



# Financial Statement 2017

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**Board Members:**

Robert Wilson	Chair (appointed Chair 31/07/2016)
Patricia Brandum	Vice Chair, Chair of the Keystone Board (appointed 01/01/2016)
Patricia Stanley	Chair of the Audit and Risk Committee
Clive Barnett	Chair of the Libra Treasury Board
Daniel Elkins	Chair of Remunerations and Nominations Committee
Julie Doyle	Chief Executive
Parmjit Dhanda	Non-Executive Director (appointed 01/09/2016)
Stephen Wenham	Chair of the Homes Board (appointed Chair 01/11/2016)
Anne Adamthwaite	(died 31/07/2016)
Ernest Hendricks	(resigned 01/11/2016)
Robert Lankey	(resigned 01/11/2016)

**Executive Officers:**

Julie Doyle	Chief Executive
Rob Griffiths	Deputy Chief Executive and Chief Financial Officer
Lynn Stubbs	Executive Director of People and Performance
Jonathan Drifill	Executive Director of Partnerships, Care and Community
Ian Jackson	Executive Director of Investment Portfolio
Sharon Guest	Executive Director of Housing

**Company Secretary:**

Rob Griffiths	Deputy Chief Executive and Chief Financial Officer (resigned 26/10/2016)
Rachel Challinor	Director of Governance, Performance and Compliance (appointed 26/10/2016)

**Registered Head Office:**

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B1 3JN

**Principal Bankers:**

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**Auditors:**

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Chartered Accountant and Statutory Auditor  
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Manchester  
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**Solicitors:**

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On the national stage, housing and the supply of new homes has never been so high up on the political agenda and this is clearly welcome news. The political uncertainty arising out of the recent general election and resulting hung parliament does not alter the fact that we are in the midst of a housing crisis.

There is a welcome change in the way in which Government is looking to invest in new homes and the provision of affordable housing across the country. This is good news for the Group and we have a strong development and sales programme to support the delivery of new homes across our areas of operation.

In the era of the 'super merger' taking place across the sector, growth through merger or acquisition is a key objective for us. We were therefore delighted to welcome Axiom Housing Association into the Group on 7 July, 2017. Both organisations share the same core values and are committed to providing new homes, quality services and supporting the communities where we work.

### Our operating environment

Whilst it is clear that housing is becoming increasingly important on the political stage, this is still a time of unprecedented change for housing associations. This period of change will undoubtedly present opportunities, along with many emerging risks and threats from working within a more volatile and changing operating environment.

The new business landscape is dominated by the rent reduction between 2016/17 and 2019/20, potential macro-economic changes related to Brexit, the on-going pressure of Welfare Reform, austerity impacting on the provision of care and support services, and a move towards loan guarantees or public equity investment instead of grant for the provision of new affordable homes.

If 2015 was the year everything changed for social housing, then 2016 was the year when we started to feel the effect. The seismic shocks of the previous year were not repeated but we, along with rest of the sector, have still spent much of the last 12 months adapting to a new reality.

Across our operating area there are significant variations in economic and housing circumstances. In areas like North Lincolnshire, house prices are significantly lower than the national average but high unemployment and low wages mean affordability is still a big issue, leaving many people unable to achieve their dream of home ownership. Unemployment levels are higher than the national average at 7.4 percent. The number of employed people claiming housing benefit is up more than 19 percent since 2008. The latest forecasts indicate that 342,000 new households will form in this region in the next 20 years.

By contrast, the affordability ratios of income to purchase prices in the East of England is more than nine times the average income, in Cambridge this rises to fifteen times the average income. Renting privately is also becoming increasingly unaffordable, averaging £690 per month and taking up to 30 percent of average income. A quarter of all housing benefit claimants in the region are employed.

The Care and Support sector has been operating within a national funding crisis for a number of years and there is no let-up in the challenges which we are facing. The legislative and regulatory environment remains complex with a continued shift towards greater public scrutiny; service providers being asked to deliver more for less and having to balance increasing demands to deliver high quality personalised services against the backdrop of extremely challenging economic services.

In contrast the announcement from government that the taper rate within Universal Credit will be reduced from 65 percent to 63 percent from April, 2017 is a move in the right direction and will result in claimants who earn

above the work allowances being able to keep more of what they earn. However, we remain concerned about the introduction of the Local Housing Allowance cap to new and existing tenants from 2019 and particularly the impact on under 35's, making it potentially impossible for people under 35 in need of social housing and care to obtain the necessary support.

The recent tragic events at Grenfell highlight the need for all providers to ensure that homes are safe for our customers to live in. This is something we are committed to and we will ensure this continues to be the case. All of our fire risk assessments are up to date and fit for purpose. We have one scheme which is six storeys high and this has been checked to ensure we are fully compliant with the up to date legislation.

### Our response to the operating environment

We have a proud history of delivering high quality homes and services for the benefit of the communities in which we work. We understand that the capacity to continually improve our operation is key to the longevity and the on-going success of our organisation. Strong governance and structures are essential for any secure and ambitious organisation to thrive, particularly in a challenging operating environment.

