Network Homes

Annual Report and Financial Statements

For The Year Ended 31 March 2019

Because good homes
make everything possible

Contents

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 Trevor Morley Anne Turner Helen Evans, Group Chief Executive Charmian Boyd (resigned 24 July 2018) Nick Sharman (resigned 25 September 2018) Alan Hall Valerie Vaughan-Dick Jon Gooding Paul Plummer Ronen Journo Sean West (appointed 20 November 2018) Jaz Saggu (appointed 20 November 2018) Rachel King (appointed 20 November 2018)
Company secretary	Tabitha Kassem
Executive officers	Helen Evans – Group Chief Executive Barry Nethercott – Executive Director of Finance and Deputy Chief Executive (resigned 31 December 2018) Gerry Doherty – Executive Director of Customer Services David Gooch – Executive Director of Development Jon Dawson – Executive Director of Strategy and Infrastructure (resigned 15 April 2019) Fiona Deal – Executive Director of People and Technology Peter Benz – Interim Executive Director of Finance (appointed 4 January 2019) Jamie Ratcliff – Executive Director of Business Partnerships and Performance (appointed 1 April 2019)
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
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 2019.

The consolidated Statement of Comprehensive Income, Statement of Changes in Reserves, Statement of Financial Position and Cash Flow Statement for the Group are set out on pages 28 to 32.

The Group's principal accounting policies are set out on pages 34 to 38 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 20,630 (2018: 20,155) homes for a wide range of customers.

Chair's review

I am pleased to be reporting another solid year of financial results for Network Homes in 2018-19.

Network Homes achieved a net surplus for the year of £72.0m (2018: £44.3m). Turnover increased by 17% to £275.1m (2018: £234.4m), and the operating margin increased by 5.2% to 35.3% (2018: 30.1%). These increases were mainly due to the sale of student accommodation in Student First, a subsidiary of Network Homes.

Our overall asset base rose to £1,871m (2018: £1,773m) but as a reflection of our commitment to sustained house building, we borrowed more funding against this resulting in a decrease in our gearing to 52% (2018: 53%).

Our focus on delivering our strategic objective of maximising growth within our resources has remained as strong as ever and we have continued to punch above our weight on housing delivery. During the year we completed 776 homes (2018: 284), of which 765 were for affordable tenures and the remaining 11 for outright sale. We have an ambitious development pipeline and are committed to starting over 1,750 homes in London by 2022 through our Strategic Partnership with the Greater London Authority. We are also building new homes in Hertfordshire under Homes England's Shared Ownership and Affordable Housing Programme. Our full development pipeline comprises 3,000 homes. The Board's belief that Network Homes should 'sweat assets' in pursuit of this strategy remains firm. This year we invested £250.3m (2018: £259.8m) in new development activity and £8.1m (2018: £14.7m) in maintaining and improving our existing properties. We remain committed to maintaining the standard of our stock.

During the year Network Homes finalised a £175m private placement with six United States and Canadian investors. The debt comprises £150m of secured borrowing, plus £25m of unsecured borrowing. Maturity terms range from 12 years to 35 years, with most of the money due for repayment between 20-35 years. We will use this additional funding to support Network Homes' substantial development programme so we can keep on building the homes our communities so desperately need.

Keeping our residents safe remains a top priority for us. During the year we've had a particular focus on fire safety and continued to work closely with our contractors, expert fire safety consultants and affected residents to deliver solutions. We started work to remove and replace the cladding on our only tall building with full Aluminium Composite Material (ACM) cladding and have been carrying out in-depth assessments of all other buildings over 18m high which have external wall cladding systems.

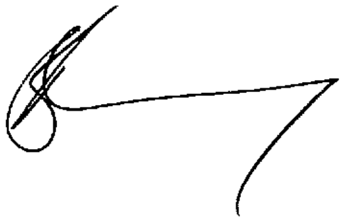
Alongside keeping our residents safe in their homes, we want to deliver a great every day customer service. Our overall customer satisfaction continued to climb during the year and Network Homes managed to improve overall customer satisfaction to 88.3% (2018: 87.3%), getting close to our five-year strategic objective of at least 90%.

Being a great organisation to work for is one of our key strategic objectives because we believe it is the foundation for delivering excellent services. We were proud that Network Homes made it into The Sunday Times 100 Best Not-For-Profit organisations to work for list, reaching 39th overall and 10th in the list of the 25 best housing sector organisations. This is a fantastic acknowledgement of our positive company culture where people work hard, thrive and go the extra mile for each other and our customers.

The commitment of our staff to our local communities is demonstrated by their generosity in giving back. In 2018 staff from across Network Homes came together to raise over £17k for a variety of causes and gave hands-on help to local charities, from homelessness shelters to foodbanks and mental health support services. Forty members of staff also hiked the Yorkshire Three Peaks Challenge, raising over £21k for St Mungo's, our Charity of the Year. Over the last two years this brings the overall total we have raised for charities to more than £100,000.

Network Homes has continued to successfully navigate through a turbulent political environment, an unfavourable property market and many uncertainties relating to Brexit. These challenges are likely to remain on the horizon for some time to come. But Network Homes is well placed to tackle them.

I would like to sincerely thank our excellent Board and committee members who give up their time and believe in everything Network is trying to achieve, the Executive who have continued to lead the business through these uncertain times, and our committed, caring staff of whom I am immensely proud.



Bernadette Conroy, Chair
Network Homes Limited

Group Chief Executive's review

Network Homes has performed well in the face of a continued uncertain political and economic environment and achieved many things I am proud of this year.

Brexit has of course continued to dominate the news agenda and will do so over the next year – at the time of writing, the manner of the UK's exit from the European Union remains far from clear. The housing market was challenging in 2018-19, which is an issue for us because our development of affordable rented homes relies in part on cross subsidy. Economic growth for 2019 is now expected to be 1.2%, the lowest since 2009, while the political instability continues to delay progress on important domestic agendas, including housing.

However, we do expect some progress on major housing issues. The government has laid out in more detail its proposed approach to implementing the Hackitt recommendations. It will also respond to the consultation on the Social Housing Green Paper and, later, bring forward firmer proposals for policy change. This is likely to include stronger consumer regulation of housing associations.

Rather than waiting for the final implementation of government plans, we have worked proactively throughout the year to implement our strategic objectives in terms of service quality and building safety. During the year we continued to pursue our new transparency and engagement strategy, finalise our revised Service Offer, and take action to implement expected outcomes from the Hackitt Review. We have committed to be an early adopter of the National Housing Federation's Together with Tenants initiative and created formal roles for residents in our board structure to improve our accountability. We have also published the fire risk assessments for our largest buildings on our website in the interests of transparency.

During the year we began to introduce key elements from our major IT Business Transformation programme, including the first phase of our new customer service portal, My Network Homes. The portal enables our residents to pay their rent, report antisocial behaviour and get information about their home.

Further planned improvements will allow our residents to book repairs online at convenient time slots for them, download key information about their building and eventually take part in discussion forums. This is a vital step in our ambition to have at least 50% of our customer transactions self-serviced online by 2020.

Welfare reform has continued to have an impact on our residents. All the local authority areas in which we operate have now moved to Universal Credit for new claimants, and volumes of residents affected are increasing. The working age benefit freeze will also continue and the Benefit Cap remains frozen. We've been determined to support our residents who are feeling the impacts of welfare reform. Our welfare advice team for example helped our residents claim over £1.7m in benefits during the year.

Despite the challenging economic environment, we've been determined to keep building the homes London and the South East so badly needs. Main development highlights during 2018-19 included our acquisition of land at Northwick Park Hospital in Brent, which will kick-start a major regeneration of the area. Together with the land we already own at the site, outline proposals will allow for the delivery of around 1,300 new homes and commercial space. We also purchased land at Central Middlesex Hospital to deliver 122 homes and over 1,000 sq m of commercial floorspace. In early 2019 residents moved into our first SmartRent development – the Big Blue in Sudbury Hill – which offers 270 studio, one and two bedroom apartments at 80% of local private rents. The launch of this development demonstrates our commitment to provide homes to a diverse range of customers.

Our latest stakeholder perception survey showed substantially improved perceptions among our local authority partners. For instance, 84% of respondents say they would recommend Network Homes as a development partner which is up on the previous results of 2017; 84% say they think we are a transparent and accountable organisation and we are seen as a trustworthy partner; and for the first time our people are mentioned as a key strength. We are looking at ways we can improve our scores further.

Health & Safety continues to receive a high level of attention across the organisation, with each Board Sub-Committee receiving a regular Health & Safety report specific to their area of interest. This has been further enhanced during the year by the introduction of a single unified summary that collates the significant points from these reports for presentation at each Board meeting and forms the basis of a mature conversation between Board and Executive into Network's Health & Safety processes and the continuous improvements arising therefrom.

Network Homes has made significant progress since we amalgamated over three years ago. Our Board is stronger than ever, we have a straight forward organisational structure, strong finances, and passionate staff. At the heart of it all is our social purpose to open up possibilities for as many people as we can by providing good quality homes. Network Homes is in a strong position to keep delivering on that commitment.

Helen Evans, Group Chief Executive
Network Homes Limited

Report of the Board

Development Performance and Grant Programmes

During the year 776 (2018: 284) new homes were handed over into management. Of these 11 (2018: 60) homes were developed for private sale.

In 2018-19, 481 homes were completed and handed over to the housing management or sales team. In addition to these, 295 were completed in 2017-18 but handed over in 2018-19.

The highlights of 2018-19 were:

- The purchase of Northwick Park from London North West University Healthcare NHS Trust for £16,100k to deliver a base scheme of 321 residential units plus commercial floor space.
- The purchase of Central Middlesex Hospital from London North West University Healthcare NHS Trust (the Trust) for £6,150k to deliver a base scheme of 122 residential units plus 1,150 m2 of commercial floor space.
- The purchase of Orion Park, a land led deal with planning permission for change of use from industrial for redevelopment to provide 76 residential units and 825 m2 of commercial and New Road, a 48 homes scheme under the Housing Zone programme.

These and other smaller schemes are due for completion in the period 2018 to 2022 and will contribute to building over 2,100 homes.

Tenure	2019 Units	Funding Programme*	2018 Units	Funding Programme*
Social Rent	10	MHC 15-18 (9) AHP 15-18 (1)	28	MHC 15-18
Affordable Rent	234	AHP 15-18 (17), MHC 15-18 (88), AHP 16-21 (98), SOAHP 16-21 (23)	124	AHP 15-18, MHC 15-18, internally funded
Shared Ownership	250	AHP 15-18 (36), AHP 16-21 (104), HZ (20), MHC 15-18 (79), SOAHP (11)	49	AHP 15-18, MHC 15-18, internally funded
Intermediate Rent	270	Housing Zone	0	
Fixed Equity	1	AHP 15-18	0	
London Living Rent	0		23	AHP 2016-21
Total handed over to management	**765**		**224**	
Private Sale	11		60	
Total	**776**		**284**	

**MHC = Mayors' Housing Covenant; AHP – Affordable Housing Programme; SOAP – Shared ownership and affordable housing programme.*

Report of the Board

Financial Review

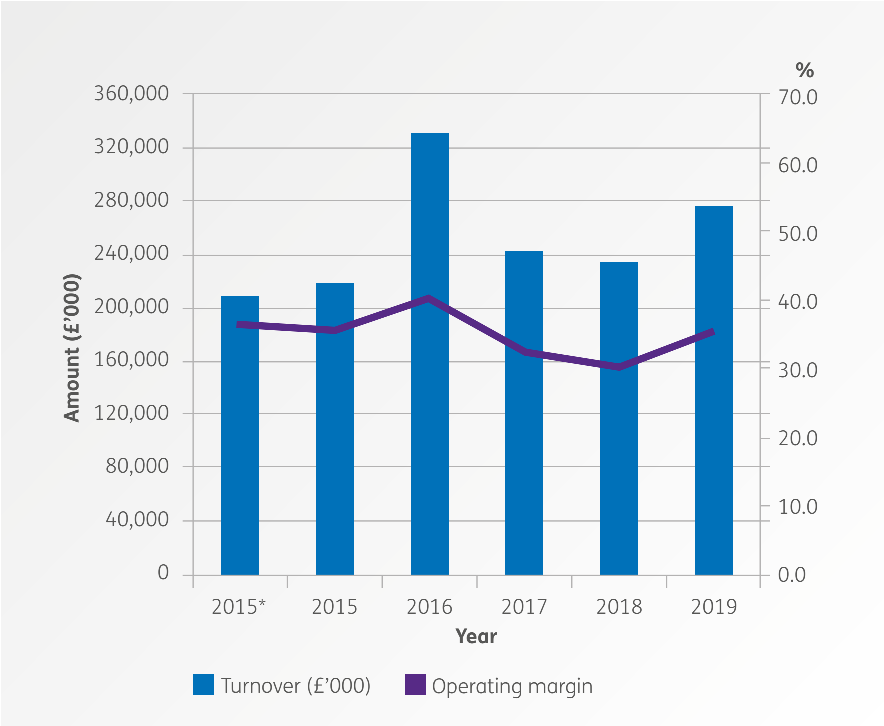
The Group achieved a net surplus of £72,016k (2018: £44,326k) for the year. Turnover increased by 17.3% to £275,053k (2018: £234,433k). The major reason for this was the sale of student accommodation in Student First, a subsidiary of Network Homes. Operating costs and cost of sales increased by £14,198k to £177,951k (2018: £163,753k).

The surplus on property sales was £49,070k (2018: £30,148k). All proceeds from property sales are reported under turnover and the costs to build under cost of sales.

