,893
Adjustment to opening balance	-	-	(1,481)	-	(1,481)
Charge for the year	-	-	17,765	1,725	19,490
Disposals	-	-	(556)	(163)	(719)
Components replaced	-	-	(652)	-	(652)
<b>At 31 March 2018</b>	<b>-</b>	<b>-</b>	<b>153,146</b>	<b>8,385</b>	<b>161,531</b>
<b>Impairment</b>					
At 1 April 2017	-	-	4,399	-	4,399
<b>At 31 March 2018</b>	<b>-</b>	<b>-</b>	<b>4,399</b>	<b>-</b>	<b>4,399</b>
<b>Net book value</b>					
<b>At 31 March 2018</b>	<b>201,425</b>	<b>63,518</b>	<b>1,325,337</b>	<b>129,765</b>	<b>1,720,045</b>
<b>At 31 March 2017</b>	<b>106,537</b>	<b>32,178</b>	<b>1,273,825</b>	<b>127,708</b>	<b>1,540,248</b>

Total expenditure on existing properties in the year was £37,609k (2017: £40,110k). This comprises £14,782k (2017: £16,071k) which was capitalised and £22,827k (2017: £24,039k) which was treated as revenue expenditure and charged to the Statement of Comprehensive Income.

Additions to housing properties during the year included capitalised interest of £5,528k (2017: £4,691k). The capitalisation rate used was 3.94% (2017: 4.42%). At 31 March 2018 the EUV-SH for the units charged was £904,924k (2017: £802,800k) and the number of units charged was 10,615 (2017: 9,618).

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 11. Housing properties – continued

Association	Under Development		Completed (available for letting)		Total £'000
	General rented £'000	Shared ownership £'000	General rented £'000	Shared ownership £'000	
<b>Cost</b>					
At 1 April 2017	103,802	32,178	1,399,525	134,531	1,670,036
Adjustment to opening balance	-	-	(1,481)	-	(1,481)
Additions	151,426	46,940	16,011	1,041	215,418
Transfer to stock	(298)	-	(219)	-	(517)
Transfer on completion	(56,167)	(14,509)	56,167	14,509	-
Transfer to investment properties	(73)	-	-	-	(73)
Disposals	-	(1,091)	(2,742)	(11,929)	(15,762)
Components replaced	-	-	(1,351)	(2)	(1,353)
Write offs	-	-	203	-	203
<b>At 31 March 2018</b>	<b>198,690</b>	<b>63,518</b>	<b>1,466,113</b>	<b>138,150</b>	<b>1,866,471</b>
<b>Accumulated depreciation</b>					
At 1 April 2017	-	-	134,854	6,637	141,491
Adjustment to opening balance	-	-	(1,481)	-	(1,481)
Charge for the year	-	-	17,659	1,725	19,384
Disposals	-	-	(556)	(164)	(720)
Components replaced	-	-	(652)	-	(652)
<b>At 31 March 2018</b>	<b>-</b>	<b>-</b>	<b>149,824</b>	<b>8,198</b>	<b>158,022</b>
<b>Impairment</b>					
At 1 April 2017	-	-	4,399	-	4,399
<b>At 31 March 2018</b>	<b>-</b>	<b>-</b>	<b>4,399</b>	<b>-</b>	<b>4,399</b>
<b>Net book value</b>					
<b>At 31 March 2018</b>	<b>198,690</b>	<b>63,518</b>	<b>1,311,890</b>	<b>129,952</b>	<b>1,704,050</b>
<b>At 31 March 2017</b>	<b>103,802</b>	<b>32,178</b>	<b>1,260,272</b>	<b>127,894</b>	<b>1,524,146</b>

Total expenditure on existing properties in the year was £36,724k (2017: £39,121k). This comprises £14,782k (2017: £16,071k) which was capitalised and £21,942k (2017: £23,050k) which was treated as revenue expenditure and charged to the Statement of Comprehensive Income.

Additions to housing properties during the year included capitalised interest of £5,528k (2017: £4,691k). The capitalisation rate used was 3.94% (2017: 4.42%). At 31 March 2018 the EUV-SH for the units charged was £904,924k (2017: £802,800k) and the number of units charged was 10,615 (2017: 9,618).



# Notes to the Financial Statements

## for the year ended 31 March 2018

### 12. Intangible assets and other fixed assets

Group	Freehold and leasehold office property		Office fixtures and fittings	Total tangible asset	Computer software	Total
	Computer hardware	£'000				
<b>Cost</b>						
At 1 April 2017	4,766	36,053	3,227	44,046	2,993	47,039
Adjustment to opening balance	(567)	-	-	(567)	567	-
Additions	-	164	22	186	2,216	2,402
Write off	(1)	-	(23)	(24)	(116)	(140)
<b>At 31 March 2018</b>	<b>4,198</b>	<b>36,217</b>	<b>3,226</b>	<b>43,641</b>	<b>5,660</b>	<b>49,301</b>
<b>Accumulated depreciation and amortisation</b>						
At 1 April 2017	4,460	11,776	3,064	19,300	1,451	20,751
Adjustment to opening balance	(543)	893	(893)	(543)	543	-
Amortisation for the year	-	-	-	-	721	721
Depreciation charge for the year	167	1,352	315	1,834	-	1,834
<b>At 31 March 2018</b>	<b>4,084</b>	<b>14,021</b>	<b>2,486</b>	<b>20,591</b>	<b>2,715</b>	<b>23,306</b>
<b>At 31 March 2018</b>	<b>114</b>	<b>22,196</b>	<b>740</b>	<b>23,050</b>	<b>2,945</b>	<b>25,995</b>
<b>At 31 March 2017</b>	<b>306</b>	<b>24,277</b>	<b>163</b>	<b>24,746</b>	<b>1,542</b>	<b>26,288</b>

Association	Freehold and leasehold office property		Office fixtures and fittings	Total tangible asset	Computer software	Total
	Computer hardware	£'000				
<b>Cost</b>						
At 1 April 2017	1,293	36,030	2,645	39,968	2,993	42,961
Adjustment to opening balance	(567)	-	-	(567)	567	-
Additions	-	164	22	186	2,216	2,402
Write off	(1)	-	(23)	(24)	(116)	(140)
<b>At 31 March 2018</b>	<b>725</b>	<b>36,194</b>	<b>2,644</b>	<b>39,563</b>	<b>5,660</b>	<b>45,223</b>
<b>Accumulated depreciation and amortisation</b>						
At 1 April 2017	987	11,754	2,482	15,223	1,451	16,674
Adjustment to opening balance	(543)	893	(893)	(543)	543	-
Amortisation for the year	-	-	-	-	721	721
Depreciation charge for the year	167	1,351	315	1,833	-	1,833
<b>At 31 March 2018</b>	<b>611</b>	<b>13,998</b>	<b>1,904</b>	<b>16,513</b>	<b>2,715</b>	<b>19,228</b>
<b>At 31 March 2018</b>	<b>114</b>	<b>22,196</b>	<b>740</b>	<b>23,050</b>	<b>2,945</b>	<b>25,995</b>
<b>At 31 March 2017</b>	<b>306</b>	<b>24,276</b>	<b>163</b>	<b>24,745</b>	<b>1,542</b>	<b>26,287</b>

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 13. Freehold and leasehold properties

The cost of housing properties and office property comprises:

	Group		Association	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
<b>Housing properties</b>				
Freehold	1,480,027	1,416,259	1,463,258	1,399,525
Long leasehold	141,005	134,566	141,005	134,531
	<b>1,621,032</b>	<b>1,550,825</b>	<b>1,604,263</b>	<b>1,534,056</b>
<b>Office properties</b>				
Freehold	11,655	11,492	11,633	11,469
Short lease	24,562	24,561	24,561	24,561
	<b>36,217</b>	<b>36,053</b>	<b>36,194</b>	<b>36,030</b>
<b>Total</b>	<b>1,657,249</b>	<b>1,586,878</b>	<b>1,640,457</b>	<b>1,570,086</b>

### 14. Investment properties

	Group	Association
	£'000	£'000
<b>At 1 April 2017</b>	<b>29,274</b>	<b>25,537</b>
Additions	88	88
Disposals	(241)	-
Transfer to group member	-	(1,185)
Revaluation surplus	1,005	1,311
<b>At 31 March 2018</b>	<b>30,126</b>	<b>25,751</b>

### Completed investment properties

The valuation report was prepared by Lamberts Chartered Surveyors Limited in accordance with the RICS Valuation Professional Standards incorporating the International Valuation Standards (January 2014 edition) and the requirements contained therein for valuations undertaken for inclusion in the financial statements. The valuation of completed investment properties were arrived at by either applying the capital values realised net off stamp duty and 1.5% for purchasing costs such as legal and agency costs achieved from specific comparable properties in a similar location or by using the investment method approach where an appropriate capitalisation rate is applied to the income streams generated by the individual investment property.

Where properties were valued using an appropriate capitalisation rate to the income streams the following assumptions were applied: capitalisation rates 7.25% to 10% and inflation rate 1%.

The other factors affecting the valuations include the duration of the secure income stream, location and the covenant strength of the occupier.

### Investment properties under construction

Investment properties under construction are valued at cost at stage of completion. These costs are included in the values in the above reconciliation.

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 15. Investments in joint ventures

Group	GH Partnership LLP £'000	Merrick Road LLP £'000	Total £'000
At 1st April 2017	-	-	-
Cumulative contribution	203	13,719	13,922
Cumulative share of joint venture loss	(56)	(101)	(157)
<b>At 31 March 2018</b>	<b>147</b>	<b>13,618</b>	<b>13,765</b>

Shares voting right	GH Partnership LLP	Merrick Road LLP
Voting rights	50%	50%
Interest	50%	50%

	GH Partnership LLP £'000	Merrick Road LLP £'000
Turnover	-	-
Operating (Loss)	(56)	(202)
Net Assets	294	27,236

Joint venture Entities	Principal activity	Partner	Group Interest	Legal status
GH Partnership LLP	Prepare a refurbishment scheme that optimises value of a student accommodation property	Stanhope Drury Lane Limited	50%	Incorporated in the UK under LLP legislative requirements
Merrick Road LLP	Development of new homes	Norfolk Joint Venture Limited Southall Residential S.A.R.L	50%	Incorporated in the UK under LLP legislative requirements

### 16. Investments (financial)

	Group and Association £'000
At 1 April 2017	6,487
Amortisation of cost	(51)
<b>At 31 March 2018</b>	<b>6,436</b>

The above investment in gilts is held to provide collateral as required by a debt instruments covenant conditions; the investment is therefore restricted and not available for general use. The investment has a nominal value of £5,200,000, and the original cost of the investment is being amortised to this nominal value in 2042 (when the investment matures) using the effective interest rate method.

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 17. Investment in Group entities

The Association has interests in the following Group entities:

Name of entity	Notes	Country of incorporation	Nature of business	Interest
Network Living Limited	1	UK	Dormant	100% ordinary shares (1 share)
Network New Build Limited	1	UK	Build and design	100% ordinary shares (1 share)
Network Homes Investments Limited	1	UK	Property Development	100% ordinary shares (65,000,001 shares)
Network Homes Investments (Stockwell) Limited	1	UK	Property Development	100% ordinary shares (1 share)
Network Treasury Services Limited	1	UK	Treasury vehicle	100% ordinary shares (11 shares). Premium on shares £9,999,990
Riversmead Housing Development Limited	1	UK	Dormant	100% ordinary shares (1 share)
Pimlico Village Developments Limited	1	UK	Property development	100% ordinary shares (2 shares)
Pimlico Village Developments (Number Two) Limited	1	UK	Dormant	100% ordinary shares (2 shares)
Student First Limited	2	UK	Student Accommodation	100% ordinary shares (6 shares)
Network Homes 2016 Limited	1	UK	Dormant	100% ordinary shares (1,000 shares)
Network Living Management Services Ltd.	1	UK	Dormant	100% ordinary shares (1 share)
SW9 Community Housing	1 and 3	UK	Management of properties in Lambeth	Interest in property management
Venice House Management Company Ltd	1	UK	Dormant	N / A (Private company limited by guarantee without share capital)
Aylesbury House Management Company Ltd	1	UK	Dormant	N/A (Private company limited by guarantee without share capital)
Marsworth House Management Company Ltd	1	UK	Dormant	N/A (Private company limited by guarantee without share capital)
Cosgrove House Management Company Ltd	1	UK	Dormant	N/A (Private company limited by guarantee without share capital)
<b>Unconsolidated entities: these entities are associates with immaterial balances</b>				
Churchill Gardens Amenity Limited	1	UK	Property Management	Interest in property management
Tay Road Amenity Limited	1	UK	Property Management	Interest in property management

#### Notes

1. Companies incorporated under the Companies Act 2006.
2. Bodies incorporated under the Co-operative and Community Benefit Societies Act 2014.
3. Entities incorporated under Charity Act 2011.

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 18. Shared equity loans

	Group and Association	
	2018 £'000	2017 £'000
At 1 April 2017	6,624	6,821
Loans issued during the year	-	742
Redeemed during the year	(1,096)	(939)
<b>At 31 March 2018</b>	<b>5,528</b>	<b>6,624</b>

Shared equity loans meet the criteria for concessionary loans and are therefore measured in accordance with FRS102 PBE34.90 to PBE34.92. The loans are initially measured at amount received. In subsequent periods the carrying amount of the loans are adjusted to reflect any accrued interest and repayment.

### 19. Debtors: amounts falling due after more than one year

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Loan finance charges	79	-	65	-
Stock transfer	-	1,069	-	984
	<b>79</b>	<b>1,069</b>	<b>65</b>	<b>984</b>

### 20. Stocks

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
<b>Completed schemes:</b>				
Shared ownership properties	1,556	1,170	1,556	1,170
Open market sales	2,131	23,425	-	1,476
	<b>3,687</b>	<b>24,595</b>	<b>1,556</b>	<b>2,646</b>
<b>Under construction:</b>				
Shared ownership first tranche	42,430	11,496	42,430	11,496
Open market sales	8,615	3,239	-	-
<b>Total</b>	<b>54,732</b>	<b>39,330</b>	<b>43,986</b>	<b>14,142</b>

There was no impairment on stock recognised during the year (2017: £nil).

None of the stock is pledged as collateral against borrowing by the Group (2017: £nil).