Our Board, Executive Leadership Team and Senior Management Group are now fully operational following a comprehensive review of our governance and senior management structures. Our streamlined Board and management structure allows us to be more responsive and have more clarity around risk and responsibility.

Our results for 2016/17 have exceeded the targets we set following the remodelling of the business plan to adjust for the impact of the rent cut. We still have much work to do over the next 2-3 years but we are well placed to deliver on our ambitious growth targets. There is no doubt that these are uncertain times within the housing sector, but we are financially resilient, with a strong and stable Board and leadership team and a dedicated staff team.

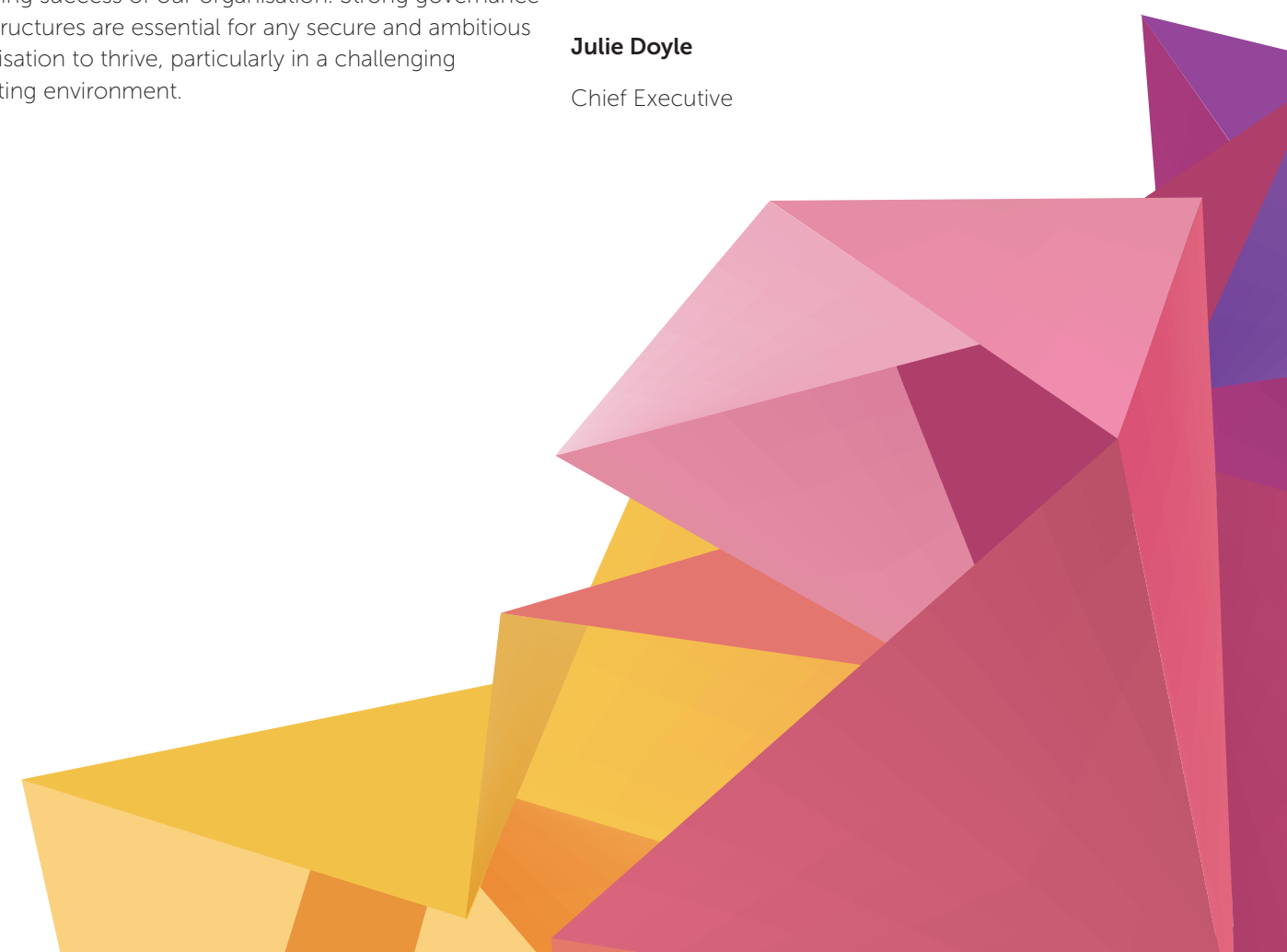
Together we are one team with one vision and are excited for the opportunities ahead and what we can achieve.

#### Bob Wilson

Chair

#### Julie Doyle

Chief Executive





## Introduction

The Board presents its report and audited consolidated financial statements for Longhurst Group and its subsidiary undertakings for the year ended 31 March, 2017. The principal activity of Longhurst Group is as a leading provider of affordable housing, care, and support in the Midlands and surrounding areas.