Operating margin increased by 5.2% from 30.1% in 2018 to 35.3% in 2019, mainly attributable to the increase in sales as explained 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

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2015* £'000
Turnover	275,053	234,433	241,897	329,695	218,184	208,600
Operating costs	(177,951)	(163,753)	(163,771)	(197,582)	(140,404)	(133,231)
Operating surplus	**97,102**	**70,680**	**78,126**	**132,113**	**77,780**	**75,369**
Share of joint venture profit/(loss)	347	(157)	-	-	-	-
Net interest payable	(25,430)	(26,050)	(25,796)	(29,139)	(26,785)	(26,134)
Restructuring of financial instruments	90	87	8,720	52,356	(41,382)	-
Tax	(93)	(234)	(9,228)	(7)	(1)	(1)
Surplus for the year	**72,016**	**44,326**	**51,822**	**155,323**	**9,612**	**49,234**
Operating margin	35.3%	30.1%	32.3%	40.1%	35.6%	36.1%

**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 2019
Turnover (£k)	149,312	41,992	191,304	83,749	275,053
Surplus (£k)	42,707	14,086	56,793	40,309	97,102
Operating margins (%)	**28.6%**	**33.5%**	**29.7%**	**48.1%**	**35.3%**

	Social housing activity	Other social housing activity	Total social housing activity	Non-social housing activity	Total 2018
Turnover (£k)	140,818	32,184	173,002	61,431	234,433
Surplus (£k)	35,790	11,331	47,121	23,559	70,680
Operating margins (%)	**25.4%**	**35.2%**	**27.2%**	**38.4%**	**30.1%**

Total turnover increased by £40,620k to £275,053k from 2018 to 2019. Total operating surplus increased by £26,422k to £97,102k. This was mainly as a result of the sale of the student accommodation.

The net surplus of £72,016k (2018: £44,326k) comprises of operating surplus of £97,102k (2018: £70,680k), plus net impact of restructuring financial instruments of £90k (2018: £87k) and £347k (2018: £157k loss) which represents the Group's share in two joint ventures, less net interest charges of £25,430k (2018: £26,050k) and corporation tax of £93k (2018: £234k).

The margins on social housing activity increased from 25.4% to 28.6%, other social housing activity margins reduced from 35.2% to 33.5% and non-social housing activity margins increased from 38.4% to 48.1%.

Surplus on first tranche sales recorded under other social housing increased from £1,814k in 2018 to £6,836k in 2019. Outright sales surplus recorded under non-social housing reduced from £17,530k in 2018 to £730k loss in 2019. The overall loss is due to £436k in cost of sales arising from sales which took place in prior financial years as well as £670k of marketing fees for Thrayle House. Housing property sales surplus recorded under other social housing reduced from £10,804k in 2018 to £7,407k in 2019.

Report of the Board

Consolidated Statement of Financial Position summaries

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2015* £'000
Total fixed assets	1,889,708	1,801,974	1,609,990	1,489,907	1,471,430	864,809
Net current assets	126,353	59,967	78,441	127,424	61,176	56,429
Total	**2,016,061**	**1,861,941**	**1,688,431**	**1,617,331**	**1,532,606**	**921,238**
Creditors due in more than one year and provisions	1,580,557	1,489,720	1,360,685	1,340,749	1,412,664	744,652
Total reserves	435,504	372,221	327,746	276,582	119,942	176,586
Total	**2,016,061**	**1,861,941**	**1,688,431**	**1,617,331**	**1,532,606**	**921,238**

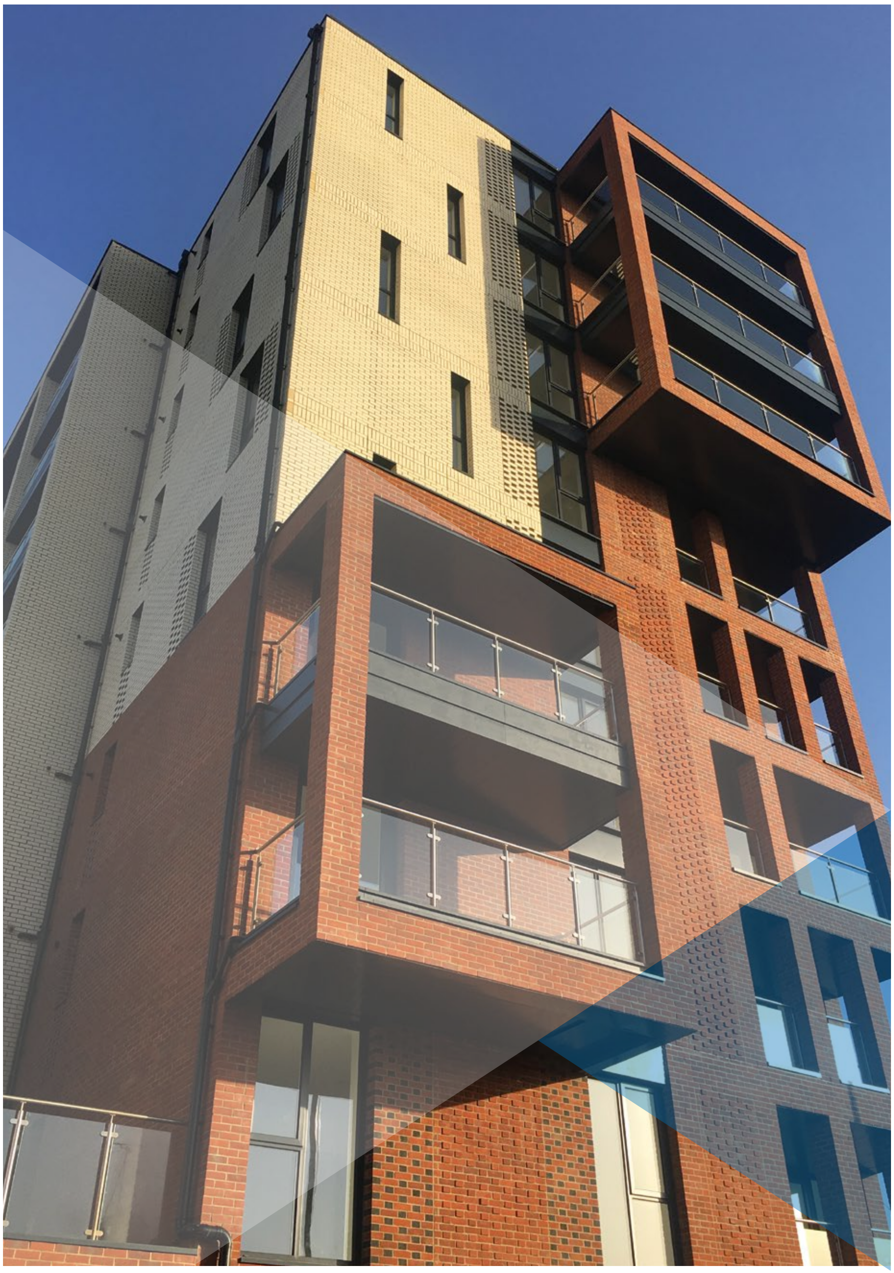
**The comparatives are based on the previous UK GAAP which was replaced by FRS 102.*

At the end of the year, the Group's housing properties at cost less depreciation and impairment totalled £1,828,315k (2018: £1,720,045k). 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 indicative value of the Group's housing stock is as follows:

- Existing Use Value for Social Housing (EUV-SH) £1,569,205k (2018: £1,474,015k)
- Market value, tenanted (MV-T) £2,652,220k (2018: £2,456,694k)
- Vacant possession market value (VPMV) £5,358,266k (2018: £3,822,723k)

The Group continues to borrow to fund its affordable housing development programme. Housing loans increased from £842,077k to £923,704k (note 26). As at 31 March 2019, gearing based on borrowings against historic cost of properties for the Group was 52% (2018: 53%). The most common gearing covenant across the Group's bank facilities is 65% (2018: 65%).



Report of the Board

Brexit

The United Kingdom is currently due to leave the European Union on 31 October 2019. How and when Brexit happens is likely to be a matter of intense debate in the Conservative Party leadership contest, which started in June 2019. Although speculation regarding possible outcomes is rife, the only thing certain is a prolonged period 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 impacts arising from these scenarios can be contained. Mitigating actions, governance structures and template recovery plans to respond to stress scenarios have been prepared.

Grenfell Tower tragedy

In response to the Grenfell Tower fire tragedy in June 2017 we have proactively investigated our buildings and put interim safety solutions in place where necessary.

We have established an in-house project team to consider and proactively implement the recommendations from Dame Judith Hackitt's review of Building Regulations. We have increased resources within our in-house fire safety team and continue to use British Approvals for Fire Equipment (BAFE) accredited fire risk assessors and third-party accredited contractors. Fire Risk Assessments for our highest risk buildings are published on our website and we are implementing a portal to enable customers to access relevant safety and compliance data for their properties.

We are progressing projects to remove ACM cladding at four developments and have initiated a programme of investigations into circa 40 buildings with different cladding systems to check the workmanship and materials used. We are also in the process of retrofitting sprinklers into two tower blocks that did not previously have them installed to improve resident safety.

Sale of assets

Student First Limited, one of the subsidiaries of Network Homes, sold its only asset Grosvenor House, a property comprising of 169 self-contained bedsits situated in central London. The sale was completed in August 2018. The surplus on the sale was donated to Network Homes for its charitable obligations.

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 Greater London Authority (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 2019 amounted to £1,298,100k, of which £926,775k (excluding amortised cost of £3,071k) had been drawn (note 26).

In the year to 31 March 2019 the Association entered into new facilities with private lenders totalling £175,000k and £50,000k from RBS. The total Association facilities as at 31 March 2019 amounted to £615,325k, of which £490,325k had been drawn.

Report of the Board

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 issues including 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. From 2019-20 onwards, treasury management activities will be monitored by the Finance Committee.

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 2019, 82.0% (2018: 66.7%) of the Group's debt was at fixed rates and 18.0% (2018: 33.3%) 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 on a quarterly basis. At 31 March 2019 the Group complied with its loan covenants. Business plan demonstrates that it will continue to do so in the future.

The borrowings summary and repayment schedule below are stated net of amortised costs (note 26).

Investment policy

At 31 March 2019 the sinking funds in place were 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 £6,384k 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 £1,184k is being amortised over the remaining 23 year life of the gilt.

A Sinking Fund of £1,250k is held by THFC as replacement for security to account for sales of shared ownership properties (2018: £880k).

Affordable Housing Finance 2042 Bond

There is currently a Liquidity Reserve Fund of £1,158k (2018: £1,158k)

Affordable Housing Finance (EIB)

There is currently a Liquidity Reserve Fund of £1,023k (2018: £756k)

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 32 shows that during the year the Group generated net cash inflow from operating activities of £44,487k (2018: £72,918k), made interest payments of £31,081k (2018: £28,927k) and invested a net £88,787k (2018: £147,720k) 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 and upheld in April 2019. Liquidity is defined as cash and facilities available to be drawn at any time. At least £50m or two 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 2019, the Group had £75,766k (2018: £69,519k) in cash and bank, of which £63,779k (2018: £57,703k) 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 2019 all bank facilities were secured against a portfolio of the Group's properties, however the Group does also have some unsecured non-bank funding. The EUV-SH for the properties charged was £1,119,701k (2018: £908,924k) and the number of properties charged was 12,025 (2018: 10,615). There are 4,312 units not charged to existing loans.

Summary of borrowings

	2019 £'000	2018 £'000
Fixed	757,212	560,973
Variable	166,492	281,104
Total drawn	**923,704**	**842,077**
The debt falls due for repayment in:		
Less than one year	27,368	6,550
Between two and five years	147,493	246,169
After five years	748,843	589,358
Total drawn	**923,704**	**842,077**

Report of the board
Value for Money Statement for 2018/19

Report of the board

Value for Money Statement for 2018/19

Value for Money

As a regulated housing association we are required to adhere to the Value for Money Standard produced by, the Regulator of Social Housing. This Standard 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 has been formally adopted by housing associations in England, including Network Homes Ltd. The final benchmarking results will not be available until Autumn 2019 but our performance is set out below.

We set four strategic objectives and accompanying ambitions, in our Five Year Strategy approved by the Executive Board in May 2018:

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 we use to monitor progress towards the five year ambitions on a year by year basis. We have included our second year results with any pre-existing target for 2018/19 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:

	2019	2018
Ambition: 35% minimum net surplus on social housing business		
Reinvestment %	11.1	5.1
New Supply Delivered % (social housing)	3.9	1.2
New Supply Delivered % (non-social housing)	0.1	0.3
Gearing %	43.8	42.1
EBITDA MRI Interest (exc. sales)	285.1	190.3
Headline social housing cost per unit (£)	5,149	5,816
Operating Margin (social housing lettings only) %	28.6	25.4
Operating Margin (overall) %	34.9	28.4
Return on capital employed (ROCE)	4.8	3.8

	2019	Target
Ambition: 5,000 homes in 5 years		
Homes completed and handed over	776	727
Homes started	59	800
% homes started for social rent; LAR; LLR; s.106 LA rent	42%	>25%
% secured pipeline affordable tenures	91%	>60%
Secured pipeline	1,728	>1,600
Customer satisfaction with new homes	73%	85%
Ambition: 90% overall customer satisfaction		
% satisfied with Network Homes services	88.3%	80.0%
% satisfied with repairs service	82.8%	80.0%
Failure demand – repeat case call within 14 days**	Unavailable	Unavailable
% of customers using portal for self-service*	2,792	2,100
% of customer transactions with no back office intervention**	Unavailable	Unavailable
Rent collected % (general needs and HfOP)	98.5%	>100%
Occupancy % (all rented)	97.8%	>99%
Ambition: A Sunday Times Best 100 Company		
Development – stakeholder net promoter %	84%	84%
Services – stakeholder net promoter %	65%	75%
Sickness absence (average days)	5.1 days	5 days
Staff turnover (voluntary)	13.5%	15.0%
Staff – net promoter ('proud to work for Network Homes')	82.6%	81%
Re-accreditation Sunday Times / IiP Gold**	Achieved 2-star award and rank 39 in Sunday Times Top 100	N/A

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

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

Report of the board

Value for Money Statement for 2018/19

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

	2019	2018	G15 Median 2018
Operating margin (overall)	34.9%	28.4%	29.2%
Operating margin (social housing lettings)	28.6%	25.4%	33.1%
EBITDA MRI (as % interest)	285.1%	190.3%	187.0%
New supply delivered % – Social housing units	3.9%	1.2%	1.5%
New supply delivered % – non-social housing units	0.1%	0.3%	0.7%
Gearing	43.8%	42.1%	42.6%
Reinvestment %	11.1%	5.1%	6.4%
Investment in communities £	309,000	492,000	2,537,500
Return on capital employed (ROCE)	4.8%	3.8%	3.8%
Occupancy (general needs only)	99.0%	99.2%	99.7%
Ratio of responsive repairs to planned maintenance	1.25	0.70	0.62
Headline social housing cost per unit £	5,149	5,816	4,527
Management cost per unit £	1,678	1,922	1,406
Maintenance cost per unit £	965	893	1,020
Major Repairs cost per unit £	774	1,283	936
Service charge cost per unit £	719	589	681
Other social housing costs per unit £	1,013	1,129	406
Rent collected as % of rent due (GN)	99.1%	101.0%	100.0%
Overhead costs as a percentage of turnover	9.2%	10.5%	11.5%
Customer satisfaction	88.3%	87.3%	75.1%

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 have completed and handed over 776 homes this financial year, surpassing our target of 727 properties. We have started 59 homes this year, which is significantly short of our target, but this was due to a strategic decision to remove one development from this year's forecasts, and a number of sites starting earlier than anticipated in the previous financial year. We have a significant pipeline of starts for the coming financial year but will keep commitments under review in the current uncertain market conditions.