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 21. Debtors: amounts falling due within one year

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Rent and service charges	13,046	14,406	13,044	14,399
Less: provision for bad and doubtful debts	(5,998)	(5,408)	(5,998)	(5,408)
	<b>7,048</b>	<b>8,998</b>	<b>7,046</b>	<b>8,991</b>
Other debtors	8,236	6,329	8,103	5,416
Less: provision for bad and doubtful debts	(99)	(294)	(99)	(294)
Trade debtors	1,961	2,076	1,915	2,038
Amount owed from Group undertakings	-	-	30,648	21,711
Stock transfer	4,970	6,062	4,970	6,062
Prepayments and accrued income	2,759	2,733	3,528	3,529
	<b>24,875</b>	<b>25,904</b>	<b>56,111</b>	<b>47,453</b>

### 22. Cash and cash equivalents

	Note	Group		Association	
		2018 £'000	2017 £'000	2018 £'000	2017 £'000
Cash at bank and in hand		65,488	73,451	58,934	65,226
Cash held for client accounts	23	4,031	3,301	4,031	3,301
		<b>69,519</b>	<b>76,752</b>	<b>62,965</b>	<b>68,527</b>

All the cash other than cash held for client accounts and GLA funding is available for general use. Cash held in client accounts is restricted as this is tenants' money. The GLA funding of £21m is for the purchase of the build to rent development scheme at Atrium Point which completed in December 2017.

### 23. Creditors: amounts falling due within one year

	Note	Group		Association	
		2018 £'000	2017 £'000	2018 £'000	2017 £'000
<b>Client accounts</b>					
Service charge and client funds		4,170	3,442	4,170	3,442
Client bank accounts		(139)	(141)	(139)	(141)
<b>Total client account creditors</b>		<b>4,031</b>	<b>3,301</b>	<b>4,031</b>	<b>3,301</b>
<b>Other creditors</b>					
Bank overdraft		-	686	-	-
Housing loans	26	6,550	5,151	6,550	5,065
Trade creditors		6,630	2,759	1,993	847
Rent and service charges received in advance		8,707	7,426	8,638	7,426
Owed to Group undertakings		-	-	67,237	35,831
Other creditors		2,073	1,201	1,710	1,151
SHPS Accrual	37	1,661	1,601	1,661	1,601
Accruals		59,507	41,420	23,828	19,521
		<b>89,159</b>	<b>63,545</b>	<b>115,648</b>	<b>74,743</b>

## Notes to the Financial Statements for the year ended 31 March 2018

### 24. Creditors: amounts falling due after more than one year

	Note	Group		Association	
		2018 £'000	2017 £'000	2018 £'000	2017 £'000
Housing loans*	26	852,234	756,724	862,420	756,810
Social housing grant received in advance		573	573	573	573
Recycled capital grant fund	27	7,882	12,830	7,882	12,830
Disposal proceeds fund	28	484	484	484	484
Social housing grant	29	559,611	513,264	559,611	513,264
Other capital grants	30	49,513	51,855	49,513	51,855
Shared equity grants	31	2,663	2,963	2,663	2,963
SHPS accrual	37	8,581	10,196	8,581	10,196
		<b>1,481,541</b>	<b>1,348,889</b>	<b>1,491,727</b>	<b>1,348,975</b>

\* Housing loans are carried at amortised cost using the effective interest method when they are classified as basic loans. The nominal carrying values of housing loans are £844,345k (2017: £740,188k). It also includes restructured loan of £13,251k (2017: £13,525k) and the THFC financing surplus of £3,456k (2017: £3,097k).

The housing loans in the Association includes loan of £481,844k (2017: £425,522k) from Network Treasury Services Limited.

### 25. Provisions for liabilities and charges

Group	AllPay £'000	Lease termination repairs £'000	Stock transfer £'000	Deferred tax £'000	Total £'000
Additions in the year	79	-	-	234	313
Released in the year	-	(480)	(2,075)	-	(2,555)
<b>At 31 March 2018</b>	<b>79</b>	<b>3,487</b>	<b>4,970</b>	<b>234</b>	<b>8,770</b>

	2018 £'000	2017 £'000
Amount payable within one year	5,049	5,767
Amount payable after one year	3,721	5,245
	<b>8,770</b>	<b>11,012</b>

Association	AllPay £'000	Lease termination repairs £'000	Stock transfer £'000	Total £'000
Additions in the year	79	-	-	79
Released in the year	-	(480)	(2,075)	(2,555)
<b>At 31 March 2018</b>	<b>79</b>	<b>3,487</b>	<b>4,970</b>	<b>8,536</b>

	2018 £'000	2017 £'000
Amount payable within one year	5,049	5,767
Amount payable after one year	3,487	5,245
	<b>8,536</b>	<b>11,012</b>

## Notes to the Financial Statements for the year ended 31 March 2018

### AllPay

The provision is in relation to historic VAT not charged at time of invoicing.

### Lease termination repairs

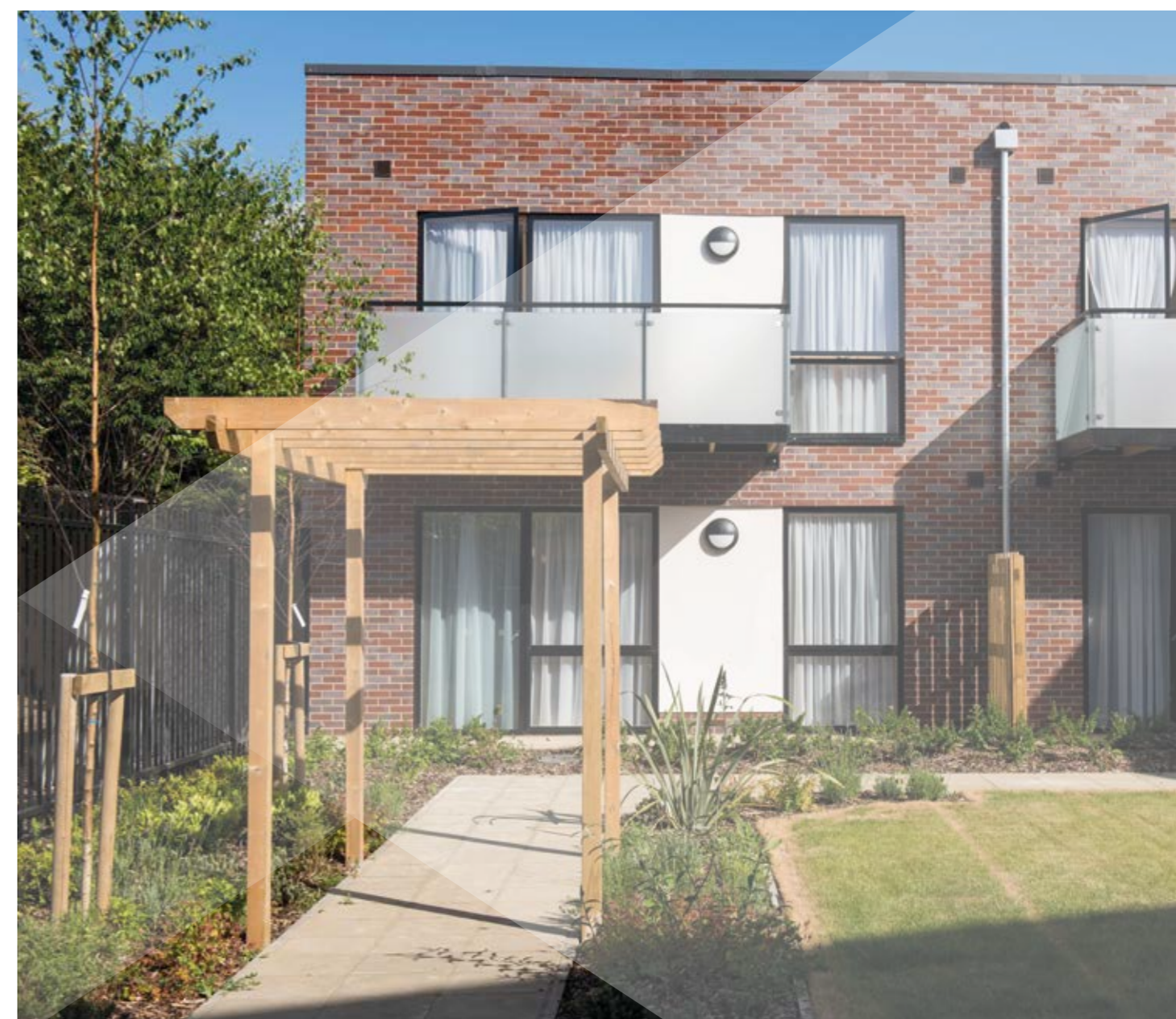
The provisions for termination repairs relate to future costs that will be incurred to return social housing properties to a suitable condition. These costs are payable at the conclusion of the properties lease, with the last lease ending in 2037. The principal uncertainty is the level of dilapidation work required to be performed at the end of the lease.