## Our Vision

Our vision as a Group is clear. Everything we do is about 'improving lives'. From the great homes and care and support services we provide to the numerous projects that make a positive difference to people's lives.

## Our Values

We are united by a shared set of values that guide everything we do as a Group and show what matters to us. These are:

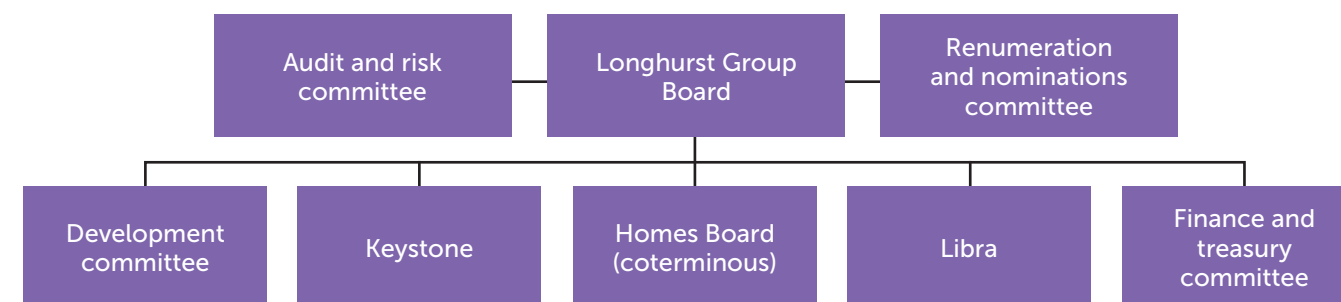


## Governance and Reporting Structure

Following a comprehensive review of the governance arrangements and management structures, our Board and Executive Leadership Team were restructured at the beginning 2016. Our streamlined Board and Committee structure is more suited to the business environment we now operate in.

## Longhurst Group Board

The Group Board define and set the strategic vision, values and corporate objectives of the Group.



## Specialist Boards and Committees

Subsidiary Boards and Committees contribute to the development of the Group's Business Plan and overall strategy and play a key role in overseeing operational delivery plans, performance and risks. The responsibility of each Board and Committee is clearly defined in their Terms of Reference and Group Financial Regulations.

## Executive Team

The Executive Team oversee operational delivery and are responsible for ensuring that appropriate executive arrangements are in place to meet objectives and targets.

## The Group consists of the following organisations:

- Longhurst Group Limited (the parent)
- Longhurst and Havelok Homes Limited (subsidiary)
- Spire Homes (LG) Limited (subsidiary)
- Friendship Care and Housing Limited (subsidiary)
- Keystone Developments (LG) Limited (subsidiary)
- Libra (Longhurst Group) Treasury PLC (subsidiary).

## Providing More Homes

We remodelled our development programme in 2016 in response to the changes that were announced in 2015 on cuts to social rents between 2016 and 2020. Our remodelled programme saw an increase in the total number of homes that we are planning to build each year. The provision of affordable rented homes has been a key part of our development programme and will remain so for the years ahead. However, in order to continue providing homes for affordable rent at a time where there is a limited availability of grant, we have in response increased the provision of market sale and low cost home ownership properties within our programme.

In 2016/17 we brought over 400 new homes into management across the Group and invested more than £30 million into our affordable homes programme.

Our aspiration is to deliver 3,000 new homes over the course of the next 5 years and we are well placed to deliver on this. Our forward development programme is largely committed for the next 12–18 months and we have opportunities beyond that for our forward programme. Our approach to development will seek to maximise the use of traditional development models, as well as looking at partnership opportunities and other innovative solutions to meet the needs of a diverse range of tenures.

Our market sale activity through Keystone Developments has seen a significant increase in activity during the year with four projects now on site with sales progressing. This includes our flagship scheme in Humberston, North East Lincolnshire, which started on site in February 2016 and where we completed the first sale in March 2017. Our joint venture with Westleigh Partnerships at Humberston will provide more than 400 new homes over the next 5-6 years.

Our work through the Blue Skies Consortium delivered 175 new homes into management during the year for consortium members with a further 541 started on site and a grant take up of £4.969 million.