We have exceeded our targets for customer satisfaction with overall services and repairs, at 88.3% and 82.8% respectively, against a target of 80%. Both scores are also an improvement on last year's performance.

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 will continue reducing our operating costs to improve the cost per unit measure, which has a direct impact on our margins. This year the operating margin was affected by additional resources being dedicated to respond to the implications of the Grenfell Tower tragedy and the subsequent Hackitt Review of Building Regulations and Fire Safety. The safety of our residents remains our top priority. We are also continuing to invest substantially in our IT business transformation program.

A full review and restructure of our customer services directorate was completed at the beginning of the financial year, resulting in a substantial positive effect in reducing our costs. Despite the changes, our voluntary staff turnover was better than target; our sickness rate was much better than sector median; and this year we also achieved a two-star status in the Sunday Times Best 100 Non-Profit Companies to Work For, ranking at 39th place.

Report of the board
Statement of Group corporate governance

Report of the board
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The governance of the Group is summarised in the following paragraphs.

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 of 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. 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.

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. A governance review is currently being undertaken by Campbell Tickell.

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. This is true as at financial year end, 31 March 2019. The responsibilities for finance and treasury matters were delegated to the Finance Committee for Network Homes Limited and Network Treasury Services Limited (NTSL) Board on 26 March 2019. Prior to that date, all finance and treasury matters were delegated to the NTSL Board, a subsidiary within the Group.

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; and
- 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;
- 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; and
- 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); and
- 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

- agrees customer facing strategy and policy and oversees performance so that Network meets its strategic objective of delivering a first-class customer service ensuring compliance with legal and regulatory requirements;
- is responsible for meeting the consumer standards and providing assurance to the Board of compliance; and
- ensures customer facing services are value for money and these are continually improving.

Finance Committee

- sets the treasury strategy for the Group;
- reviews treasury activities and cash management on behalf of the Group board, making recommendations as appropriate;
- has responsibility for recommending financial targets for the Group and the annual consolidated budget to the Network Homes Board;

Report of the board
Statement of Group corporate governance

- examines business plan models, targets, key assumptions, scenarios and sensitivity tests – at least twice per year;
- monitors financial outcomes and forecasts against budget, including receiving quarterly dashboard reports on the Group performance;
- initiates 'deep dive' reports into areas of financial performance that give rise to concern;
- considers and approves the write-off of individual unpaid debts in excess of £5k, notifying the Group Board if deemed necessary;
- recommends central services and development cost apportionments to the Group;
- advises the Group Board on financial strategy for mergers and acquisitions, including consideration of financial due diligence reports for new business opportunities, making recommendations to the Group Board as appropriate;
- reviews the Group's insurance portfolio and self-insured risks annually;
- considers the VFM strategy including commissioning value for money and efficiency reviews of operational areas, including appropriate benchmarking, providing challenge and assurance, making recommendations to Group Board as appropriate;
- reviews the long-term financial model, tests scenarios including risk stress testing and recommends financial targets to the Group Board;
- reviews the Pension strategy and contingent liabilities exposure; and
- reviews and recommends any other financial reports as appropriate.

Each corporate Group member is responsible for producing a risk map for its own business activities. 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. The 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.

Report of the board
Statement of Group corporate governance

Significant risks 2018/19
The Group has identified a list of top 10 strategic level risks:

Risk	Responsible Officer	Mitigating Action	Progress made in the Financial Year
Health and safety failure causes **death or harm to residents**, results in serious detriment, regulatory and statutory non-compliance causing negative operational and reputation impact.	Executive Director of Customer Services	• Annual gas safety servicing programme • Co2 detectors checked and fitted across stock as part of gas safety check. • New development handover processes implemented to ensure gas equipment is added to servicing schedules before properties are occupied. • All FRAs are complete. • Lift contractor completes monthly servicing and annual inspections. Zurich complete 6 monthly inspections as our insurers. • Programme of 5-year electrical dwelling and communal testing. • Electrical tests take place at each void. • Risk based asbestos analysis of whole stock completed. • Water safety testing and inspection programme in place. • Cleaning and ground maintenance contracts, incl. playgrounds. • Roof top amenity spaces closed where necessary.	• Cladding testing and review of external wall system design following Grenfell Tower fire. • Projects to replace cladding at Park Heights, Stockwell Park Walk and Blairderry Road have commenced. • Project team for Capitol Way established and work with the Freeholder, Royal London, to complete the rectification works is in progress. Decant programme is underway • Asbestos module in Innovation Apex has now gone live. Implementation issues are being managed. • Big Building Check was successfully completed with all orders raised to relevant contractors or matters passed to internal teams. • Estate Inspections carried out twice a day on blocks above 6 floors. • New cleaning and ground maintenance contracts for London (Pinnacle) and Hertford (New Green) started in July 2018.
Welfare Reform Failure to identify the risk and manage the financial impact of Welfare Reform on our income stream and customers.	Executive Director of Customer Services	• Welfare Reform Project Board and Group in place to assess and address impact of Welfare Reform. • Communication Plan in place. • Reports in place to profile and monitor arrears of residents affected by Welfare Reform. • Arrears reported to ELT on a monthly basis. • Presentation to Customer Services Committee and ongoing quarterly updates. • Direct debit incentive campaign. • Benefit Advice Calculator available to residents and staff. • Modelling completed on the potential financial impact of Universal Credit. • Residents affected by the Benefit Cap contacted / cases monitored on a monthly basis.	• System testing of the income automation process completed. • Automated income letters and reports rolled out. • Further changes to Universal Credit roll out confirmed. • Universal Credit information leaflets produced for residents. • Universal Credit training of front-line staff completed. • The DWP have agreed to Network becoming a Trusted Partner. We therefore now have access to the new Landlord Portal. We are now able to access the portal to see new claimants, request APAs, complete verifications and request more frequent payments.

Risk	Responsible Officer	Mitigating Action	Progress made in the Financial Year
Falling sales values in the medium and long term impact financial capacity and programme viability.	Executive Director of Development	• Regular SRAP Sales Report and Risk Reports (early flag by officers). • Monthly variance report (detailed monthly financial forecasts). • Regular stress-testing of Business Plan.	Development Stress Test Paper to SRAP and IC now issued quarterly.
Poor resourcing results in: - failure to attract and retain good staff; - ineffective workforce planning; - lack of establishment control; - lack of succession and talent management; - poor employee engagement; and - failure to deliver strategic objectives.	Executive Director of People & Technology	• Workforce Establishment policy and process. • Recruitment & Selection Policy • Structure charts. • Monthly FTE reporting. • Authority to recruit process and authorisation. • Recruitment and retention monitoring. • HR on interview panels	• People & Culture Agenda 2018-21 approved by PGC in April 2018 • Best Companies Survey completed Nov 2018 – achieved 2-star status and 39th place in Sunday Times Top 100 • Website updated and still being improved • Work has started on a resourcing strategy to include talent pipeline mapping and career pathways • Trial partnership arrangement with Goodman Masson launched in Q3 (although will not be continued).
Development. Failure to deliver the strategic growth target due to Group capacity constraints.	Executive Director of Development	• Growth Strategy Scheme Parameters. Pipeline review modelled and robust stress testing undertaken.	• Treasury have secured additional finance and we are compliant with internal policy. Further work is underway to consolidate the position. A review of the Growth Strategy is underway.
Changes in the post Referendum **economic and political environment** results in new properties not being affordable and uncertain potential long-term impact of welfare reform.	Executive Director of Business Performance & Partnerships	• Stress testing with multiple scenarios. • 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. • Rents are set within the existing Affordable Rents Policy. • Changes in political and economic policy continually monitored through Strategy & External Affairs team.	• Board Decision in March 2018 was to retain the current strategy and policy, no further action required • Segmentation analysis of customers in rent arrears coming onto Universal Credit undertaken. • Research and analysis undertaken and discussion of options at ELT level. Sub-group of ELT with support from Strategy & External Affairs established to take forward. • Government has agreed rent regime for 2020-2025 at CPI+1% - Oct 17. • Strategy & Ext 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.

Risk	Responsible Officer	Mitigating Action	Progress made in the Financial Year
Poor data integrity, use of systems, information management and KPIs 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 Business Performance & Partnerships	• Performance and Data Quality Team. • Information Steering Group. • Data Quality Dashboard reported to ELT and Business monthly. • Exception and anomaly reporting e.g. Gas Reconciliation Report. • Data Quality and Protection policies and procedures. • Data Quality Strategy developed and approved. • Delivery of Information Management governance, performance and control. • Role-based access controls to systems.	• Customer Hub Phase1 went live in June 2018 • Access controls implemented. • Information Management Strategy Group relaunched • Revised Data Quality Dashboard. • Review of Information Management Strategy completed and rolled out across the business. • Groundlabs Network analytics to identify Personally Identifiable Information (PII) held at Network Homes completed. • Office 365 (iWOW) implementation now underway
Vulnerability to fraud both internal and external results in loss of assets, regulatory and reputational damage.	Executive Director of Finance	• Internal audit and external audit. • Anti-Fraud Bribery and Corruption Policies and Procedures. • Counter-Fraud work plan implemented by Internal Audit that includes pro-active fraud reviews and fraud awareness training. • Tenancy Fraud policy. • Network Homes has implemented a tenancy fraud programme using TransUnion data matching information. • Centralised procurement function. • Contract Standing Orders.	• Counter-Fraud work plan implemented by Internal Audit that includes pro-active fraud reviews. • Fraud awareness training completed. • Tenancy Fraud Officer appointed. • Top Spend reports being developed.
Breach of **loan covenant** impacts ability to drawn down existing debt and/or raise new finance.	Executive Director of Finance	• Post amalgamation loans matrix in place. Has been prepared by lawyers; this lists various clauses from the loan documents where consent may be required. • Schedule of information requirements is maintained. • Covenants are forecast against the business plans and dashboard in place to monitor headroom in covenants.	• FRS102 covenant renegotiations have taken place, all documentation completed April 2018. • TMS populated with covenant calendar. • NTSL has issued shares to Network Homes at a premium to increase share capital in NTSL.
Long term loss of key building, IT and / or people causes business interruption.	Executive Director of People & Technology	• BCP Monitoring Group, quarterly review of BCP. • BCP Immediate Response Plan in place and tested. • Service Response Plans (SRPs) for all areas drafted.	• BCP testing completed. • BCP training across the organisation completed.

Report of the board
Statement of Group corporate governance

Internal controls assurance statement
The Board has overall responsibility for establishing, maintaining and reviewing the effectiveness of the system of internal control.

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.

Assurance framework
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.

Key elements of the control framework include:

Risk assessment
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.

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 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, quantified, and reviewed by the Risk Panel and the Audit and Risk Committee and reported to the Board.

Monitoring
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 are 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.

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.

Control environment and activities
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.

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 protection and fraud detection and prevention. During the year the ARC approved the Group's annual counter fraud work plan.

The Group complied with the Code of Governance.

Information and communication
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.

Guidance has been produced on responsibility at Board level for audit, risk and control issues across the Group.

The Group's Board has received the Chief Executive's annual assurance statement 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.

Continuous improvement

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.

The Board has reviewed the effectiveness of the systems of internal control, including the agreed sources of assurance and confirms they are appropriate for that purpose.

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.

Report of the board

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 (RPSH) 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 RPSH will continue in business.

The Board is responsible for keeping proper accounting records. These must be sufficient to show and explain the RPSH'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 RPSH 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 RPSH'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 the auditor

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 auditor is 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 auditor is aware of that information.

Independent Auditor

The report of the Directors incorporating the strategic report was approved on 30 July 2019 and signed by order of the Board by:

Bernadette Conroy,
Chair

....

Valerie Vaughan-Dick,
Board member

V. Vaughan-Dick
....

Independent Auditor's report

to the members of Network Homes Limited for the year ended 31 March 2019

Independent Auditor's report

to the members of Network Homes Limited for the year ended 31 March 2019

Opinion

We have audited the financial statements of Network Homes Limited ("the Association") and its subsidiaries ("the Group") for the year ended 31 March 2019 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 2019 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 2019.

***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 board members responsibilities statement set out on page 25, 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

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

Independent Auditor's report
to the members of Network Homes Limited for the year ended 31 March 2019

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.

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. This description forms part of our auditor's report.