### Stock transfer

The provision relates to the cost of a works programme to be undertaken by the Community Trust Housing (now Network Homes Limited) on the Stockwell Park and Robsart estates in the London Borough of Lambeth. The amount stated represents the Association's obligation to the London Borough of Lambeth to undertake works under the refurbishment contract.

### Deferred tax

The provision relates to tax on unrealised gains on revaluation of investment property in Group as at 31 March 2018.



# Notes to the Financial Statements

## for the year ended 31 March 2018

### 26. Housing loans

				Group	
				2018	2017
				£'000	£'000
<b>Financial liabilities measured at amortised cost</b>					
<b>Fixed Rate Debt Instruments</b>	<b>Rate</b>	<b>Maturity</b>	<b>Repayment</b>		
Bilateral bank loan	1.60%	Dec 2025	On Maturity	21,038	20,827
Bilateral bank loan	2.39%	Sep 2045	Instalment	21,000	21,000
Local Authority Investment	3.05%	April 2019	On Maturity	1,000	1,000
Bilateral bank loan	3.22%	May 2041	On Maturity	19,250	19,250
Local Authority Investment	3.40%	April 2019	On Maturity	2,000	2,000
Local Authority Investment	3.40%	April 2019	On Maturity	5,000	5,000
Local Authority Investment	3.50%	April 2021	On Maturity	2,500	2,500
Local Authority Investment	3.60%	April 2021	On Maturity	2,000	2,000
Bilateral bank loan	3.80%	May 2042	On Maturity	30,000	30,000
Bilateral bank loan	4.39%	June 2038	On Maturity	20,000	20,000
Bilateral bank loan	4.53%	May 2068	On Maturity	75,000	75,000
Bilateral bank loan	4.63%	Mar 2036	On Maturity	10,000	10,000
Bilateral bank loan	4.72%	Dec 2037	Instalment	105,000	105,000
Bilateral bank loan	4.77%	May 2048	Instalment	75,000	75,000
Bilateral bank loan	4.80%	Nov 2035	Instalment	33,551	35,496
Bilateral bank loan	4.86%	Mar 2036	On Maturity	10,000	10,000
Deep Discounted Loan Note	5.00%	Sep 2027	On Maturity	12,050	11,690
Bilateral bank loan	5.01%	Mar 2027	Instalment	5,000	5,000
Bilateral bank loan	5.20%	Oct 2043	On Maturity	100,000	100,000
Bilateral bank loan	5.47%	June 2020	Instalment	13,675	14,340
Bilateral bank loan	10.00%	Sep 2025	Instalment	3,464	3,767
Bilateral bank loan		Mar 2083	On Maturity	169	179
				<b>566,697</b>	<b>569,049</b>
<b>Variable Rate Debt Instrument</b>	<b>Rate</b>	<b>Maturity</b>	<b>Repayment</b>		
Bilateral bank loan	0.18%	Sep 2045	Instalment	24,500	24,500
Bilateral bank loan	0.25%	May 2038	Instalment	42,000	42,000
Bilateral bank loan	0.38%	Nov 2035	Instalment	25,619	27,394
Bilateral bank loan	0.60%	June 2020	On Maturity	7,000	7,000
Bilateral bank loan	0.60%	May 2049	On Maturity	10,000	-
Bilateral bank loan	0.90%	Dec 2020	On Maturity	15,000	-
Bilateral bank loan	1.00%	Mar 2036	Instalment	8,485	9,268
Bilateral bank loan	1.35%	May 2020	On Maturity	20,000	15,000
Bilateral bank loan	1.25%	July 2018	On Maturity	35,000	10,000
Local Authority Investment	1.50%	June 2020	On Maturity	5,000	-
Local Authority Investment	1.50%	June 2020	On Maturity	10,000	-
Local Authority Investment	1.50%	June 2020	On Maturity	5,000	-
Local Authority Investment	1.50%	June 2020	On Maturity	20,000	-
Bilateral bank loan	1.75%	May 2022	On Maturity	35,000	35,000

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 26. Housing loans – continued

				Group	
				2018	2017
				£'000	£'000
Local Authority Investment	2.00%	April 2021	On Maturity	2,500	2,500
Local Authority Investment	2.15%	April 2021	On Maturity	5,000	5,000
Bilateral bank loan	2.50%	Feb 2019	On Maturity	11,000	2,500
				<b>281,104</b>	<b>180,162</b>
<b>Financial liabilities</b>				<b>847,801</b>	<b>749,211</b>
Unamortised loan issue costs				(2,268)	(861)
Restructured loan				13,251	13,525
<b>Total financial liabilities measured at amortised cost (notes 23 &amp; 24)</b>				<b>858,784</b>	<b>761,875</b>
Less: THFC financing surplus				(3,456)	(3,097)
Less: Restructured loan				(13,251)	(13,525)
<b>Total loan repayable (as per repayment profile below)</b>				<b>842,077</b>	<b>745,253</b>

At 31 March 2018 the EUV-SH for the units charged was £904,924k (2017: £802,800k) and the number of units charged was 10,615 (2017: 9,618).

Repayment profile of financial instruments	Group		
	Payable by instalment £'000	Payable on maturity £'000	2018 Total £'000
Less than one year	6,550	-	6,550
Between one and five years	63,169	183,000	246,169
In more than five years	324,556	264,802	589,358
<b>Total</b>	<b>394,275</b>	<b>447,802</b>	<b>842,077</b>

	Group		
	Payable by instalment £'000	Payable on maturity £'000	2017 Total £'000
Less than one year	8,091	-	8,091
Between one and five years	53,537	54,500	108,037
In more than five years	339,526	289,599	629,125
<b>Total</b>	<b>401,154</b>	<b>344,099</b>	<b>745,253</b>

	Association		
	Payable by instalment £'000	Payable on maturity £'000	2018 Total £'000
Less than one year	1,173	-	1,173
Between one and five years	7,172	106,000	113,172
In more than five years	88,354	159,799	248,153
<b>Total</b>	<b>96,699</b>	<b>265,799</b>	<b>362,498</b>

	Association		
	Payable by instalment £'000	Payable on maturity £'000	2017 Total £'000
Less than one year	3,705	-	3,705
Between one and five years	2,437	22,500	24,937
In more than five years	90,781	194,599	285,380
<b>Total</b>	<b>96,923</b>	<b>217,099</b>	<b>314,022</b>



# Notes to the Financial Statements

## for the year ended 31 March 2018

### 27. Recycled capital grant fund

The movement on the recycled capital grant fund is shown below:

Group and Association	HCA £'000	GLA £'000	Other £'000	Total £'000
Funds pertaining to activities within areas covered by:				
As at 1 April 2017	418	11,037	1,375	12,830
Inputs to RCGF (source of funds):				
Funds recycled	22	2,537	112	2,671
Interest accrued	-	13	-	13
Use/allocation of funds:				
New build	-	(7,632)	-	(7,632)
<b>At 31 March 2018</b>	<b>440</b>	<b>5,955</b>	<b>1,487</b>	<b>7,882</b>
<b>Amounts 3 years or older where repayment may be required</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 28. Disposal Proceeds Fund