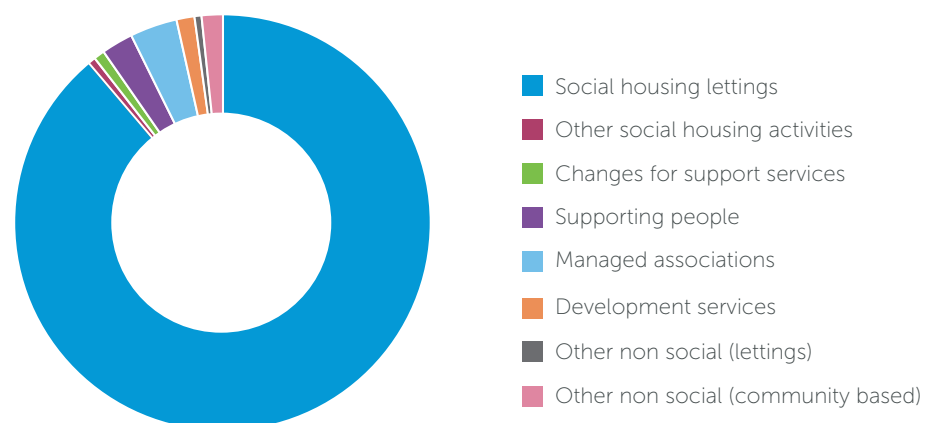
## Value-for-Money Self-Assessment

We can evidence a holistic approach to value-for-money (VFM) that takes account of cost, efficiency, social value and outcomes through our Value-for-Money Strategy. In 2016/17 we generated value-for-money gains of approximately £1.8 million through cash savings, additional income and operating efficiencies. During the year we invested further time and resources into social value projects which we have estimated had a value equivalent to £885k.

The information contained within this strategic report is a summary of Longhurst Group's full VFM self-assessment. The full report can be accessed at: [longhurst-group.org.uk/value-for-money](http://longhurst-group.org.uk/value-for-money) (update link to16/17).

### Understanding our costs

#### Activities driving operating costs



Operating costs from social housing lettings (SHL) have reduced from £57.42 million in 2015/16 to £52.80 million in 2016/17, a fall of £4.62 million in the last year. The costs for 2015/16 included a £3.55 million charge on the Social Housing Pensions Scheme (SHPS) which reflects the movement in the deficit recovery plan following the 2014 triennial revaluation. On a like for like basis, costs were still lower by £1.07 million. The reduction in operating costs was ahead of our planned cost reduction programme which was put in place in the Board approved Business Plan for 2016/17.

The Group's consolidated operating surplus for 2016/17 was £40.33 million, up from £32.79 million in 2015/16. As already highlighted, the 2015/16 figures were affected by the movement on the SHPS deficit recovery plan. The operating margin for 2016/17 was 36.38 percent compared to 29.04 percent in 2015/16.

### Understanding our Costs – Unit Cost Analysis

The Homes and Communities Agency (HCA) published the 2015/16 global accounts and updated unit cost analysis in February 2017, providing a consistent measure of costs across providers.

The information contained in the table below shows the results from HCA units cost analysis on the 2015/16 financial statements which has been updated to show the results for 2016/17 using the same methodology as used by the HCA. The global quartiles have been updated to reflect the movements in the SHPS pension deficit contributions across the sector.

The results from the analysis shows that the headline cost per unit have reduced by £440 per unit over the course of the last 12 months. Of this £190 is due to the SHPS pension movement not being repeated in 2016/17. The remaining balance of £250 per unit is due to efficiency savings across our cost base and new units coming into management only attracting a marginal increase in key cost areas.

	2015-16 Consolidated	2015-16 Friendship	2015-16 Spire	2015-16 L&H	2016-17 Consolidated	2016-17 Friendship	2016-17 Spire	2016-17 L&H
Closing owned and managed units	18,690	4,540	5,291	8,853	19,111	4,517	5,645	8,949
<b>HCA figures (£'000s)</b>								
Headline social housing CPU	3.23	4.57	2.77	2.60	2.79	4.20	2.25	2.40
Management CPU	0.89	1.28	0.73	0.73	0.68	1.04	0.62	0.52
Service charge CPU	0.50	0.95	0.26	0.42	0.52	1.04	0.23	0.45
Maintenance CPU	0.85	1.15	0.87	0.67	0.73	1.16	0.74	0.60
Major repairs CPU	0.63	0.81	0.68	0.51	0.51	0.75	0.45	0.42
Other social housing CPU	0.37	0.38	0.23	0.41	0.35	0.40	0.20	0.41

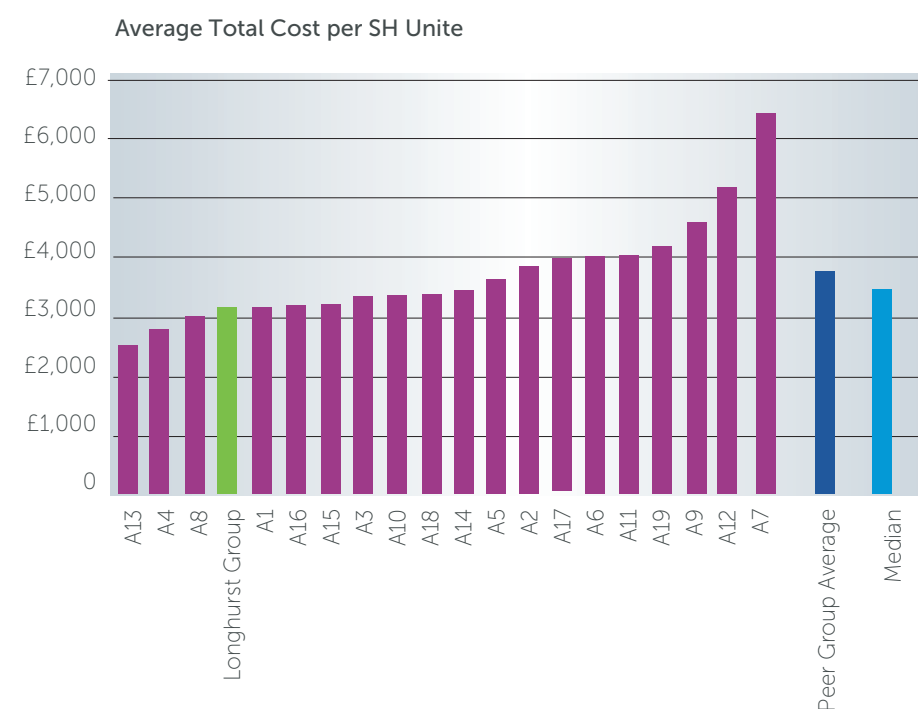
The information in the table below follows a similar logic to that used by the HCA, but has been updated to show a position which we believe is more reflective of our business. The calculation for service charges and other social housing has been based on the net position after income for each business area, rather than just on the costs.