BDO LLP
Statutory Auditor
London

Date: 6 August 2019

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 2019

		Group		Association	
	Note	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Turnover	3	275,053	234,433	199,646	178,391
Cost of sales	3	(51,286)	(49,489)	(23,012)	(17,473)
Operating costs	3	(126,665)	(114,264)	(116,762)	(109,153)
Gift aid receivable		-	-	43,184	17,028
Operating surplus		**97,102**	**70,680**	**103,056**	**68,793**
Interest receivable and other income	7	1,101	283	1,164	283
Restructuring of financial instruments	7	90	87	90	87
Interest and financing costs	8	(26,531)	(26,333)	(28,738)	(28,418)
Share of joint venture profit/(loss)	15	347	(157)	-	-
Surplus on ordinary activities before taxation		**72,109**	**44,560**	**75,572**	**40,745**
Tax charge on surplus on ordinary activities	10	(93)	(234)	-	-
Surplus for the year		**72,016**	**44,326**	**75,572**	**40,745**
Actuarial (loss)/gain on defined benefit pension scheme	37	(8,733)	382	(8,733)	382
Total comprehensive income for the year		**63,283**	**44,708**	**66,839**	**41,127**

All activities are classed as continuing.
Notes on pages 34 to 82 form part of the financial statements.

Consolidated and Association Statement of Changes in Reserves for the year ended 31 March 2019

	Group		
	£'000 Revenue reserve	£'000 Fair value reserve	£'000 Total
At 1 April 2017	**323,805**	**3,941**	**327,746**
Surplus for the year	44,326	-	44,326
Reserve transfer	(1,005)	1,005	-
Pension re-measurement	382	-	382
Adjustment	(233)	-	(233)
At 31 March 2018	**367,275**	**4,946**	**372,221**
Surplus for the year	72,016	-	72,016
Reserve transfer	(855)	855	-
Pension re-measurement	(8,733)	-	(8,733)
At 31 March 2019	**429,703**	**5,801**	**435,504**

	Association		
	£'000 Revenue reserve	£'000 Fair value reserve	£'000 Total
At 1 April 2017	**347,539**	**2,134**	**349,673**
Surplus for the year	40,745	-	40,745
Reserve transfer	(1,311)	1,311	-
Pension re-measurement	382	-	382
Adjustment	(233)	-	(233)
At 31 March 2018	**387,122**	**3,445**	**390,567**
Surplus for the year	75,572	-	75,572
Reserves transfer	(436)	436	-
Pension re-measurement	(8,733)	-	(8,733)
At 31 March 2019	**453,525**	**3,881**	**457,406**

The Association has a share capital of £10. The movement in share capital is disclosed in note 32.
Notes on pages 34 to 82 form part of the financial statements.

Consolidated and Association Statement of Financial Position at 31 March 2019
Co-operative and Community Benefit Societies No. RS007326

	Note	Group		Association	
		2019 £'000	2018 £'000	2019 £'000	2018 £'000
Fixed assets					
Intangible assets					
Computer software	12	7,368	2,945	7,368	2,945
Tangible fixed assets					
Housing properties at cost less depreciation and impairment	11	1,828,315	1,720,045	1,837,430	1,704,050
Other fixed assets	12	11,874	23,050	11,874	23,050
Investment properties	14	30,472	30,126	26,187	25,751
Total tangible fixed assets		1,870,661	1,773,221	1,875,491	1,752,851
Investments in joint ventures	15	347	13,765	-	-
Investments (financial)	16	6,384	6,436	6,384	6,436
Investments (shares)	17	30	-	75,030	75,000
Shared equity loans	18	4,911	5,528	4,911	5,528
Debtors: amounts falling due after more than one year	19	7	79	7	65
Total fixed assets		**1,889,708**	**1,801,974**	**1,969,191**	**1,842,825**
Current assets					
Stock	20	113,569	54,732	57,611	43,986
Debtors: amounts falling due within one year	21	27,561	24,875	37,221	56,111
Cash and cash equivalents	22	75,766	69,519	71,140	62,965
		216,896	149,126	165,972	163,062
Less: creditors amounts falling due within one year	23	(90,543)	(89,159)	(97,527)	(115,648)
Net current assets		126,353	59,967	68,445	47,414
Total assets less current liabilities		**2,016,061**	**1,861,941**	**2,037,636**	**1,890,239**
Creditors: amounts falling due after more than one year	24	(1,540,298)	(1,481,541)	(1,540,298)	(1,491,727)
Provisions for liabilities and charges	25	(40,458)	(8,770)	(40,131)	(8,536)
Pension surplus	37	199	591	199	591
Total net assets		**435,504**	**372,221**	**457,406**	**390,567**
Capital and reserves					
Non-equity share capital	32	-	-	-	-
Revenue reserve		429,703	367,275	453,525	387,122
Fair value reserves		5,801	4,946	3,881	3,445
Total reserves		**435,504**	**372,221**	**457,406**	**390,567**

Notes on pages 34 to 82 form part of the financial statements.
These financial statements on pages 28 to 82 were approved and authorised for issue by the Board on 30 July 2019.

Bernadette Conroy, Chair

Valerie Vaughan-Dick, Board member V. Vaughan-Dick

Tabitha Kassem, Company Secretary

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

Consolidated and Association Cash Flow Statement for the year ended 31 March 2019

	Note	Group		Association	
		2019 £'000	2018 £'000	2019 £'000	2018 £'000
Net cash inflow from operating activities	36	44,487	72,918	15,100	81,290
Cash flow from investing activities					
Purchase of tangible fixed assets – housing properties		(203,334)	(256,476)	(163,589)	(236,196)
Purchase of tangible fixed assets – other fixed assets		(5,798)	(2,402)	(5,798)	(2,402)
Proceeds from disposal of tangible fixed assets		100,622	79,396	37,181	27,035
Grants received		17,948	44,958	17,948	44,958
Sale / Purchase of investments		87	443	(16)	(72)
Shared equity investments		617	-	617	1,096
Interest received		1,101	283	1,159	283
Investment in shares		(30)	-	(30)	(10,000)
Investment in joint ventures		-	(13,922)	-	-
Gift aid received		-	-	56,457	21,327
Net cash used in investing activities		**(88,787)**	**(147,720)**	**(56,071)**	**(153,971)**
Cash flow from financing activities					
Interest paid		(31,081)	(28,927)	(33,286)	(31,469)
New borrowings		297,500	187,759	297,500	186,360
Repayment of borrowings		(215,872)	(90,577)	(215,068)	(87,772)
Net cash received from financing activities		**50,547**	**68,255**	**49,146**	**67,119**
Net increase/(decrease)in cash and cash equivalents		**6,247**	**(6,547)**	**8,175**	**(5,562)**
Cash and cash equivalents at the beginning of the year		69,519	76,066	62,965	68,527
Cash and cash equivalents at 31 March		**75,766**	**69,519**	**71,140**	**62,965**
Cash and cash equivalents consist of:					
Cash at bank and in hand		75,766	69,519	71,140	62,965
Cash and cash equivalents		**75,766**	**69,519**	**71,140**	**62,965**

Notes on pages 34 to 82 form part of the financial statements

Notes to the Financial Statements
for the year ended 31 March 2019

Notes to the Financial Statements
for the year ended 31 March 2019

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 Homes England 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 investment in properties, 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 2018 update) and comply with the Accounting Direction for Private Registered Providers of Social Housing from January 2019 (the Accounting Direction 2019).

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 British Pounds (GBP). 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 Reference.

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 are the parent company's indirect investment in GH Partnership LLP and Merrick Road LLP, are 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 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 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 2019

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 a receivable basis and is disclosed in the Statement of Comprehensive Income. Gift aid is eliminated on consolidation in the Group. 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 and mobile aerials insurance is recognised as it falls due on an accrual basis.

Cost of sales

Cost of sales comprises costs of stock sold and incidental 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.

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 FRS 102 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 the 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 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 using weighted average cost of capital (WACC) rates from the point of acquisition up to the date of practical completion of a property.

Notes to the Financial Statements
for the year ended 31 March 2019

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

Housing properties under construction are reclassified as completed housing properties upon 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.

Depreciation of housing properties

Freehold land and housing properties under construction are stated at cost and are not depreciated. The 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. Components and their useful lives were reviewed and updated in the year:

Component Category	Life (Years)
Fabric	100
Roofs	60
Windows and doors	25
Kitchens	25
Bathrooms	25
Boilers	20
Mechanical and 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 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 recoverable amount of the assets or cash generating units (CGU).

The recoverable amount will be the higher of fair value less costs to sell, or Existing Use Value for Social Housing (EUV-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.

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.

Depreciation of other tangible fixed assets

Tangible assets are stated at cost less accumulated depreciation. 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

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 there is an intention to implement and use it; and
- 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; and
- 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 2019

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 Homes England.

The Association receives a grant from 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 20% 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.

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 de-recognised and a new financial liability is recognised. The difference between the carrying amount of the financial liability de-recognised 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 Homes England and other grants are receivable from local authorities.

SHG and other capital grants are accounted for using the accruals 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 the 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 tenants' rent arrears based on the ageing of the debt as well as the type of debtor (current and former tenant). The level of provisioning was based on the collection rates for each ageing group and on cash collected over a period of twelve months.

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.

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 to 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 administers this scheme, which provides benefits to non-associated participating employers. The scheme is classed as a defined benefit scheme in the UK.

The scheme is classified as 'last man standing' arrangements. Therefore, each employer 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.

For the financial year ending 31 March 2019 the way in which an employer's defined benefit pension obligation in SHPS is stated in its company accounts has changed.

Previously, there had been insufficient information available for an employer in SHPS to account for its obligations on a defined benefit basis (i.e. stating assets and obligations). As a result, and as required by FRS 102, employers had been accounting for the obligation as a defined contribution scheme and recognised a liability as the present value of agreed future deficit repayment contributions.

For financial years ending on or after 31 March 2019, sufficient information is available for an employer to account for its obligations on a Defined Benefit basis and as required by FRS 102 paragraph 28.41. The reversal of the past service deficit funding liability and the introduction of the net defined benefit liability as at 1 April 2018 are shown in other comprehensive income.

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 a 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 recognised only on creation of a legal obligation. Gift aid receipts are treated 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 a receivable basis and is disclosed in the Statement of Comprehensive Income. Gift aid across the Group is eliminated on consolidation. 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 FRS 102 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 cash generating unit (CGU) level which is at scheme 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. 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 £2,746 and £3,878 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 (CGUs). The calculated DRC is compared against the net book value (NBV) of the CGU. For this calculation the Association included the cost of fabric only.

Based on review, no units were impaired (2018: no units were impaired).

During the year Network Homes agreed a compensation and grant from the government in order to remove and replace the existing cladding.

(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; and
- 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 as 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 3.82%, 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 2019

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

Group	Turnover £'000	Cost of sales £'000	Operating costs £'000	2019 Operating surplus / (deficit) £'000	Turnover £'000	Cost of sales £'000	Operating costs £'000	2018 Operating surplus / (deficit) £'000
Social housing lettings (Note 4)	**149,312**	**-**	**(106,605)**	**42,707**	**140,818**	**-**	**(105,028)**	**35,790**
Other social housing activities								
Supporting people contract income	206	-	(206)	-	212	-	(212)	-
Housing management administration	12	-	(498)	(486)	-	-	(1,198)	(1,198)
Community development	-	-	(309)	(309)	-	-	(492)	(492)
Sale of first tranche properties	23,437	(14,951)	(1,650)	6,836	8,201	(5,586)	(801)	1,814
Housing property sales	17,684	(8,061)	(2,216)	7,407	23,335	(11,887)	(644)	10,804
Other	653	-	(15)	638	436	-	(33)	403
Other social housing activities	**41,992**	**(23,012)**	**(4,894)**	**14,086**	**32,184**	**(17,473)**	**(3,380)**	**11,331**
Total social housing activities	**191,304**	**(23,012)**	**(111,499)**	**56,793**	**173,002**	**(17,473)**	**(108,408)**	**47,121**
Non-social housing activity								
Student accommodation	60,513	(24,317)	(373)	35,823	1,776	-	(117)	1,659
Outright sale of properties	3,934	(3,957)	(707)	(730)	49,914	(31,775)	(609)	17,530
Garage rent	592	-	(25)	567	508	-	(40)	468
Commercial activities	1,979	-	(510)	1,469	2,362	(241)	(608)	1,513
Revaluation surplus on investment properties	855	-	-	855	1,005	-	-	1,005
Fully staircased properties	6,463	-	(3,649)	2,814	5,082	-	(2,772)	2,310
Other	9,413	-	(9,902)	(489)	784	-	(1,710)	(926)
Total non-social housing activity	**83,749**	**(28,274)**	**(15,166)**	**40,309**	**61,431**	**(32,016)**	**(5,856)**	**23,559**
Total	**275,053**	**(51,286)**	**(126,665)**	**97,102**	**234,433**	**(49,489)**	**(114,264)**	**70,680**

Association	Turnover £'000	Cost of sales £'000	Operating costs £'000	2019 Operating surplus / (deficit) £'000	Turnover £'000	Cost of sales £'000	Operating costs £'000	2018 Operating surplus / (deficit) £'000
Social housing lettings (Note 4)	**141,715**	**-**	**(98,999)**	**42,716**	**133,164**	**-**	**(98,091)**	**35,073**
Other social housing activities								
Supporting people contract income	206	-	(206)	-	212	-	(212)	-
Housing management administration	409	-	(822)	(413)	4,299	-	(4,877)	(578)
Community development	-	-	(242)	(242)	-	-	(469)	(469)
Sale of first tranche properties	23,437	(14,951)	(1,724)	6,762	8,201	(5,586)	(801)	1,814
Housing property sales	17,684	(8,061)	(2,216)	7,407	23,335	(11,887)	(1,270)	10,178
Other	458	-	(15)	443	324	-	(27)	297
Other social housing activities	**42,194**	**(23,012)**	**(5,225)**	**13,957**	**36,371**	**(17,473)**	**(7,656)**	**11,242**
Total social housing activities	**183,909**	**(23,012)**	**(104,224)**	**56,673**	**169,535**	**(17,473)**	**(105,747)**	**46,315**
Non-social housing activity								
Garage rent	592	-	(25)	567	508	-	(40)	468
Commercial activities	1,979	-	(510)	1,469	1,847	-	(608)	1,239
Revaluation surplus on investment properties	436	-	-	436	1,311	-	-	1,311
Fully staircased properties	6,463	-	(3,649)	2,814	5,082	-	(2,771)	2,311
Other	6,267	-	(8,354)	(2,087)	108	-	13	121
Total non-social housing activity	**15,737**	**-**	**(12,538)**	**3,199**	**8,856**	**-**	**(3,406)**	**5,450**
Total	**199,646**	**(23,012)**	**(116,762)**	**59,872**	**178,391**	**(17,473)**	**(109,153)**	**51,765**