The movement on the Disposal Proceeds Fund is shown below:

Group and Association	GLA £'000
Funds pertaining to activities within areas covered by:	
As at 1 April 2017	484
<b>At 31 March 2018</b>	<b>484</b>
<b>Amounts 3 years or older where repayment may be required</b>	<b>-</b>

### 29. Social housing grant

Group and Association	Under development		Completed (available for letting)		Total £'000
	General rented £'000	Shared ownership £'000	General rented £'000	Shared ownership £'000	
At 1 April 2017	13,453	2,768	469,379	27,664	513,264
Received	22,169	25,355	-	-	47,524
Amortisation for year	-	-	(5,259)	-	(5,259)
Disposal	-	-	(1,368)	(2,182)	(3,550)
Transfer from RCGF	1,220	6,412	-	-	7,632
<b>At 31 March 2018</b>	<b>36,842</b>	<b>34,535</b>	<b>462,752</b>	<b>25,482</b>	<b>559,611</b>

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 30. Other capital grants

Group and Association	Under development		Completed (available for letting)		Total £'000
	General rented £'000	Shared ownership £'000	General rented £'000	Shared ownership £'000	
At 1 April 2017	-	-	49,806	2,049	51,855
Amortisation for year	-	-	(2,160)	-	(2,160)
Disposal	-	-	(70)	(112)	(182)
<b>At 31 March 2018</b>	<b>-</b>	<b>-</b>	<b>47,576</b>	<b>1,937</b>	<b>49,513</b>

Other grants are grants from local authorities.

### 31. Shared equity grants

Group and Association	2018 £'000	2017 £'000
At 1 April 2017	2,963	1,531
Grants received during the year	-	1,862
Recycled during the year	(300)	(430)
<b>At 31 March 2018</b>	<b>2,663</b>	<b>2,963</b>

Shared equity grants are received to partially fund the shared equity loan scheme. The grants are not amortised and are recyclable or become payable when the shared equity loans they funded are redeemed.

### 32. Non-equity share capital

Group and Association	Association	
	2018 £	2017 £
<b>Ordinary shares of £1 each, issued and fully paid:</b>		
At 1 April 2017	11	9
Issued during the year	-	2
Surrendered during the year	(1)	-
<b>At 31 March 2018</b>	<b>10</b>	<b>11</b>

The shares provide members with the right to vote at general meetings, but do not provide any rights to dividends, redemptions of capital or distributions on a winding up. Shares in issue are not capable of being repaid or transferred. Where a shareholder ceases to be a member, that person's share is cancelled and the amount paid up thereon becomes the property of the Association. Therefore all shareholdings relate to non-equity interests.

### 33. Legislative provisions

The Group and Association are registered under the Co-operative and Community Benefit Societies Act 2014, and are required by statute to prepare consolidated financial statements as the Association is the ultimate parent entity in the Group. The Association is registered with the Homes and Communities Agency (HCA) as a social provider (now Regulator of Social Housing).

## Notes to the Financial Statements for the year ended 31 March 2018

### 34. Capital commitments

	2018 £'000	2017 £'000
Expenditure contracted for but not provided for in the financial statements	418,471	283,694
Capital Expenditure authorised by board but not yet contracted for	117,327	-
<b>Total</b>	<b>535,798</b>	<b>283,694</b>

Capital commitments are in relation to the development programme that Board approved. Capital commitments will be financed through a combination of retained reserves, long-term committed loan facilities from banks and other lending institutions, social housing grant awarded by the Homes and Communities Agency (now Homes England) and proceeds from the sale of outright sale and non-core properties. Borrowings mentioned below relate to existing and new loans which will be taken when required.

Below is how the Group expects to finance capital commitment through:

	2018 £'000	2017 £'000
Social Housing Grants	37,066	17,387
Surpluses and borrowings	498,732	266,307
<b>Total</b>	<b>535,798</b>	<b>283,694</b>

### 35. Operating leases

The total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Amount payable in:				
Not later than one year	15,322	16,472	15,284	16,434
Later than one year and not later than five years; and	22,694	21,983	22,694	21,983
Later than five years	28,231	30,417	28,231	30,417
<b>Total</b>	<b>66,247</b>	<b>68,872</b>	<b>66,208</b>	<b>68,834</b>

The amount of lease payments recognised as an expense in the year was £17,669k (2017: £18,516k).

## Notes to the Financial Statements for the year ended 31 March 2018

### 36. Notes to the cash flow statement

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
<b>Surplus for the financial year</b>	44,326	51,822	40,745	59,968
Profit on sale of fixed assets	(30,148)	(37,568)	(11,992)	(18,954)
Revaluation surplus on investment properties	(1,005)	(1,347)	(1,311)	460
Profit on sale of investment property	(274)	-	-	-
Interest receivable and other income	(283)	(422)	(283)	(415)
Interest payable and similar charges	26,333	26,218	28,418	28,245
Restructuring of financial instruments	(87)	(8,720)	(87)	(8,720)
Share of joint venture loss	157	-	-	-
Taxation	234	9,228	-	-
Gift aid receivable	-	-	(17,028)	(21,604)
<b>Operating surplus</b>	<b>39,253</b>	<b>39,211</b>	<b>38,462</b>	<b>38,980</b>
Depreciation charges	21,390	20,060	21,286	19,956
Amortised government grants	(7,419)	(9,001)	(7,420)	(9,001)
Impairment of assets	-	542	-	542
<b>Working capital movements</b>				
Increase in stock	(15,402)	9,318	(29,844)	37,111
Decrease/(increase) in debtors	4,773	8,583	(9,472)	4,656
Increase/(decrease) in creditors	15,171	(14,176)	37,311	(10,310)
Reclassification/non-cash item	(250)	(25,383)	1,123	(25,382)
<b>Net cash inflow from operating activities</b>	<b>57,516</b>	<b>29,154</b>	<b>51,446</b>	<b>56,552</b>

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 37. Pension schemes

During the year, the Group participated in three pension schemes: two defined benefit schemes providing benefits based on final pensionable pay (one local government pension schemes and the multi-employer Social Housing Pension Schemes SHPS) and the third scheme providing benefits based on contributions made (a defined contribution scheme). The local government pension scheme is accounted for as defined benefit schemes whilst SHPS defined benefit scheme is accounted for as a defined contribution scheme because it is not possible to identify the Group's share of underlying assets and liabilities on a consistent and reasonable basis.

The amount recognised in the Statement of Comprehensive Income is as follows:

		2018	2017
		£'000	£'000
<b>Charged in operating profit</b>			
Defined benefit schemes: service costs	note 37a	-	565
Defined benefit scheme – accounted for as a defined contribution scheme: contribution paid	note 37b	1,555	1,498
Defined contribution scheme: contributions paid	note 37c	910	661
		<b>2,465</b>	<b>2,724</b>
<b>Interest and finance costs</b>			
Defined benefit schemes	note 37a	7	4
Defined benefit scheme – accounted for as a defined contribution scheme	note 37b	144	245
		<b>151</b>	<b>249</b>

#### (a) Defined benefit schemes

Network Homes Limited participates in the Hertfordshire Local Government Pension Scheme (the Hertfordshire Scheme) administered by Hertfordshire County Council. There are no active members in the scheme. During the year, Network Homes contributed towards past service deficit and paid £1,000k.