The alternative basis for looking at costs per unit shows an improved position for Friendship Care and Housing where there is a higher proportion of care and support activity. On this basis service charges are showing as being bottom quartile performance; this is in part due to higher rents being charged on care and support services which would not be reflected in a lower net cost position.

	2015-16 Consolidated	2015-16 Friendship	2015-16 Spire	2015-16 L&H	2016-17 Consolidated	2016-17 Friendship	2016-17 Spire	2016-17 L&H
<b>LG Comparison ** (£'000s)</b>								
Headline social housing CPU	2.43	3.27	2.33	1.87	1.93	2.76	1.79	1.63
Management CPU	0.89	1.28	0.73	0.73	0.68	1.04	0.62	0.52
Service charge CPU	0.08	0.02	0.07	0.13	0.07	-0.06	0.06	0.15
Maintenance CPU	0.85	1.15	0.87	0.67	0.73	1.16	0.74	0.60
Major repairs CPU	0.63	0.81	0.68	0.51	0.51	0.75	0.45	0.42
Other social housing CPU	-0.02	0.02	-0.02	-0.03	-0.05	0.05	-0.08	-0.07

### How we compare with our peer group

We have compared our performance to our chosen peer group. This peer group consists of those providers who share similar characteristics and business profile.



### Benchmarking

Benchmarking our performance is critical to ensuring we understand our relative costs and performance. We joined Vantage Improvement Club in early 2016 and participate in quarterly data comparison of key financial and operating performance indicators. We have utilised this network to carry out bespoke benchmarking areas including, capital expenditure and overhead apportionment.

### Return on Assets

The historic cost of the Group's housing assets rose by £41 million to £912 million. During 2016/17, we have focused on the delivery of the Group's consolidated Asset Management Strategy.

### Understanding our Assets

In 2016/17, our key focus on asset management was to embed Group-wide processes to ensure that we continue to manage our assets efficiently and effectively and focus our efforts on our weakest performing stock.

The introduction of a single stock condition template has identified areas where there were some gaps in our data: we targeted 2016/17 surveys at those properties where we had least confidence in our records or which required Decent Homes validation, to maximise the benefit of the information collected, reduce the risk of disrepair claims, and improve our compliance management. We will continue this in 2017/18.

We reviewed the processes in place for options appraisal and stock disposal, and developed a Group policy to ensure we make consistent decisions and address poorer performing properties. The new process is managed by

our new Asset Management Holding Group, made up of Group staff members, who oversee delivery of the Asset Management Strategy; this will significantly speed up decision-making.

During the year, the Group has disposed of seven poorly-performing properties that required significant investment. The seven properties were sold for a combined capital receipt of £407,487. This has been re-invested in the provision of new homes by reducing the private finance required for our on-going development programme.

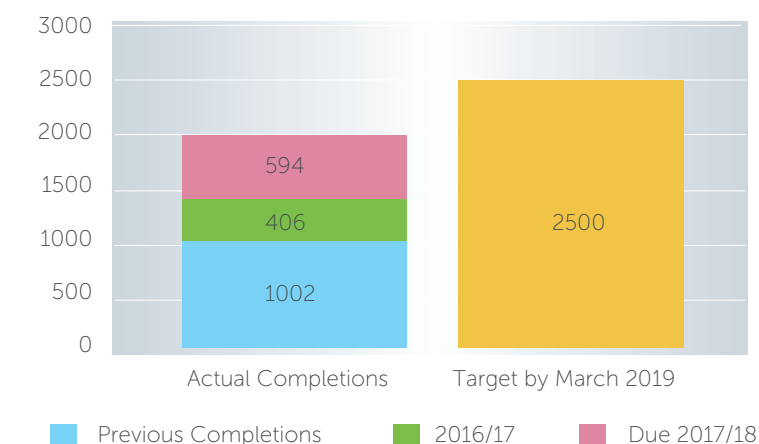
### Priorities for 2017/18

We will continue with our asset management analysis, identifying units that perform poorly (whether generally or relative to their value), and carry out options appraisals to identify appropriate courses of action.