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for the year ended 31 March 2019

4. Income and expenditure from social housing lettings

Group 2019	General rented £'000	Sheltered £'000	Leasehold and Shared ownership £'000	Supported housing £'000	Short stay £'000	Intermediate £'000	Total 2019 £'000
Income from lettings							
Rent receivable	80,966	9,381	3,781	4,325	17,231	9,292	124,976
Charges for supporting services	-	60	-	-	-	-	60
Service charges receivable	3,693	3,902	2,915	173	-	428	11,111
Amortised government grants	5,453	681	282	1,094	19	35	7,564
Other income	2,385	-	2,115	-	1,101	-	5,601
	92,497	**14,024**	**9,093**	**5,592**	**18,351**	**9,755**	**149,312**
Expenditure on letting activities							
Management	23,641	692	842	1,124	1,048	2,286	29,633
Service charge costs	5,989	3,876	2,493	221	79	31	12,689
Support costs	-	12	-	-	-	-	12
Routine maintenance	14,424	1,167	140	299	545	467	17,042
Planned maintenance	3,278	893	214	343	224	580	5,532
Property lease charges	8	-	-	631	15,761	465	16,865
Total depreciation	15,639	2,335	2,619	1,770	65	746	23,174
Rent losses from bad debts	1,242	35	203	33	27	118	1,658
	64,221	**9,010**	**6,511**	**4,421**	**17,749**	**4,693**	**106,605**
Operating surplus on lettings	**28,276**	**5,014**	**2,582**	**1,171**	**602**	**5,062**	**42,707**
Void losses	**(854)**	**(272)**	**(40)**	**(91)**	**(288)**	**(602)**	**(2,147)**

Group 2018	General rented £'000	Sheltered £'000	Leasehold and Shared ownership £'000	Supported housing £'000	Short stay £'000	Intermediate £'000	Total 2018 £'000
Income from lettings							
Rent receivable	78,380	9,275	3,516	4,679	18,219	8,957	123,026
Charges for supporting services	-	54	-	-	-	-	54
Service charges receivable	3,385	3,346	1,943	141	1	445	9,261
Amortised government grants	5,288	681	339	1,080	(3)	35	7,420
Other income	-	-	-	-	1,057	-	1,057
	87,053	**13,356**	**5,798**	**5,900**	**19,274**	**9,437**	**140,818**
Expenditure on letting activities							
Management	27,091	636	595	1,240	1,274	2,258	33,094
Service charge costs	5,490	2,844	1,623	129	27	35	10,148
Support costs	-	13	-	-	-	-	13
Routine maintenance	12,791	996	80	283	734	491	15,375
Planned maintenance	6,107	487	37	129	334	223	7,317
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 losses / (write backs) from bad debts	154	15	61	(30)	102	47	349
	66,489	**7,060**	**3,570**	**4,749**	**18,802**	**4,358**	**105,028**
Operating surplus on lettings	**20,564**	**6,296**	**2,228**	**1,151**	**472**	**5,079**	**35,790**
Void losses	**(854)**	**(273)**	**10**	**(47)**	**(429)**	**(709)**	**(2,302)**

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4. Income and expenditure from social housing lettings – continued

Association 2019	General rented £'000	Sheltered £'000	Leasehold and Shared ownership £'000	Supported housing £'000	Short stay £'000	Intermediate £'000	Total 2019 £'000
Income from lettings							
Rent receivable	76,116	9,022	3,506	4,325	17,231	9,292	119,492
Charges for supporting services	-	60	-	-	-	-	60
Service charges receivable	2,687	3,625	2,085	173	-	428	8,998
Amortised government grants	5,453	681	282	1,094	19	35	7,564
Other income	2,385	-	2,115	-	1,101	-	5,601
	86,641	**13,388**	**7,988**	**5,592**	**18,351**	**9,755**	**141,715**
Expenditure on letting activities							
Management	19,080	657	802	1,124	1,048	2,286	24,997
Service charge costs	4,738	3,691	2,032	221	79	31	10,792
Support costs	-	12	-	-	-	-	12
Routine maintenance	13,439	1,113	106	299	545	467	15,969
Planned maintenance	3,278	893	214	343	224	580	5,532
Property lease charges	8	-	-	631	15,761	465	16,865
Total depreciation	15,639	2,335	2,619	1,770	65	746	23,174
Rent losses from bad debts	1,242	35	203	33	27	118	1,658
	57,424	**8,736**	**5,976**	**4,421**	**17,749**	**4,693**	**98,999**
Operating surplus on lettings	**29,217**	**4,652**	**2,012**	**1,171**	**602**	**5,062**	**42,716**
Void losses	**(658)**	**(211)**	**(38)**	**(91)**	**(288)**	**(602)**	**(1,888)**

Association 2018	General rented £'000	Sheltered £'000	Leasehold and Shared ownership £'000	Supported housing £'000	Short stay £'000	Intermediate £'000	Total 2018 £'000
Income from lettings							
Rent receivable	73,444	8,866	3,259	4,679	18,219	8,957	117,424
Charges for supporting services	-	54	-	-	-	-	54
Service charges receivable	2,384	3,102	1,134	141	1	445	7,207
Amortised government grants	5,288	681	339	1,080	(3)	35	7,420
Other income	-	-	-	-	1,059	-	1,059
	81,116	**12,703**	**4,732**	**5,900**	**19,276**	**9,437**	**133,164**
Expenditure on letting activities							
Management	22,928	499	562	1,240	1,274	2,258	28,761
Service charge costs	4,307	2,669	1,286	129	27	35	8,453
Support costs	-	13	-	-	-	-	13
Routine maintenance	12,441	955	85	283	734	491	14,989
Planned maintenance	5,659	435	38	129	334	223	6,818
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 losses / (write backs) from bad debts	154	16	36	(30)	102	47	325
	60,345	**6,656**	**3,181**	**4,749**	**18,802**	**4,358**	**98,091**
Operating surplus on lettings	**20,771**	**6,047**	**1,551**	**1,151**	**474**	**5,079**	**35,073**
Void losses	**(757)**	**(260)**	**(6)**	**(47)**	**(429)**	**(709)**	**(2,208)**

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	
	2019 FTE	2018 FTE	2019 FTE	2018 FTE
Office-based staff	475	494	451	467
Scheme-based staff	26	26	24	24
	501	**520**	**475**	**491**

Staff costs for the above employees were:

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Wages and salaries	21,714	21,437	20,744	20,396
Social security costs	2,217	2,296	2,117	2,188
Pension costs	906	805	863	775
Total	**24,837**	**24,538**	**23,724**	**23,359**

The Association participates in the SHPS defined contributions scheme and costs paid in the year were £863k (2018: £775k). During the year, the Association made a contribution towards past service deficit of £1,616k excluding TPT admin costs (2018: £1,556k). This contribution has offset the net liability as per note 37.

In 2018, the Association made a one-off pension contribution towards past service deficit of £1,000k to the pension fund administrated by Hertfordshire Local Government. There are no active members participating in this scheme. More information on pension is available in note 37.

The number of staff (including the Chief Executive Officer) receiving remuneration in excess of £60,000 per annum at 31 March 2019 is as follows:

	Group		Association	
	2019 FTE	2018 FTE	2019 FTE	2018 FTE
£60,000 - £69,999	23	20	23	20
£70,000 - £79,999	14	11	14	11
£80,000 - £89,999	6	2	6	2
£90,000 - £99,999	3	9	2	8
£100,000 - £109,999	5	4	5	4
£110,000 - £119,999	2	2	2	2
£120,000 - £129,999	3	1	3	1
£130,000 - £139,999	1	2	1	2
£140,000 - £149,999	-	1	-	1
£150,000 - £159,999	2	1	2	1
£170,000 - £179,999	-	1	-	1
£180,000 - £189,999	-	1	-	1
£190,000 - £199,999	1	-	1	-
	60	**55**	**59**	**54**

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6. Directors' emoluments

The Directors are defined as members of the Board and the Executive Leadership Team (ELT). Their emoluments for 2018-19 are:

		Appointed (A) / Resigned (R)	Basic salary / fees	Expenses	Total remuneration	Bonus / other payments	Pension contribution	Benefits in kind (BUPA)	Total emoluments
Non-Executive Officers			£	£	£	£	£	£	£
Bernadette Conroy	Chair		22,500	-	22,500	-	-	-	22,500
Trevor Morley	Deputy Chair		13,500	-	13,500	-	-	-	13,500
Jon Gooding	Committee Chair/Board member		10,500	-	10,500	-	-	-	10,500
Alan Hall	Committee Chair/Board member		9,724	377	10,101	-	-	-	10,101
Valerie Vaughan-Dick	Committee Chair/Board member		10,500	-	10,500	-	-	-	10,500
Charmian Boyd	Committee Chair/Board member	R 24/7/2018	3,500	-	3,500	-	-	-	3,500
Anne Turner	Committee Chair/Board member		10,500	2,369	12,869	-	-	-	12,869
Jaz Saggu	Board Member	A 20/11/2018	4,840	527	5,367	-	-	-	5,367
Nick Sharman	Board Member	R 25/9/2018	4,000	-	4,000	-	-	-	4,000
Sean West	Board Member	A 20/11/2018	4,840	-	4,840	-	-	-	4,840
Rachel King	Board Member	A 20/11/2018	2,944	-	2,944	-	-	-	2,944
Ronen Jounro	Board Member		8,000	215	8,215	-	-	-	8,215
Paul Plummer	Board Member		8,000	-	8,000	-	-	-	8,000
			113,348	**3,488**	**116,836**	**-**	**-**	**-**	**116,836**
Executive Officers									
Helen Evans			213,731	3,457	217,188	15,598	5,777	1,990	240,553
Barry Nethercott		R 31/12/2018	130,282	7,310	137,592	14,545	12,121	-	164,258
Peter Benz		A 4/1/2019	51,425	-	51,425	-	-	-	51,425
Gerry Doherty			155,904	1,676	157,580	11,209	13,647	1,410	183,846
Fiona Deal			122,860	524	123,384	8,957	11,459	1,362	145,162
Jon Dawson			137,068	2,337	139,405	11,085	12,674	1,508	164,672
David Gooch			160,166	1,028	161,194	11,487	14,869	1,512	189,062
			971,436	**16,332**	**987,768**	**72,881**	**70,547**	**7,782**	**1,138,978**
			1,084,784	**19,820**	**1,104,604**	**72,881**	**70,547**	**7,782**	**1,255,814**

Notes to the Financial Statements

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6. Directors' emoluments – continued

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 contributions	Benefits in kind (BUPA)	Total emoluments
Non-Executive Officers			£	£	£	£	£	£	£
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
			115,764	**2,397**	**118,161**	**-**	**-**	**-**	**118,161**
Executive Officers									
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
			1,045,566	**4,867**	**1,050,433**	**63,413**	**69,395**	**7,682**	**1,190,923**
			1,161,330	**7,264**	**1,168,594**	**63,413**	**69,395**	**7,682**	**1,309,084**

6. Directors' emoluments – continued

	2019 £'000	2018 £'000
Aggregate emoluments payable to Executive Directors	1,068	1,122
Aggregate emoluments payable to non-executive Directors	117	118
	1,185	**1,240**
Pension contributions payable to Executive Directors	**71**	**69**
Total emoluments	**1,256**	**1,309**
Emoluments paid to the highest paid Director, excluding pension contributions	**235**	**202**

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 £5,777 (2018: £13,351). 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:

	2019	2018
Ratio of highest to average earner	4.7 : 1	4.6 : 1

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

	2019 (based on total no of units)	2018 (based on total no of units)
Chief Executive remuneration per home (£)	9.4	10.7
Board Chair's remuneration per home (£)	1.1	1.1
Total Board members remuneration per home (£)	5.6	5.9

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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, Direction Homes Investments Limited, Direction Law LLP, Cherry Management Ltd, Wearr CIC	Director
Valerie Vaughan-Dick	V&A UK Ltd, RCGP Conferences Ltd, RCGP Enterprises Ltd	Director
Alan Hall	Director of Communities, Epping Forest District Council, Magistrate – North Essex Board Member, ARCH	Director
Sean West	Director of Treasury and Corporate Finance, Arqiva Group Limited	Director
Anne Turner	ASRA Housing Group Ltd	Director
Jaz Saggu	Executive Director at Willis Towers Watson (trades for profit) – (not a Board Director); Company Director Aqueous Management Ltd.; Company Director, Acappella Transactional Real Estate Ltd.; Company Director Acappella Agency Ltd.; Director INED Riverstone Insurance (UK) Ltd.; Director/Trustee, British Foreign School Society; Council Member, British Heart Foundation	Director
Rachel King	Non-Executive Director MHFA England; HR Director Camelot	Director
Ronen Journo	Non-Executive Director for Customer Service, Cisco Legal Services Portal; Senior Vice President, Enterprise Strategy – WeWork	Director
Charmian Boyd	Seamless Relocation Ltd	Director
Nick Sharman	None	
Helen Evans	Trustee, Joseph Rowntree Foundation, Mentor – Ben Laryea whose company Ehaya have commercial lease at Thrayle House; Deputy Chair G15	
Jon Gooding	Member of Investment Committee, BMO Real Estate Partners LLP (BMO REP)	
Bernadette Conroy	NED / Lay Member of Barnet CCG, Chair of Buildings and Estates Cambridge University, NED of Community Health Partnerships, Governor of Bancroft School, Trustee of St Paul's Way School, NED of North London Estates Partnership, NED of Milton Keynes Development Partnership	Director
Paul Plummer	CEO of Rail Delivery Group, Director of National Grid ESO	Director
Peter Benz	SK&D LTD (dormant), Mayfields Africa Exports Ltd and PB Housing Consultants Limited.	Director
Barry Nethercott	TEAM ONYX Limited	Secretary, Director