In previous year, the Group participated in another local government pension scheme. Since the amount of £1,089k was paid in full to the pension scheme managed by Lambeth Local Government, Network Homes Limited has no further liability in respect of past service deficit.

Credits on Consolidated Statement of Comprehensive Income are part of closure of liability hence the net amount of £565k was the cost that went through accounts.

Information below relates to the Hertfordshire Pension Scheme which is contracted out of the Second State Pension. The information below relates to this scheme.

	2018	2017
Members of the Schemes employed by the Group	-	-
Deferred pensioners	47	47
Pensioners	42	42

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI model assuming current rates of improvement have peaked and will converge to a long term rate 1.25% pa.

Based on the assumptions, the average future life expectancies are summarised below:

	2018	2017
<b>Future pensioners *</b>		
Males	24.1 years	24.1 years
Females	26.7 years	26.7 years
<b>Current pensioners</b>		
Males	22.5 years	22.5 years
Females	24.9 years	24.9 years

\* figures assume members aged 45 as the last formal valuation date.

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 37. Pension schemes – continued

A full actuarial valuation of the scheme was performed at 31 March 2018 by a qualified independent actuary, Hymans Robertson, using the projected unit credit method. The principal financial assumptions used by the actuary were:

	2018	2017
	%	%
Expected rate of salary increase	2.5	2.5
Expected rate of pension increases	2.4	2.4
Discount rate	2.7	2.6

	Assets	Liabilities	Total
	£'000	£'000	£'000
At 1 April 2017	11,942	(12,726)	(784)
Benefits paid	(285)	285	-
Employer contribution	1,000	-	1,000
Interest income / (expense)	320	(327)	(7)
Actuarial (loss)/gain	149	233	382
<b>At 1 April 2018</b>	<b>13,126</b>	<b>(12,535)</b>	<b>591</b>

	2018	2017
	£'000	£'000
<b>Total cost recognised as an expense:</b>		
Cessation cost	-	565
Net interest cost	7	4
	<b>7</b>	<b>569</b>

Cessation costs relates to Lambeth Pension Fund. Network Homes Limited has no further liability towards the fund.

	2018	2017
	£'000	£'000
<b>The fair value of the plan assets were:</b>		
Equity instruments	7,745	7,762
Bonds	3,675	2,986
Property	1,050	836
Cash	656	358
	<b>13,126</b>	<b>11,942</b>

	2018	2017
	£'000	£'000
<b>The return on the plan assets were:</b>		
Interest income	320	405
Actual return on plan assets less interest income	149	111
	<b>469</b>	<b>516</b>

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 37. Pension schemes – continued

#### (b) Defined benefit scheme – accounted for as a defined contribution scheme

The Association participates in the Social Housing Pension Scheme (the Scheme). The Scheme is funded and is contracted-out of the State Pension scheme. It is not possible, in the normal course of events, to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the scheme is a multi-employer scheme where the scheme assets are co-mingled for investment purposes, and benefits are paid from total scheme assets. Accordingly, due to the nature of the Scheme, the Scheme has been accounted for as a defined contribution plan.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK. The Scheme is classified as a “last-man standing arrangement”.

Therefore, the Association is potentially liable for other participating employers’ obligations if those employers are unable to meet their share of the Scheme deficit following withdrawal from the Scheme. Participating employers are legally required to meet their share of the Scheme deficit on an annuity purchase basis on withdrawal from the Scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed additional contributions will be paid to the Scheme. The agreed future payments have been recognised at their present value using the market yields on high quality bonds. The discount rate used was 1.72% (2017: 1.33%, 2016: 2.06%, 2015: 1.92%, 2014: 3.02%).

	2018 £'000	2017 £'000
At 1 April 2017	11,797	12,721
Deficit contributions paid	(1,555)	(1,498)
<b>Charged to staff costs:</b>		
Impact of change in discount rate	(144)	340
Unwinding of the discount factor (charged to interest payable)	144	245
Re-measurement to contribution	-	(11)
<b>At 31 March 2018</b>	<b>10,242</b>	<b>11,797</b>
Analysed as follows:		
Amount due within one year	1,661	1,601
Amount due after one year	8,581	10,196
	<b>10,242</b>	<b>11,797</b>

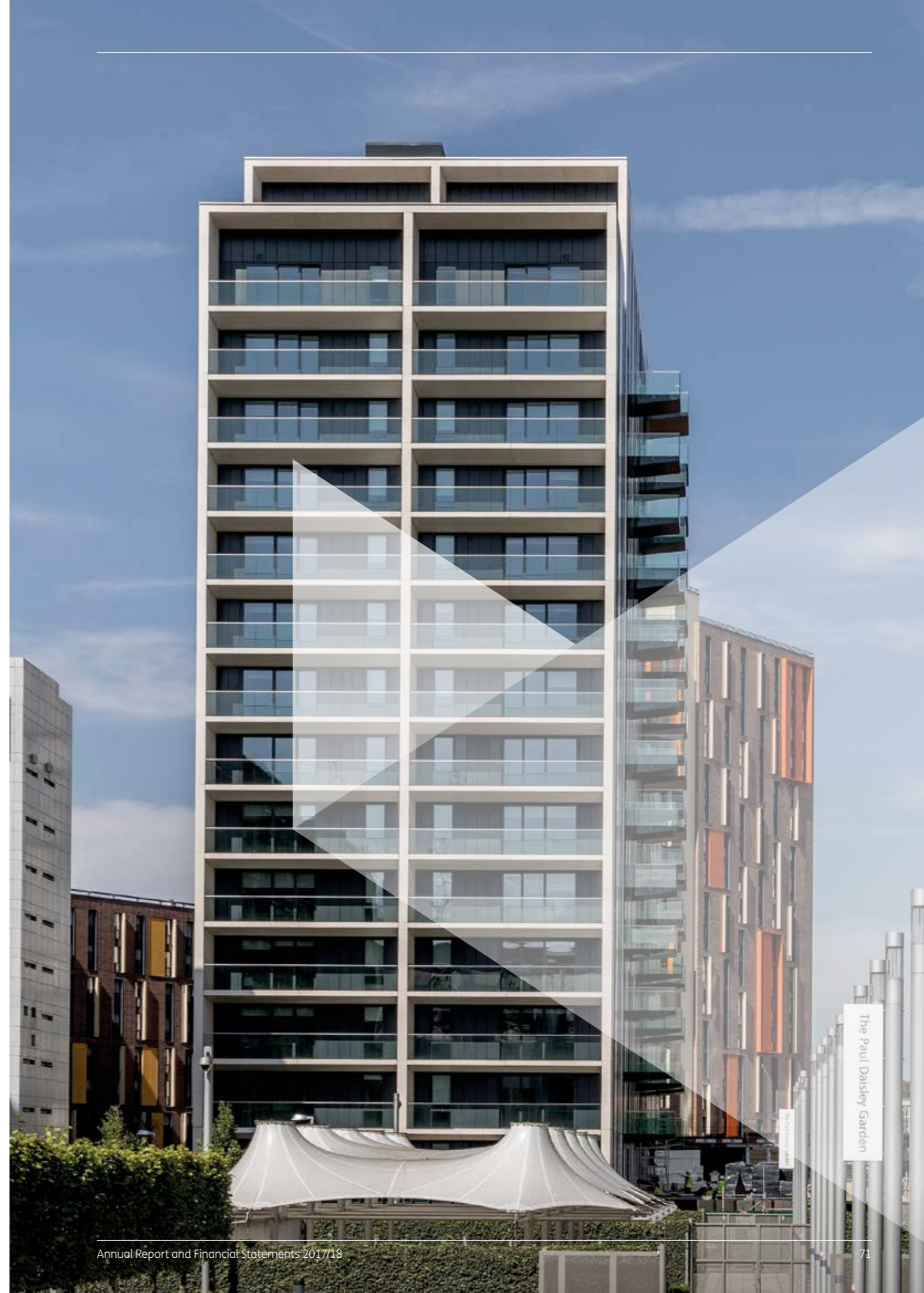
As per table above, in year ended 31 March 2018 Network Homes Limited made additional payment to the scheme in amount of £1,555k (2017: £1,498k) in respect of contribution towards past service deficit. The Association received a confirmation from SHPS that a past service deficit contribution payable from 1 April 2018 will be £1,661k, which is payable on a monthly basis.