### Development Programme

Our development programme remains robust: in 2016/17 we completed 406 new homes, and are on target to meet our business objective to provide at least 2,500 new homes between April 2014 and March 2019. As in previous years, this has been achieved with minimal grant funding: £607k in 2016/17 with all other funds coming from a combination of private finance and surpluses from our day to day operations. During 2016/17 we were successful in achieving an average for first tranche sales of shared ownership properties of 48.5 percent (an increase of nearly 10 percent since 2015/16). Our sales turnover was £4.9 million better than budgeted for the year, and our surplus on sales being £2.8 million, £1.3 million ahead of the budgeted plans.

New Builds Against Development Target



Property sales have continued to be strong; however, an increased programme of private market sale and low cost home ownership sales increases risk. We manage this by modelling different tenure splits when planning schemes so we understand the impact on viability of changing tenure from home ownership to rent. We have a robust scheme appraisal process and adopt a cautious approach to predicting sales completions within our business plan. We also ensure we are not over committed on our development and sales programme at any one time ensuring we phase our commitments as part of our approach to managing development and sales risk. Our development and sales programme is extensively stress tested as part of the development of the Business Plan which is monitored and updated during the year. In early 2017, we further strengthened our approach to development and sales by subscribing to the Hometrack system, this system provides market analysis and sales data to support our scheme appraisal process.

Our market sale programme is delivered through Keystone Developments (LG) Ltd. Our approach to

funding commercial development projects through Keystone relies on funding secured through the use of housing assets from across the Group. We have a limit on the amount of funding which Keystone can access and all schemes are robustly appraised and are required to achieve a commercial return before they can proceed.

An increasing portion of our new build homes programme were for low-cost home ownership: in 2016/17, around 50 percent of the homes we built were for sale (including shared ownership), with the remainder for rent. We still expect the split between rented and low cost home ownership to move towards 40/60 percent in the future.

In 2016/17, our average costs per unit fell to £103,409 (from around £112,000 in 2015/16); this was lower than forecast, and mainly the result of a higher than expected percentage being acquired through s.106 agreements. However, we still expect average build costs to rise to around £120,000 in the future, as the portion of ownership homes increases.

LG Development Programme	
Units completed in 2016/17	406
Units started in 2016/17	600
Completions due in 2017/18	594
% of s.106 units in 2016/17 completions	80%
Grant received for units completed 2016/17	£576,436
Other grant (including RCGF and DPF) for units completed 2016/17	£353,993
Average cost per unit for units completed in 2016/17	£103,409



### Development Savings

We are assessing the viability of a trial development in East Northamptonshire involving off-site manufacture, as a way of reducing costs. This is an approach that has the potential to increase the number of homes built nationally, and to retain skills within the building industry.

### Governance and Structures Review

In 2015/16, we completed a comprehensive review of our governance arrangements and management structures, and restructured our Board and Executive Leadership Team.

A streamlined board and executive structure is now in place (From 1 January, 2016, we moved from having 19 boards and committees across the Group to eight), enabling a quicker decision-making processes, more clarity on risk and responsibilities, and better positioning for growth. The new structure brings significant opportunities to streamline how we work, reduce costs, and share skills more effectively across the Group. We have delivered significant savings of over £500k through these changes in 2016/17.

### Allocation of Overheads

During the year we worked with PWC to review how our costs are allocated to each of our key business streams. On the whole this was found to be robust and clear in the way in which in-direct costs are allocated. This process will be refined during the autumn of 2017 as part of the development of the 2018/19 budget.

### Rent Collection

We have sustained good performance following the completion of rent collection in 2016. The introduction of RentSense across the Group in October 2016 has enabled us to better prioritise arrears recovery action. Our combined actions reduced arrears for current General Needs and Housing for Older People tenants from 2.70 percent at March 2016 to 2.27 percent at March 2017. This gives a net additional income, after taking account of the cost of RentSense, of £219,461.

In March 2016, we had closed the Just Rewards (tenant incentive scheme) operating in part of the Group, which had been intended to incentivise the payment of rent, but which cost £117,000 in administrative and reward costs. Despite the closure of this scheme, rent arrears of current tenants in that part of the Group fell from 2.50 percent at the end of 2015/16 to 2.16 percent at the end of 2016/17.

### Empty Homes

In 2016/17, our void rate for our general needs and housing for older people fell from 0.72 percent in 2015/16 to 0.54 percent, saving around £136,134. This was achieved through the creation of a dedicated lettings team, more systematic use of Rightmove for difficult to let housing, more rigorous enforcement of nomination agreements with local authorities and better working relationship with contractors (targeting properties for repair where a new tenant was waiting to move in).

We reduced void repair expenditure by 6.1 percent across the Group, saving £126,016.