Notes to the Financial Statements
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7. Interest receivable and other income

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Interest receivable on deposits	1,155	279	1,156	191
Interest receivable on investments	-	4	-	4
Interest receivable on loans to Group undertakings	(54)	-	8	88
Total interest income on financial assets measured at amortised cost	**1,101**	**283**	**1,164**	**283**
Restructuring of financial instruments	**90**	**87**	**90**	**87**

8. Interest and financing costs

	Group		Association	
	2019 £'000	2010 £'000	2019 £'000	2018 £'000
Housing loans	32,949	30,176	35,156	32,261
Less: interest capitalised	(8,588)	(5,528)	(8,588)	(5,528)
Loan cost amortisation	819	906	819	906
Other finance costs	1,351	779	1,351	779
Total interest expense on financial liabilities measured at amortised cost	**26,531**	**26,333**	**28,738**	**28,418**
Interest capitalisation rate	3.82%	3.94%	3.82%	3.94%

9. Surplus on ordinary activities before taxation

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
The surplus on ordinary activities before taxation is stated after charging:				
Depreciation	25,011	20,669	24,650	20,565
Software amortised costs	813	721	813	721
Amortised government grant	(7,564)	(7,421)	(7,564)	(7,421)
Auditor's remuneration (including expenses, excluding VAT):				
Fees for the audit of the financial statements – current year	139	137	-	100
Fees in respect of other non-audit services	-	1	-	1
Operating lease payments	16,865	17,534	16,865	17,534

Notes to the Financial Statements
for the year ended 31 March 2019

10. Tax on surplus on ordinary activities

(a) Analysis of charge in year	Group		Association	
UK corporation tax on profit for the year	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Deferred tax				
Origination and reversal of timing difference	80	234	-	-
Adjustment in respect of previous period	21	-	-	-
Effect of changes in tax rates	(8)	-		
Total Tax per income statement	**93**	**234**	**-**	**-**

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%) (2018: 19%).

(b) Factors affecting tax charge for the year	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Current tax reconciliation				
Surplus on ordinary activities before taxation	72,109	44,560	75,572	40,746
Current tax at 19% (2018: 19%)	13,701	8,465	14,359	7,742
Effects of:				
Non-taxable charitable activities	(12,851)	(8,465)	(6,075)	(4,506)
Expenses not deductible	163	-	-	81
Qualifying charitable donation made	(933)	-	(8,222)	(3,236)
Adjustment from previous periods	21	-	-	-
Tax rate changes	(8)	234	-	-
Group relief	-	-	(62)	(81)
Total tax charge	**93**	**234**	**-**	**-**

Notes to the Financial Statements
for the year ended 31 March 2019

11. Housing properties

Group	Under Development		Completed (available for letting)		
	General rented £'000	Shared ownership £'000	General rented £'000	Shared ownership £'000	Total £'000
Cost					
At 1 April 2018	201,425	63,518	1,482,882	138,150	1,885,975
Fully depreciated assets	-	-	(38,877)	(913)	(39,790)
Additions	118,701	97,119	7,690	-	223,510
Transfer to stock	-	(69,479)	-	-	(69,479)
Transfer on completion	(154,962)	(42,522)	154,962	42,522	-
Transfer from other fixed asset	-	-	24,561	-	24,561
Disposals	-	-	(28,593)	(6,798)	(35,391)
Components replaced	-	-	(4,847)	(21)	(4,868)
At 31 March 2019	**165,164**	**48,636**	**1,597,778**	**172,940**	**1,984,518**
Accumulated depreciation					
At 1 April 2018	-	-	153,146	8,385	161,531
Fully depreciated assets	-	-	(38,877)	(913)	(39,790)
Charge for the year	-	-	17,793	3,136	20,929
Disposals	-	-	(2,036)	(196)	(2,232)
Transfer from other fixed asset	-	-	13,525	-	13,525
Components replaced	-	-	(2,152)	(7)	(2,159)
At 31 March 2019	**-**	**-**	**141,399**	**10,405**	**151,804**
Impairment					
At 1 April 2018	-	-	4,399	-	4,399
At 31 March 2019	**-**	**-**	**4,399**	**-**	**4,399**
Net book value					
31 March 2019	**165,164**	**48,636**	**1,451,980**	**162,535**	**1,828,315**
At 31 March 2018	**201,425**	**63,518**	**1,325,337**	**129,765**	**1,720,045**

Total expenditure on existing properties in the year was £31,074k (2018: £37,609k). This comprises £8,130k (2018: £14,782k) which was capitalised and £22,944k (2018: £22,827k) 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 £8,588k (2018: £5,528k). The capitalisation rate used was 3.82% (2018: 3.94%). At 31 March 2019 the EUV-SH for the units charged was £1,119,701k (2018: £908,924k) and the number of units charged was 12,025 (2018: 10,615).

11. Housing properties – continued

Association	Under Development		Completed (available for letting)		
	General rented £'000	Shared ownership £'000	General rented £'000	Shared ownership £'000	Total £'000
Cost					
At 1 April 2018	198,690	63,518	1,466,113	138,150	1,866,471
Fully depreciated assets	-	-	(38,877)	(913)	(39,790)
Additions	118,701	97,119	8,130	-	223,950
Transfer to stock	-	(69,479)	-	-	(69,479)
Transfer on completion	(154,962)	(42,522)	154,962	42,522	-
Transfer from other fixed assets	-	-	24,561	-	24,561
Disposals	-	-	(2,623)	(6,798)	(9,421)
Components replaced	-	-	(4,847)	(21)	(4,868)
At 31 March 2019	**162,429**	**48,636**	**1,607,419**	**172,940**	**1,991,424**
Accumulated depreciation					
At 1 April 2018	-	-	149,824	8,198	158,022
Fully depreciated assets	-	-	(38,877)	(913)	(39,790)
Charge for the year	-	-	17,442	3,136	20,578
Disposals	-	-	(385)	(196)	(581)
Transfer from other fixed assets	-	-	13,525	-	13,525
Components replaced	-	-	(2,152)	(7)	(2,159)
31 March 2019	**-**	**-**	**139,377**	**10,218**	**149,595**
Impairment					
1 April 2018	-	-	4,399	-	4,399
31 March 2019	**-**	**-**	**4,399**	**-**	**4,399**
Net book value					
At 31 March 2019	**162,429**	**48,636**	**1,463,643**	**162,722**	**1,837,430**
At 31 March 2018	**198,690**	**63,518**	**1,311,890**	**129,952**	**1,704,050**

Total expenditure on existing properties in the year was £30,001k (2018: £36,724k). This comprised £8,130k (2018: £14,782k) which was capitalised and £21,871k (2018: £21,942k) 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 £8,588k (2018: £5,528k). The capitalisation rate used was 3.82% (2018: 3.94%). At 31 March 2019 the EUV-SH for the units charged was £1,119,701k (2018: £908,924k) and the number of units charged was 12,025 (2018: 10,615).

12. Intangible assets and other fixed assets

Group	Computer hardware £'000	Freehold and leasehold office property £'000	Office fixtures and fittings £'000	Total tangible asset £'000	Computer software £'000	Total £'000
Cost						
At 1 April 2018	4,198	36,217	3,226	43,641	5,660	49,301
Additions	-	485	77	562	5,236	5,798
Transferred to housing and investment properties	-	(24,656)	-	(24,656)	-	(24,656)
At 31 March 2019	**4,198**	**12,046**	**3,303**	**19,547**	**10,896**	**30,443**
Accumulated depreciation and amortisation						
At 1 April 2018	4,084	14,021	2,486	20,591	2,715	23,306
Amortisation for the year	-	-	-	-	813	813
Depreciation charge for the year	60	233	314	607	-	607
Transferred to housing properties	-	(13,525)	-	(13,525)	-	(13,525)
At 31 March 2019	**4,144**	**729**	**2,800**	**7,673**	**3,528**	**11,201**
At 31 March 2019	**54**	**11,317**	**503**	**11,874**	**7,368**	**19,242**
At 31 March 2018	**114**	**22,196**	**740**	**23,050**	**2,945**	**25,995**

Association	Computer hardware £'000	Freehold and leasehold office property £'000	Office fixtures and fittings £'000	Total tangible asset £'000	Computer software £'000	Total £'000
Cost						
At 1 April 2018	725	36,194	2,644	39,563	5,660	45,223
Additions	-	485	77	562	5,236	5,798
Transferred to housing and investment properties	-	(24,656)	-	(24,656)	-	(24,656)
At 31 March 2018	**725**	**12,023**	**2,721**	**15,469**	**10,896**	**26,365**
Accumulated depreciation and amortisation						
At 1 April 2018	611	13,998	1,904	16,513	2,715	19,228
Amortisation for the year	-	-	-	-	813	813
Depreciation charge for the year	60	233	314	607	-	607
Transferred to housing properties	-	(13,525)	-	(13,525)	-	(13,525)
At 31 March 2019	**671**	**706**	**2,218**	**3,595**	**3,528**	**7,123**
At 31 March 2019	**54**	**11,317**	**503**	**11,874**	**7,368**	**19,242**
At 31 March 2018	**114**	**22,196**	**740**	**23,050**	**2,945**	**25,995**

13. Freehold and leasehold properties

The cost of housing properties and office properties comprises:

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Housing properties				
Freehold	1,593,690	1,480,027	1,603,331	1,463,258
Long leasehold	177,028	141,005	177,028	141,005
	1,770,718	**1,621,032**	**1,780,359**	**1,604,263**
Office properties				
Freehold	12,046	11,655	12,023	11,633
Short lease	-	24,562	-	24,561
	12,046	**36,217**	**12,023**	**36,194**
Total	**1,782,764**	**1,657,249**	**1,792,382**	**1,640,457**

14. Investment properties

	Group £'000	Association £'000
At 1 April 2018	**30,126**	**25,751**
Additions	96	-
Disposals	(605)	-
Revaluation surplus	855	436
At 31 March 2019	**30,472**	**26,187**

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 of 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 summary. As 31 March 2019, costs in relation to investment properties under construction were £0 (2018: £0).

Notes to the Financial Statements
for the year ended 31 March 2019

15. Investments in joint ventures

Group	GH Partnership LLP £'000	Merrick Road LLP £'000	Total £'000
At 1st April 2018	147	13,618	13,765
Contribution	-	1,025	1,025
Share of Joint venture profit	13	334	347
Joint venture settlement	(147)	(14,643)	(14,790)
At 31 March 2019	**13**	**334**	**347**

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	67,454	-
Profit before tax	4,523	915
Net Assets	27	465

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 1st April 2018	6,436
Amortisation of cost	(52)
At 31 March 2019	**6,384**

The above investment in gilts is held to provide collateral as required by a debt instruments covenant condition; 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.

17. Investment in Shares
Investment in Group entities

The Association has interests in the following Group entities:

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

Investment in MORhomes PLC

At 31 March 2019, the Group held an investment of 30,000 ordinary shares of £1 each in the company.

Notes to the Financial Statements
for the year ended 31 March 2019

18. Shared equity loans

	Group and Association	
	2019 £'000	2018 £'000
At 1 April	5,528	6,624
Redeemed during the year	(617)	(1,096)
At 31 March	**4,911**	**5,528**

Shared equity loans meet the criteria for concessionary loans and are therefore measured in accordance with FRS 102 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	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Loan finance charges	7	79	7	65
	7	**79**	**7**	**65**

20. Stocks

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Completed schemes:				
Shared ownership properties	12,151	1,556	12,103	1,556
Open market sales	2,259	2,131	-	-
	14,410	**3,687**	**12,103**	**1,556**
Under construction:				
Shared ownership first tranche	45,508	42,430	45,508	42,430
Open market sales	53,651	8,615	-	-
Total	**113,569**	**54,732**	**57,611**	**43,986**

There was no impairment on stock recognised during the year (2018: £nil).
None of the stock is pledged as collateral against borrowing by the Group (2018: £nil).

21. Debtors: amounts falling due within one year

	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Rent and service charges	16,014	13,046	15,994	13,044
Less: provision for bad and doubtful debts	(6,188)	(5,998)	(6,188)	(5,998)
	9,826	**7,048**	**9,806**	**7,046**
Other debtors	5,365	8,236	5,278	8,103
Less: provision for bad and doubtful debts	(176)	(99)	(176)	(99)
Trade debtors	1,912	1,961	1,893	1,915
Amount owed from Group undertakings	-	-	9,049	30,648
Stock transfer	3,411	4,970	3,411	4,970
Prepayments and accrued income	7,223	2,759	7,960	3,528
	27,561	**24,875**	**37,221**	**56,111**

22. Cash and cash equivalents

	Note	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Cash at bank and in hand		70,993	65,488	66,367	58,934
Cash held for client accounts	23	4,773	4,031	4,773	4,031
		75,766	**69,519**	**71,140**	**62,965**

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.