Based on the financial position of the Scheme as at 30 September 2014, the Pensions Trust has notified the parent of the estimated £11,196k employer debt on withdrawal from the SHPS. No crystallising event has occurred and no provision has been recognised, nor has any contingent liability been disclosed arising from this arrangement.

#### (c) Defined contribution scheme

The amount recognised as an expense was:	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Contributions	910	661	880	641
	<b>910</b>	<b>661</b>	<b>880</b>	<b>641</b>

The Association paid contributions to The Pension Trust for its staff at the rates of 4% to 10% and members paid contribution between 4% and 10% based on their pensionable salaries.



# Notes to the Financial Statements

## for the year ended 31 March 2018

### 38. Contingent liabilities

As at 31 March 2018, the Group had the following contingent liabilities:

- A number of performance bonds exist, total amount is £316k. They are repayable by Network Homes Limited if the contracted work described in them is not completed in accordance with the terms of the respective bond.
- Cross collateralisation and cross guarantees are in place for £410m of loans borrowed by Network Treasury Services Limited, the Group's Treasury vehicle, as at 31 March 2018. The loans are secured against property assets held by these Group entities and are included within housing loans in note 26.
- The Group estimates a contingent liability in amount of £9,228k in relation to corporation tax for one of its subsidiaries for the year ended 31 March 2016.

### 39. Government assistance

The Group receives financial assistance from government sources such as the HCA and local authorities. These government grants are accounted for as deferred income in the statement of financial position and are amortised annually to the statement of comprehensive income based on the life of the building component; which is, 100 years. The amount amortised represent a contingent liability to the entity and will be recognised as a liability when the properties funded by the relevant government grant are disposed of or when the property ceases to be used for social housing purposes.

Below is the analysis of the assistance from government sources in the form of government grants:

	Group and Association	
	2018 £'000	2017 £'000
Government funding received (Note 29,30 & 31)	611,787	568,082
<b>Grants amortised to date</b>	<b>75,183</b>	<b>67,764</b>

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 40. Related parties

As permitted by FRS 102 Paragraph 33.1A, the Association has not presented details of related party transactions with other companies that are wholly owned within the Group. The rents of the tenant Board members are on normal commercial terms and they are not able to use their position to any advantage.

All gift aid payments from non-regulated entities are receivable by the Association.

Total receipts from non-regulated Group members	Details	2018 £'000	2017 £'000
Network Homes Investments (Stockwell) Limited	Loan Interest	46	-
Network Treasury Services Limited	Loan Interest	42	-
Network Living Limited	Gift aid	-	284
Network Homes Investments Limited	Gift aid	18,626	10,922
Pimlico Village Developments Limited	Gift aid	16	62
Network New Build Limited	Gift aid	391	272
Network Treasury Services Limited	Gift aid	19	11
Network Homes Investments (Stockwell) Limited	Gift aid	-	10,065
SW9 Community Housing	Management fees	2,704	2,614
		<b>21,844</b>	<b>24,230</b>

Total payments to non-regulated Group members	Details	2018 £'000	2017 £'000
Network Homes Investments Limited	Interest paid on loans	3	1
Network Homes Investments Limited	Office rent	38	10
Network Treasury Services Limited	Interest paid on loans	60	59
Network New Build Limited	Design & Build	77,227	61,680
Pimlico Village Developments	Electricity & insurance	190	60
Network Living Limited	Office rent and Loans	-	29
		<b>77,518</b>	<b>61,839</b>

Gift aid from the subsidiaries is recognised at year-end on receivable basis and is calculated based on the profit for the year end. Design and build fees are calculated as a percentage of scheme build cost recharged to Network Homes Limited. Electricity and insurance cost is recharged based on the agreement between Pimlico Village Developments and the Association.

Student First Ltd pays interest on loan from Network Homes Investments Limited. The interest is at market rate. Network Living received office rent from the Association for Riversmead House in Hertfordshire. On 1 January 2017, Network Living transferred its assets to Network Homes Investments Limited and the rent is now payable to Network Homes Investments Limited. Network Treasury Services Limited receives interest on loan to the Association.

# Notes to the Financial Statements

## for the year ended 31 March 2018

During the year, the Group contributed £13,719k in Merrick Road LLP and £203k in GH Partnership LLP, joint ventures of one of its subsidiaries.

Investment in JV – Merrick Road LLP		
Date	Description	£'000
30/01/2018	Merrick Rd Investment	11,643
31/01/2018	Merrick Rd Investment	475
16/02/2018	3rd Investment – Merrick Rd Investment	538
15/03/2018	Merrick Rd Investment	169
31/03/2018	Merrick Rd Investment	894
		<b>13,719</b>

Investment in JV – GH Partnership		
Date	Description	£'000
30/09/2017	JV Contribution GH Partnership	141
28/02/2018	Capital – Grosvenor House	2
28/02/2018	JV Contribution GH Partnership	28
28/02/2018	JV Contribution GH Partnership	16
19/03/2018	JV Contribution GH Partnership	16
		<b>203</b>

Intercompany debtors and creditors							
Intercompany current account (£'000):							
Description	NWH	NTSL	PVD	NHIL	NNB	STU	SW9
Network Treasury Services Limited (NTSL)	1	(1)	-	-	-	-	-
Pimlico Village Development (PVD)	16	-	(16)	-	-	-	-
Network Homes Investment Limited (NHIL)	19,118	-	-	(19,118)	-	-	-
Network New Build (NNB)	(20,637)	-	-	-	20,637	-	-
Student First Limited (STU)	1	-	-	-	-	(1)	-
SW9 Community Housing (SW9)	783	-	-	-	-	-	(783)
	<b>(718)</b>	<b>(1)</b>	<b>(16)</b>	<b>(19,118)</b>	<b>20,637</b>	<b>(1)</b>	<b>(783)</b>

Intercompany debtors and creditors				
Intercompany loans (£'000):				
Description	NWH	NHIL	NTSL	NHIL
Network Homes Investments (Stockwell) Limited	11,000	(11,000)	-	-
Network Homes Investment Limited (NHIL)	(46,600)	-	-	46,600
Network Treasury Services Limited (Loans < 1 Year)	(5,394)	-	5,394	-
Network Treasury Service Limited > 1 year	(486,450)	-	486,450	-
	<b>(527,444)</b>	<b>(11,000)</b>	<b>491,844</b>	<b>46,600</b>

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 41. Housing stock

The number of units of accommodation in management at the end of the year was as follows:

	2018			2017		
Social housing rental stock	Owned	Managed	Total	Owned	Managed	Total
General needs (exclusive of PSL)	8,671	-	8,671	8,933	-	8,933
General needs (PSL only)	681	431	1,112	714	404	1,118
Affordable	2,303	-	2,303	2,001	-	2,001
<b>Total general needs and affordable</b>	<b>11,655</b>	<b>431</b>	<b>12,086</b>	<b>11,648</b>	<b>404</b>	<b>12,052</b>
Sheltered (older persons)	1,420	-	1,420	1,418	-	1,418
Shared ownership	1,811	-	1,811	1,824	-	1,824
Leasehold	2,095	-	2,095	2,031	-	2,031
Supported housing	512	-	512	515	-	515
Intermediate rents	1,392	-	1,392	1,438	-	1,438
<b>Total</b>	<b>18,885</b>	<b>431</b>	<b>19,316</b>	<b>18,874</b>	<b>404</b>	<b>19,278</b>
<b>Non-social housing stock</b>						
Leasehold	581	-	581	504	-	504
Intermediate rents	253	-	253	188	-	188
Market rented	5	-	5	5	-	5
<b>Total</b>	<b>839</b>	<b>-</b>	<b>839</b>	<b>697</b>	<b>-</b>	<b>697</b>
<b>Total</b>	<b>19,724</b>	<b>431</b>	<b>20,155</b>	<b>19,571</b>	<b>404</b>	<b>19,975</b>
<b>Properties owned but managed by others externally</b>						
General needs	223	-	223	240	-	240
Leasehold	17	-	17	-	-	-
Supported housing	426	-	426	429	-	429
Market rented	5	-	5	5	-	5
<b>Sub total</b>	<b>671</b>	<b>-</b>	<b>671</b>	<b>674</b>	<b>-</b>	<b>674</b>

Table above is prepared as per Statistical Data Return (SDR) definitions. For the purposes of this data collection, a provider is the owner of a property when it owns the freehold title or where a lease is granted by the freeholder (the leasehold for that property). The 'owner' is the landlord. The landlord has legal responsibility for the tenancy or issuing a licence and charging of rent or licence fee for occupants of the property. Landlords may (and usually do) directly manage the properties they own or they may have an agreement for another organisation for the management of lettings and rent collection. The form of any management agreement may vary, however the landlord retains overall control of the property and all occupiers of its properties are tenants of that provider.

The lease can be of any duration, as the length of lease that the landlord holds does not determine whether it is social housing or not. Stock held on shorter leases will have been counted as stock that is managed for others.

# Notes to the Financial Statements

## for the year ended 31 March 2018

### 42. Financial instruments and financial management

	2018 £'000	2017 £'000
<b>Financial assets measured at amortised cost</b>		
Investment – financial	6,436	6,487
Shared Equity Loans	5,528	6,624
Rents receivables	7,048	8,998
Trade debtors	1,961	2,076
Stock transfer	4,970	6,062
Other receivables	10,994	9,930
Cash and cash equivalents	69,519	76,752
<b>Total financial assets</b>	<b>106,456</b>	<b>116,929</b>
<b>Financial liabilities measured amortised cost</b>		
Housing loans less than one year	6,550	5,151
Housing loans more than one year	852,234	756,724
Bank overdraft	-	686
Trade creditors	6,630	2,759
Rent and service charges received in advance	8,707	7,426
Accruals	59,507	41,420
Disposal proceeds fund	484	484
Recycled capital grant fund	7,882	12,380
Other creditors	3,546	2,802
<b>Total financial liabilities</b>	<b>945,540</b>	<b>829,832</b>

#### Financial Management

The main risks arising from the Group's financial instruments are as follows:

- liquidity risk
- interest rate risk
- counter party risk
- customer credit exposure.

#### Liquidity risk

The purpose of managing liquidity risk is to ensure that the Group meets its financial obligations when they fall due. The Group meets its financial obligations through cash flows from operating activities such as our underlying cash from rental income streams and property sales, grants from government sources and through long term borrowing from lenders. Each year the Group's Board approves the treasury management strategy and updates the treasury policy for the Group. This policy addresses funding and liquidity risk, covenant compliance and investment policy. In addition, the Group Board receives reports on treasury activities.

Treasury services are provided to the Group by the Association.

Treasury management activities are monitored by the Board of NTSL which meets at least four times per year.

# Notes to the Financial Statements

## for the year ended 31 March 2018

The Group borrows at both fixed and floating interest rates, with the treasury policy requiring a minimum of 50% of drawn debt to be on fixed interest rates or hedged.

The Group's debt is a mixture of fixed and floating rate loans. As at 31 March 2018, 73% (2017: 80%) of the Group's debt was at fixed rates and 27% (2017: 20%) at floating rates.

The Groups' treasury team monitors covenant compliance for the Group on a regular basis and is required to report on covenant compliance to the Group's lenders and the borrowers on a quarterly basis. At 31 March 2018 the Group complied with its loan covenants. Business plans demonstrate that it will continue to do so in the future. The borrowings summary and repayment schedule is at the nominal value.

#### Interest rate risk

The Group borrows from lenders using long term loans whose tenure depends on the 30 year business planning cycle and the Board's assessment of the macro economic environment; for instance, the Board's view of the future direction of interest rate, assessment of demand and assessment of the political and legal environment. To mitigate interest risk the Group ensures it has the right balance between fixed and variable loans in its loan portfolio.

#### Counter party risk

The Group's treasury policy sets minimum credit ratings for counter parties on investments and borrowings to reduce counter party risk.

The short term counterparty ratings for investments must be at least an A1/P1 or F1. There are limits of £10m for approved investment institutions with the exception of the Group's main clearing bank where the £10m limit can be exceeded for short periods or £20m for AAA rated Money Market Fund's (MMFs).

The treasury policy is reviewed annually.

The Group has a procurement policy in place and manages counter party risk by carefully selecting suppliers and development partners. This risk is mitigated by strong on-going relationship with contractors and suppliers.

#### Customer credit exposure

The Group is exposed to the possibility of tenants not paying their rents. To mitigate this risk, the Group monitors arrears on a weekly basis and engages with tenants. Income management teams follow up any late payments promptly and have strong on-going customer relationships with our tenants.

### 43. Events after the end of reporting period

#### Grenfell Tower disaster

Following the disaster of the Grenfell Tower fire, a full public inquiry has been ordered. There have also been a number of requests for information from various bodies, including the Department for Communities and Local Government (DCLG). As part of these enquiries, the Group has had cladding of some of its buildings sent to the British Research Establishment (BRE) for testing.

At the time of signing these financial statements, BRE testing confirmed that four of the Group's buildings failed the BRE tests. The London Fire Brigade carried out a full fire safety inspection of the four buildings following these test results and has confirmed that appropriate fire safety measures are in place to manage the risk of fire in the buildings inspected and that residence do not need to vacate.

Due to the uncertainty and timing of the ongoing activities, it is not yet possible to estimate the financial impact of this across the Group's housing property portfolio.

#### Sale of asset in Student First

Student First Limited, one of the subsidiaries of Network Homes, will sell its only asset, Grosvenor House, a property comprising of 169 self-contained bedsits situated in central London. The Directors of the Society decided to dispose of the asset because they believe they can better pursue their charitable objectives through realising the current market value of this asset. The date of sale is set to be in the coming months at the value of £69,000k. Student First Limited entered into sale contract with GH Partnership LLP in Jan 2016 for £50m with a deferred completion and overage arrangement.





**Network Homes**

Olympic Office Centre  
8 Fulton Road  
Wembley  
HA9 0NU

[www.networkhomes.org.uk](http://www.networkhomes.org.uk)

 [@networkhomesuk](https://twitter.com/networkhomesuk)

 [facebook.com/networkhomesuk](https://facebook.com/networkhomesuk)

[marcomms@networkhomes.org.uk](mailto:marcomms@networkhomes.org.uk)

0300 373 3000

September 2018