We started working with Spark Energy to manage fuel utilities on empty homes. This saves us the cost of transferring utilities into our name during the void period, and generates an income to us from Spark. We expected this to be around £22,500; this generated savings for part year in 2016/17 of £11,295, and we now expect future annual savings of around £14,246 pa. This income will be used to fund energy efficiency measures in our housing.

As part our work to streamline services across the Group, we harmonised affordability and tenancy sustainment checks for prospective tenants. This allowed us to target tenancy sustainment advice, via the money guidance service, at customers who most needed it.

### Repairs and Maintenance

In 2016/17, we reviewed how best to deliver our repair service in the future. Following this, we are preparing to tender a Group contract for response and void repairs, along with kitchen, bathroom and electrical planned maintenance; with the option to include external planned works if it is cost-effective to do so. We expect the new contract to start in April 2018 as part of a phased roll out.

We also moved all gas servicing of rented properties to a price per property contract, saving £64,110 in 2016/17 (against predicted savings of £71,000). This saving will recur annually.

In 2016/17 we extended Friendship Care and Housing's (FCH) kitchen and bathroom contract, and extended the gas servicing contract for leasehold for the elderly homes, so we can procure larger contracts later. We also tendered new cleaning and grounds maintenance contracts for FCH and Longhurst and Havelok Homes; when the Spire Homes contracts end, we have the option to add additional properties into these contracts without further procurement.

In general, tendering one Group contract instead of three company contracts generates significant savings. Procurement costs for our main repairs contract are typically around £46,000 per contract, reducing the number of contracts from three to one saves around £92,000. However, moving to a single contract also creates additional risk: we remain members of CHIC because this allows us to procure services quickly in the event of problems arising.

### Digital Services

Our digital programme has been largely on hold pending the Axiom merger: however, we did aim for some quick wins: our customer teams have promoted the on-line tenant's portal to callers, and we specifically targeted the area of the business with lowest usage. The number of customers using our online portal, My Account, each month increased by 40 percent over the year, the total number of logins increased by 31 percent, and the number of repairs reported and rent

statements requested through the portal both increased by 20 percent. Overall usage remains low (nine percent of tenants), and there is clearly the potential to increase gains from online services. The additional repair orders saved around £1,605 in 2016/17.

We are rationalising our customer surveys, and increasing our use of e-surveys with the aim of improving response rates and to ensure we only collect data that is valuable.

Over the next 3 years, we will be implementing a CRM solution through Microsoft Dynamics. This will enable us to further develop online services in the future, and automate appointment reminders and survey.

### Customer Insight

Good quality customer data is critical to ensure we can target services effectively. In 2016/17, we used our data, for example, to target advice and support towards customers likely to be affected by the reduced benefit cap and the changes to Housing Benefit entitlement for 18-21 year olds; we then contacted these customers individually to help them address the risk proactively and ensure they could maintain their tenancy; as well as helping the tenants concerned, this also minimised the impact of the changes on rent arrears and void loss.

### Procurement and Contract Management

The remodelling of how infrastructure and front line services are delivered are resulting in greater efficiencies, specifically in how we procure and contract manage. We have achieved over £400k of cash savings by doing things smarter.



Services and innovation	Category	Description	Frequency	Impact	Value
	ICT	Skype for Business	Ongoing	Saving	£34,711
	ICT	New print contract	Ongoing	Saving	£173,804
	ICT	Early renewal of antivirus contract	One off	Saving	£90,000
	ICT	Termination of unnecessary contracts	One off	Saving	£82,732
	Training	Moving to cheaper on-line training provider	One off	Saving	1,676
	EHS	Move to single energy broker	Ongoing	Saving	£35,541
	EHS	Move to new online training provider	Ongoing	Saving	£1,676
	Communication	Reduced print /increasing digital distribution	Ongoing	Saving	£18,794
	Business Support	Reduction in archiving costs	Ongoing	Saving	£552
					<b>£437,810</b>

### Social Value

In 2016/17, we introduced a Group Social Value Strategy, looking at the types of project and service that we can create most value for. We also established a framework for defining expected costs, outputs and outcomes for social value projects. This will enable us to target resources at those projects that provide the best value in future.

### Employment and Training

Over eleven months in 2016/17, our Employment and Training project helped nine tenants obtain paid jobs, with a further 11 getting help to find work including obtaining voluntary work, attending a work-related course or finding work experience). The project cost £36,000 but achieved social value of £81,426, a social return on investment of 1:2.26.

Many of our repairs and maintenance contracts now include provision for social value: in 2016/17 this included:

- Careers talk about the construction industry for around 90 students at local college
- Classroom training and work experience for six students through our Kickstart programme
- Revamp of garden at sheltered housing scheme
- Provision of hampers to promote Christmas good neighbour scheme.

### Money Guidance

Despite welfare reforms that reduced backdated benefits, our Money Guidance Service continued to provide good value-for-money for the Group and our customers.

In 2016/17, we dealt with 652 cases and generated an income for the Group of £300,316 compared with service costs of £117,399.

In addition, for cases closed during the year, customers were helped to claim an additional £697,340 of other benefits, and to manage debt totalling £384,471.