23. Creditors: amounts falling due within one year

	Note	Group 2019 £'000	Group 2018 £'000	Association 2019 £'000	Association 2018 £'000
Client accounts					
Service charge and client funds		4,912	4,170	4,912	4,170
Client bank accounts		(139)	(139)	(139)	(139)
Total client account creditors		**4,773**	**4,031**	**4,773**	**4,031**
Other creditors					
Housing loans	26	27,368	6,550	27,368	6,550
Trade creditors		4,258	6,630	2,751	1,993
Rent and service charges received in advance		9,500	8,707	9,042	8,638
Owed to Group undertakings		-	-	33,279	67,237
Other creditors		2,965	2,073	2,772	1,710
SHPS Accrual	37	-	1,661	-	1,661
Accruals		41,679	59,507	17,542	23,828
		90,543	**89,159**	**97,527**	**115,648**

Notes to the Financial Statements
for the year ended 31 March 2019

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

		Group		Association	
	Note	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Housing loans*	26	913,540	852,234	913,540	862,420
Social housing grant received in advance		573	573	573	573
Recycled capital grant fund	27	10,401	7,882	10,401	7,882
Disposal proceeds fund	28	902	484	902	484
Social housing grant	29	565,207	559,611	565,207	559,611
Other capital grants	30	47,140	49,513	47,140	49,513
Shared equity grants	31	2,535	2,663	2,535	2,663
SHPS accrual	37	-	8,581	-	8,581
		1,540,298	**1,481,541**	**1,540,298**	**1,491,727**

* 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 £926,775k (2018: £844,345k). They also include restructured loan of £13,349k (2018: £13,251k) and the THFC financing surplus of £3,855k (2018: £3,456k).

The housing loans in the Association include a loan of £436,450k (2018: £481,844k) from Network Treasury Services Limited.

In 2019, accounting for the SHPS liability has changed and the net liability is now disclosed under provision for liabilities and charges (note 25).

25. Provisions for liabilities and charges

Group	AllPay £'000	Lease termination repairs £'000	Stock transfer £'000	Cladding work £'000	Deferred tax £'000	SHPS liability £'000	Total £'000
At 1st April 2018	79	3,487	4,970	-	234	-	8,770
Additions in the year	-	30	-	16,123	93	17,306	33,552
Released in the year	(79)	(226)	(1,559)	-	-	-	(1,864)
At 31 March 2019	**-**	**3,291**	**3,411**	**16,123**	**327**	**17,306**	**40,458**

	2019 £'000	2018 £'000
Amount payable within one year	15,341	5,049
Amount payable after one year	25,117	3,721
	40,458	**8,770**

Association	AllPay £'000	Lease termination repairs £'000	Stock transfer £'000	Cladding work £'000	SHPS liability £'000	Total £'000
At 1st April 2018	79	3,487	4,970	-	-	8,536
Additions in the year	-	30	-	16,123	17,306	33,459
Released in the year	(79)	(226)	(1,559)	-	-	(1,864)
At 31 March 2019	**-**	**3,291**	**3,411**	**16,123**	**17,306**	**40,131**

	2019 £'000	2018 £'000
Amount payable within one year	15,341	5,049
Amount payable after one year	24,790	3,487
	40,131	**8,536**

Notes to the Financial Statements
for the year ended 31 March 2019

AllPay
The provision was in relation to historic VAT not charged at time of invoicing. The VAT was repaid in 2019.

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 end of each lease, with the last lease ending in 2037. The principal uncertainty is the level of dilapidation work required to be performed.

Stock transfer
The provision relates to the cost of a works programme to be undertaken by 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 LB Lambeth to undertake works under the refurbishment contract as confirmed by Lambeth itself.

Deferred tax
The provision held is in relation to tax on unrealised gains on revaluation of investment property in the Group as at 31 March 2019.

Cladding
The Board is fully committed to replacing the cladding on one of its tall buildings and the provision made is for the cost of the works to be carried out by Network Homes Limited over the next two years.

SHPS
The provision relates to the pension past service deficit. The amount was notified by The Pension Trust. From the total amount of £17,306k, Network Homes Limited has agreed to pay £1,802k (£1,760k plus admin fees £43k) towards this over the next 12 months. In previous years the SHPS liability was treated as an accrual and reported under creditors - both less than and over one year.

Notes to the Financial Statements
for the year ended 31 March 2019

26. Housing loans

				£'000
Financial liabilities measured at amortised cost – GROUP				
Fixed rate loans at 1 April 2018				566,697
Fixed Rate Debt Instruments	**Rate**	**Maturity**	**Repayment**	
Bilateral bank loan	4.80%	Nov-35	Instalment	(1,945)
Deep Discounted Loan Note	5.00%	Sep-27	On Maturity	398
Bilateral bank loan	5.47%	Jun-20	Instalment	(730)
Bilateral bank loan	10.0%	Sep-25	Instalment	(336)
Bilateral bank loan	2.11%	Sep-45	Instalment	24,500
Private Placement	2.94%	Jan-31	On Maturity	19,000
Private Placement	3.52%	Jan-34	On Maturity	25,000
Private Placement	3.47%	Jan-39	On Maturity	35,000
Private Placement	3.47%	Jan-39	On Maturity	11,000
Private Placement	3.65%	Jan-49	On Maturity	47,000
Private Placement	3.65%	Jan-54	On Maturity	38,000
				196,887
Fixed rate loans at 31 March 2019				**763,584**

26. Housing loans – continued

				£'000
Variable rate loans at 1 April 2018				281,104
Variable Rate Debt Instruments	**Margin**	**Maturity**	**Repayment**	
Bilateral bank loan	0.18%	Sep-45	Instalment	(24,500)
Bilateral bank loan	0.25%	May-38	Instalment	(945)
Bilateral bank loan	0.38%	Nov-35	Instalment	(1,775)
Bilateral bank loan	0.90%	Dec-20	On Maturity	(15,000)
Bilateral bank loan	1.00%	Mar-36	Instalment	(838)
Bilateral bank loan	1.35%	May-20	On Maturity	(20,000)
Bilateral bank loan	1.25%	Dec-20	On Maturity	(5,000)
Local Authority Investment	1.50%	Jun-20	On Maturity	(5,000)
Local Authority Investment	1.50%	Jun-20	On Maturity	(10,000)
Local Authority Investment	1.50%	Jun-20	On Maturity	(5,000)
Local Authority Investment	1.50%	Jun-20	On Maturity	(20,000)
Bilateral bank loan	2.50%	Feb-19	On Maturity	(11,000)
Bilateral bank loan	1.30%	Feb-22	On Maturity	5,000
				(114,058)
Variable rate loans at 31 March 2019				167,046
Financial liabilities				**930,630**
Unamortised loan issue costs				(3,071)
Restructured loan				13,349
Total financial liabilities measured at amortised cost (notes 23 & 24)				**940,908**
Less: THFC financing surplus				(3,855)
Less: Restructured loan				(13,349)
Total loan repayable (as per repayment profile below)				**923,704**

At 31 March 2019 the EUV-SH for the units charged was £1,119,701k (2018: £908,924k) and the number of units charged was 12,025 (2018: 10,615).

Unencumbered asset value

The value of all Unencumbered Assets for the Association at year-end is £480,534k.

26. Housing loans – continued

Repayment profile of financial instruments	Group Payable by instalment £'000	Payable on maturity £'000	2019 Total £'000
Less than one year	12,368	15,000	27,368
Between one and five years	65,493	82,000	147,493
In more than five years	309,339	439,504	748,843
Total	**387,200**	**536,504**	**923,704**
	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
Total	**394,275**	**447,802**	**842,077**

Repayment profile of financial instruments	Association Payable by instalment £'000	Payable on maturity £'000	2019 Total £'000
Less than one year	1,268	8,000	9,268
Between one and five years	7,692	52,000	59,692
In more than five years	83,789	334,504	418,293
Total	**92,749**	**394,504**	**487,253**
	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
Total	**96,699**	**265,799**	**362,498**

Unencumbered asset value

The value of all unencumbered assets at year-end is £480,534k.

27. Recycled capital grant fund

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

Group and Association Funds pertaining to activities within areas covered by:		Homes England £'000	GLA £'000	Other £'000	Total £'000
As at 1 April 2018		440	5,955	1,487	7,882
Inputs to RCGF (source of funds):	Funds recycled	512	1,894	99	2,505
	Interest accrued	-	14	-	14
At 31 March 2018		**952**	**7,863**	**1,586**	**10,401**
Amounts 3 years or older where repayment may be required		**-**	**-**	**-**	**-**

28. Disposal Proceeds Fund

The movement on the disposal proceeds fund is shown below:

Group and Association Funds pertaining to activities within areas covered by:		GLA £'000
As at 1 April 2018		484
Inputs to DPF (source of funds):	Funds recycled	418
At 31 March 2019		**902**
Amounts 3 years or older where repayment may be required		**-**

29. Social housing grant

Group and Association	Under development		Completed (available for letting)		
	General rented £'000	Shared ownership £'000	General rented £'000	Shared ownership £'000	Total £'000
At 1st April 2018	36,842	34,535	462,752	25,482	559,611
Adjustment	-	-	(77)	-	(77)
Received	10,635	2,947	-	-	13,582
Amortisation for year	-	-	(5,315)	-	(5,315)
Disposal	-	-	(994)	(1,600)	(2,594)
Transfer on completion	(6,573)	(7,267)	6,573	7,267	-
At 31 March 2019	**40,904**	**30,215**	**462,939**	**31,149**	**565,207**

30. Other capital grants

Group and Association	Under development		Completed (available for letting)		
	General rented £'000	Shared ownership £'000	General rented £'000	Shared ownership £'000	Total £'000
At 1st April 2018	-	-	47,576	1,937	49,513
Adjustment	-	-	77	-	77
Amortisation for year	-	-	(2,249)	-	(2,249)
Disposal	-	-	(101)	(100)	(201)
At 31 March 2019	**-**	**-**	**45,303**	**1,837**	**47,140**

Other grants are grants from local authorities.

31. Shared equity grants

Group and Association	2019 £'000	2018 £'000
At 1 April	2,663	2,963
Recycled during the year	(128)	(300)
At 31 March	**2,535**	**2,663**

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

	Association	
	2019 £	2018 £
Ordinary shares of £1 each, issued and fully paid:		
At 1 April	10	11
Surrendered during the year	-	(1)
At 31 March	**10**	**10**

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 Homes England as a social provider.

34. Group capital commitments

	2019 £'000	2018 £'000
Expenditure contracted for but not provided for in the financial statements	255,053	418,471
Capital Expenditure authorised by board but not yet contracted for	354,170	117,327
	609,223	**535,798**

Capital commitments are in relation to the development programme that Board has 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 Homes England (formerly The Homes and Communities Agency) 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.

The summary below shows how the Group expects to finance capital commitments through:

	2019 £'000	2018 £'000
Social Housing Grants	37,066	37,066
Surpluses and borrowings	572,157	498,732
Total	**609,223**	**535,798**

35. Leases

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

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Amount payable in:				
Not later than one year	13,805	15,322	13,805	15,284
Later than one year and not later than five years; and	22,877	22,694	22,877	22,694
Later than five years	28,889	28,231	28,889	28,231
Total	**65,571**	**66,247**	**65,571**	**66,209**

The amount of lease payments recognised as an expense in the year was £16,970k (2018: £17,669k).

Notes to the Financial Statements
for the year ended 31 March 2019

36. Notes to the cash flow statement

	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Surplus for the financial year	72,016	44,326	75,572	40,745
Profit on sale of fixed assets	(49,336)	(30,148)	(14,173)	(11,992)
Revenue grant income	(6,153)	-	(6,153)	-
Revaluation surplus on investment properties	(855)	(1,005)	(436)	(1,311)
Loss/(Profit) on sale of investment property	406	(274)	-	-
Interest receivable and other income	(1,101)	(283)	(1,159)	(283)
Interest payable and similar charges	26,531	26,333	28,737	28,418
Restructuring of financial instruments	(90)	(87)	(90)	(87)
Share of joint venture (profit)/loss	(347)	157	-	-
Taxation	93	234	-	-
Gift aid receivable	-	-	(43,184)	(17,028)
Operating surplus	**41,164**	**39,253**	**39,114**	**38,462**
Depreciation charges	22,828	21,390	24,124	21,286
Amortised government grants	(7,563)	(7,419)	(7,564)	(7,420)
Working capital movements				
(Increase)/decrease in debtors	(2,614)	4,773	5,676	(9,472)
(Decrease)/Increase in creditors	(11,504)	15,171	(47,091)	37,311
Reclassification/non-cash item	2,176	(250)	841	1,123
Net cash inflow from operating activities	**44,487**	**72,918**	**15,100**	**81,290**

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 scheme and the multi-employer Social Housing Pension Scheme SHPS) and the third scheme providing benefits based on contributions made (a defined contribution scheme).

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

Charged in operating profit		2019 £'000	2018 £'000
Defined benefit schemes: service costs – LGPF	note 37a	-	-
Defined benefit scheme – SHPS	note 37b	1,616	1,556
Defined contribution scheme: contributions paid	note 37c	863	775
		2,479	**2,331**
Interest and finance costs			
Defined benefit schemes – LGPF	note 37a	(16)	7
Defined benefit scheme – SHPS	note 37b	349	144
		333	**151**

The amount recognised in the Other Comprehensive Income is as follows:

	31 March 2019 £'000
SHPS – OCI items from current year	(4,052)
SHPS – OCI adjustment to recognise full DB liability	(4,273)
LGPF – OCI items from the current year	(408)
	(8,733)

(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 did not make any contributions towards past service deficit. The Scheme is contracted out of the Second State Pension.

	2019	2018
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:

	2019	2018
Future pensioners *		
Males	24.1 years	24.1 years
Females	26.7 years	26.7 years
Current pensioners		
Males	22.5 years	22.5 years
Females	24.9 years	24.9 years

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

Notes to the Financial Statements
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37. Pension schemes – continued

A full actuarial valuation of the scheme was performed at 31 March 2019 by a qualified independent actuary, Hymans Robertson, using the projected unit credit method. The principal financial assumptions used by the actuary were:

	2019 %	2018 %
Expected rate of salary increase	2.6	2.5
Expected rate of pension increases	2.5	2.4
Discount rate	2.4	2.7

	Assets £'000	Liabilities £'000	Total £'000
At 1 April 2018	13,126	(12,535)	591
Benefits paid	(315)	315	-
Employer contribution	-	-	-
Interest income / (expense)	350	(334)	16
Actuarial gain/(loss)	563	(971)	(408)
At 31 March 2019	**13,724**	**(13,525)**	**199**

The fair value of the plan assets were:	2019 £'000	2018 £'000
Equity instruments	6,862	7,745
Bonds	5,215	3,675
Property	1,098	1,050
Cash	549	656
	13,724	**13,126**

The return on the plan assets were:	2019 £'000	2018 £'000
Interest income	350	320
Actual return on plan assets less interest income	563	149
	913	**469**

37. Pension schemes – continued

(b) Defined benefit scheme

The Association is a member of a multi-employer Social Housing Pension Scheme (SHPS). The Pension Trust, which administers this scheme, provides benefits to non-associated participating employers. The scheme is classed as a defined benefit scheme in the UK.

The scheme is classified as 'last man standing' arrangements. Therefore, each employer 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.

For the financial year ending 31 March 2019 the way in which an employer's defined benefit pension obligation in SHPS is stated in its company accounts has changed.

Previously, there had been insufficient information available for an employer in SHPS to account for its obligations on a defined benefit basis (i.e. stating assets and obligations). As a result, and as required by FRS 102, employers had been accounting for the obligation as a defined contribution scheme and recognised a liability as the present value of agreed future deficit repayment contributions.

For financial years ending on or after 31 March 2019, sufficient information is available for an employer to account for its obligations on a Defined Benefit basis and as required by FRS 102 paragraph 28.41.

Deficit funding commitments in relation to the SHPS pension liability from previous years were reversed by crediting other comprehensive income with the total amount of £10,242k. This amount relates to the liability over one year (£8,581k) and liability less than one year (£1,661k). In previous years, these liabilities were accounted for under creditors over / less than one year.

Based on the new valuation, the net pension liability at 1 April 2018 was £14,515k and was recognised on the statement of financial position through other comprehensive income.

The net pension liability increased by £2,791k from £14,515k on 1 April 2018 to £17,306k at 31 March 2019. The change was recognised on the statement of financial position through other comprehensive income for any actuarial gains and losses and through SOCI for interest (£349k) and other pension related costs (£45k).

	31 March 2019 £'000	1 April 2018 £'000
Fair value of plan assets	52,725	50,708
Present value of defined benefit obligation	(70,031)	(65,223)
Surplus (deficit) in plan	(17,306)	(14,515)
Unrecognised surplus	-	-
Defined benefit (liability) to be recognised	(17,306)	(14,515)
Deferred tax	-	-
Net defined benefit (liability) to be recognised	(17,306)	(14,515)

Fair value of the plan assets is Network's share of the market value of scheme assets at 31 March 2019. This includes the share of assets in relation to 'orphan' members and split-service members.

Net defined benefit liability is the ultimate liability that Network Homes has recognised in the accounts for 2019.

Reconciliation of opening and closing balances of the fair value of plan assets

	31 March 2019 £'000
Fair value of plan assets at start of period	50,708
Interest income	1,292
Experience on plan assets (excluding amounts included in interest income) - gain	754
Contributions by the employer	1,655
Benefits paid and expenses	(1,684)
Fair value of plan assets at end of period	**52,725**

The actual return on the plan assets, including any changes in share of assets, over the period ended 31 March 2019 was £2,017k.

Reconciliation of opening and closing balances of the defined benefit obligation

	£'000
Defined benefit obligation as at 1 April 2018	**65,223**
Expenses	45
Interest expense	1,641
Actuarial losses due to scheme experience	456
Actuarial losses due to changes in demographic assumptions	199
Actuarial losses due to changes in financial assumptions	4,151
Total defined benefit recognised in SOCI	**6,492**
Benefits paid	**(1,684)**
Defined benefit obligation as at 31 March 2019	**70,031**

The actual increase in liabilities increased by £4,808k in the period ended 31 March 2019.

Defined benefit cost recognised in Statement of Comprehensive Income (SOCI)

	31 March 2019 £'000
Expenses	45
Net interest expense	349
Defined benefit cost recognised in Statement of Comprehensive Income	**394**

Network Homes Limited will pay £1,802k (£1,760k plus admin fees £43k) over the next 12 months towards the past service deficit.

The estimated debt on withdrawal for Network Homes Limited as at 30 September 2017 has been calculated to be £57,182k. This information has been provided by The Pension Trust.

Assumptions	31 March 2019 £'000	1 April 2018 £'000
Discount rate assumptions	2.29%	2.55%
Inflation (RPI) assumptions	3.30%	3.20%
Inflation (CPI) assumptions	2.30%	2.20%
Pensionable earnings increase assumptions	3.30%	3.20%
Mortality before retirement	No allowance	No allowance
Life expectancy for a male currently age 65	3.30%	3.30%
Proportion married at retirement	75% for males and 75% for females	75% for males and 75% for females
Allowance for cash commutation	75% of maximum allowance	75% of maximum allowance
Discretionary increases	No allowance	No allowance

As at 31 March 2019 details of the scheme were:

Active members	Number	Total earnings (£'000s p.a.)	Average age (unweighted)
Males	16	956	53
Females	27	1,207	54
Total	**43**	**2,163**	**53**

Deferred members	Number	Total earnings (£'000s p.a.)	Average age (unweighted)
Males	92	346	53
Females	197	618	54
Total	**289**	**964**	**53**

Pensioners	Number	Total earnings (£'000s p.a.)	Average age (unweighted)
Males	59	477	69
Females	150	666	68
Total	**209**	**1,143**	**68**

(c) Defined contribution scheme

The amount recognised as an expense was:	Group		Association	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Contributions	906	805	863	775
	906	**805**	**863**	**775**

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.

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38. Contingent liabilities

As at 31 March 2019, the Group had the following contingent liabilities:

i. A number of performance bonds exist, total amount is £95k. 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.

ii. Cross collateralisation and cross guarantees are in place for £436m of loans borrowed by Network Treasury Services Limited, the Group's Treasury vehicle, as at 31 March 2019. The loans are secured against property assets held by these Group entities and are included within housing loans in note 26.

39. Government assistance

The Group receives financial assistance from government sources such as Homes England 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	
	2019 £'000	2018 £'000
Government funding received (Note 29,30 & 31)	614,882	611,787
Grants amortised to date	**82,747**	**75,183**

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	2019 £'000	2018 £'000
Network Homes Investments (Stockwell) Limited	Loan Interest	22	46
Network Treasury Services Limited	Loan Interest	-	42
Network Homes Investments Limited	Gift aid	4,066	18,626
Pimlico Village Developments Limited	Gift aid	21	16
Network New Build Limited	Gift aid	403	391
Network Treasury Services Limited	Gift aid	196	19
SW9 Community Housing Limited	Management Fees	2,329	2,704
		7,037	**21,844**

Total payment to non-regulated Group members	Details	2019 £'000	2018 £'000
Network Homes Investments Limited	Interest paid on loans	-	3
Network Homes Investments Limited	Office rent	38	38
Network Homes Investments (Stockwell) Limited	Interest paid on loans	376	88
Network Treasury Services Limited	Interest paid on loans	20,247	19,281
Network New Build Limited	Design & Build	82,055	77,227
Pimlico Village Developments Limited	Electricity & insurance	194	190
		102,910	**96,827**

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

Network Homes Investments Limited received office rent from the Association for Riversmead House in Hertfordshire. Network Treasury Services Limited received interest on loans to the Association.

Notes to the Financial Statements
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On 29 March 2019, Network Homes Investments Limited, a subsidiary of Network Homes, bought the remaining interest in the joint venture Merrick Road LLP for £14,744k. Going forward the joint ventures with both Merrick Road LLP and GH Partnership will cease to exist.

Investment in JV – Merrick Road LLP		
Date	Description	£'000
01/04/2018	Opening balance	13,719
	Total funding requests 18/19	1,025
31/03/2019	JV contribution transfer	(14,744)
		-

Investment in JV- GH Partnership		
Date	Description	£'000
01/04/2018	Opening balance	203
31/08/2018	Investment in GH Partnership transferred	(203)
		-

Intercompany debtors and creditors						
Intercompany current account (£'000):						
Description	NHL	NTSL	PVD	NHIL	NNB	SW9
Network Treasury Services Limited (NTSL)	196	(196)	-	-	-	-
Pimlico Village Developments (PVD)	22	-	(22)	-	-	-
Network Homes Investments Limited (NHIL)	3,165	-	-	(3,165)	-	-
Network New Build (NNB)	(11,754)	-	-	-	11,754	-
SW9 Community Housing (SW9)	596	-	-	-	-	(596)
	(7,775)	**(196)**	**(22)**	**(3,165)**	**11,754**	**(596)**

Intercompany debtors and creditors				
Intercompany loans (£'000):				
Description	NHL	NHISL	NTSL	NHIL
Network Homes Investments Stockwell Limited (NHISL)	5,000	(5,000)	-	-
Network Homes Investments Limited (NHIL)	(11,525)	-	-	11,525
Network Treasury Services Limited Loans (Loans < 1 Year)	(28,100)	-	28,100	-
Network Treasury Services Limited > 1 year	(416,150)	-	416,150	-
	(450,775)	**(5,000)**	**444,250**	**11,525**

Notes to the Financial Statements
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41. Housing stock

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

	2019			2018		
Social housing rental stock	Owned	Managed	Total	Owned	Managed	Total
General needs (exclusive of PSL)	8,685	-	8,685	8,671	-	8,671
General needs (PSL only)	637	414	1,051	681	431	1,112
Affordable	2,523	-	2,523	2,303	-	2,303
Total general needs and affordable	**11,845**	**414**	**12,259**	**11,655**	**431**	**12,086**
Sheltered (older persons)	1,420	-	1,420	1,420	-	1,420
Shared ownership	1,999	-	1,999	1,811	-	1,811
Leasehold	2,126	-	2,126	2,095	-	2,095
Supported housing	491	-	491	512	-	512
Intermediate rents	1,488	-	1,488	1,392	-	1,392
Total	**19,369**	**414**	**19,783**	**18,885**	**431**	**19,316**
Non-social housing stock						
Leasehold	590	-	590	581	-	581
Intermediate rents	252	-	252	253	-	253
Market rented	5	-	5	5	-	5
Total	**847**	**-**	**847**	**839**	**-**	**839**
Total	**20,216**	**414**	**20,630**	**19,724**	**431**	**20,155**
Properties owned but managed by others externally						
General needs	220	-	220	223	-	223
Leasehold	16	-	16	17	-	17
Supported housing	364	-	364	426	-	426
Market rented	5	-	5	5	-	5
Sub total	**605**	**-**	**605**	**671**	**-**	**671**

The table above is prepared according to 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.

42. Accommodation managed by agents

The Group owns properties managed by other bodies, as follows:

Property	2019	2018
Alamo Housing Co-operative	89	81
Apna Ghar	10	10
Ashford Place	6	6
Bahay Kubo Housing Association	11	11
Brent Community Housing	6	6
Brent MIND	22	27
Centrepoint	30	30
Certitude	4	4
Creative Support	-	4
Depauls	29	27
Directly-Managed	-	1
Equality Housing (Barnet MENCAP)	12	12
Equinox Care	13	13
Harrow Churches Housing Association	6	6
Harrow Council	7	7
Hestia Housing & Support	6	7
HFT	5	5
Home From Home	4	4
Karin Housing	15	15
Look Ahead Housing & Care	100	116
MACE Housing Co-operative Ltd	55	55
Savills	5	5
Spitalfields Housing Association	3	3
SSAFA	27	28
St Mark's Housing Co-operative	5	7
St Mungo's Broadway	35	36
Tamil Community Housing Association	36	37
Unit 11 Housing Co-operative Ltd	19	29
Watford Community Housing Trust	-	20
Westminster Housing Co-operative	9	7
Wandsworth and Westminster MIND	28	44
Westminster Society	8	8
Total units managed by agents	**605**	**671**

Notes to the Financial Statements
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43. Financial instruments and financial management

	2019 £'000	2018 £'000
Financial assets measured at amortised cost		
Investment – financial	6,384	6,436
Shared Equity Loans	4,911	5,528
Rent receivables	9,826	7,048
Trade debtors	1,911	1,961
Stock transfers	3,411	4,970
Other receivables	12,588	10,994
Cash and cash equivalents	75,766	69,519
Total financial assets	**114,797**	**106,456**
Financial liabilities measured amortised cost		
Housing loans less than one year	27,368	6,550
Housing loans more than one year	913,540	852,234
Trade creditors	4,258	6,630
Rent and service charges received in advance	9,500	8,707
Accruals	41,679	59,507
Disposal proceeds fund	902	484
Recycled capital grant fund	10,401	7,882
Other creditors	2,961	3,546
Total financial liabilities	**1,010,609**	**945,540**

Financial Management

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

- liquidity risk;
- interest rate risk;
- counter party risk; and
- 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 the 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's 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. From 2019/20 onwards, treasury management activities will be monitored by the Finance Committee.

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 2019, 82% (2018: 73%) of the Group's debt was at fixed rates and 18% (2018: 27%) at floating rates.

The Group's 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 on a quarterly basis. At 31 March 2019 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 are at the nominal value.

Interest rate risk

The Group borrows from lenders using a mixture of short and long-term loans. The tenure of which 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 counter party 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 Groups main clearing bank where the £10m limit can be exceeded for short periods or £20m for AAA rated Money Market Funds (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.

44. Events after the end of the reporting period

The Merrick Road LLP, the joint venture partner of NHIL will remain open until the end of July 2019. After the final VAT submission and the rates refund the joint venture will submit the final tax returns and close down Merrick Road LLP in August 2019.

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