Our Care and Repair service volunteer benefit advisors also helped customers claim benefits totalling a further £76,861 in 2016/17. We also support people to apply for underlying carer's allowance, which holds no monetary value in itself, but which increases personal allowances, which may in turn establish eligibility for Pension Credit or grant funding.

### Value-for-Money Gains in 2016/17

In 2016/17, we generated value-for-money gains of approximately £1.8 million through cash savings, additional income and operating efficiencies. We have also generated £855k of social value for our customers and communities. In the table below we have provided a summary of activities completed in the year, for full details please refer to the full report, please visit [longhurst-group.org.uk/value-for-money](http://longhurst-group.org.uk/value-for-money).

Area	VFM Gain	Recurring/ One Off	Efficiency/ Effectiveness/ Economy	Saving
Housing Services	Minimising void loss	One Off	Economy	£136,134
	Single Group membership of Rightmove.	One Off	Economy	£3,792
Structures	Governance and Leadership team restructures	One off	Economy	£500k
Assets and Property Services	Aligning gas contracts across the Group	Recurring	Economy	£64,110
	Reduction in void costs	One off	Economy	£137,311
Income Collection	Reduction in rent arrears for general needs and older people	One Off	Economy	£219,461
	Closure of tenant incentive scheme / improved arrears	Recurring	Economy	£117,000
Communications	Reduced expenditure due to rationalising Group communications	One off	Economy	£18,794

### Future Plans

We will continue to focus on innovation, efficiency and value-for-money to ensure that our business is as efficient and effective as possible. In practice this means further people and infrastructure changes to enable us to deliver our 'One Team One Vision' transformational plan.

In recognition of the significant change programme, the Group has established a Project Management framework and Project Management Office resource has been approved which will be integral in overseeing the Change Programme for the Group, ensuring good project governance and more effective resource planning.

Our key priorities for 2017/18 are:

- To move to a consistent group wide responsive repairs standard and contract. We expect to have the new contracts in place for April 2018.
- To deliver the approved Care and Support Strategy (approved in 2017) which includes clearer parameters for undertaking financial appraisals and viability assessments
- Complete the merger with Axiom into the Group and deliver the integration plans ensuring delivery of the outcomes identified in the approved Business Case. The savings identified within the combined business plan are £1.66 million and will be achieved by 2018/19. Integration costs are anticipated to be around £500k

which predominantly cover ICT migration and team structural changes. The projected savings of £1.66 million are in addition to savings already identified in our Business Plan. The merger with Axiom will also increase our combined development capacity by approximately 100 units per annum.

- Acquisition of the addition 627 leasehold units into L&H homes. This will increase the Group's portfolio by around 50 percent and attract additional income of around £214k per annum.
- Continue to deliver our planned programme of policy and process alignment which will harmonise the infrastructure we have to deliver our front line services
- Review the Group's Procurement Strategy ensuring we continue to procure effectively, ensuring compliance with legal and regulatory requirements, and that we are balancing the economic and social elements
- We will complete the restructuring of key business areas across the Group to ensure that the appropriate structures and resources are in place to deliver on our Business Plan objectives
- We will review our ICT Strategy ensuring we have adequate resources to deliver our Digital Strategy, whilst maintaining our core infrastructure and operating systems.

Our value-for-money objectives for the next few years are set out below. Not all savings can be quantified at this stage, but they all support our target of reducing our cost base by 7.5 percent by 2020. This target was approved during the re-development of our business plan in October 2015 and having achieved 2.5 percent savings so far, we are well on target to deliver the remaining efficiencies in the next 2-3 years.

Continued savings listed below are for items that have already started but where further savings will continue to materialise in the future: the savings listed below will all be realised from 2017/18 onwards.

Area	VFM Gain	Recurring/ One Off	Efficiency/ Effectiveness/ Economy	Saving
Development	New work developing homes for partner registered provider	Annually to 2019/20	Economy	£125,000 pa
Business Transformation	Savings from merging policies and procedures	Annually	Economy	Unknown
Comms	Move to single website	Annually from 2017/18	Economy	£5,671 pa
Property	Reduced R&M contract procurement costs	One off in 2017/18	Economy	£92,000
Property	Income from void utility management	Annually from 2017/18	Economy	£14,246 pa
Customer Services	Reduced STAR survey procurement costs	One off by 2018/19	Economy	Unknown
ICT	Continued savings from use of Skype compared to desk phones	One off by 20/21	Economy	£56,510 by 2020/21
ICT	Reduction in colour printing	One off	Economy	Unknown
ICT	Continued savings from reduction in ISDN lines	One off by 2020/21	Economy	£247,455 by 2020/21
ICT	Market evaluation and procurement of new phone contract	Recurring	Effectiveness and/or Economy	Unknown
ICT	Reduction in support contracts for disaster recovery	Recurring from 2017/18	Economy	£18,000 pa
ICT	Greater use of electronic forms	Recurring	Efficiency	Unknown
ICT	Greater use of ICT for care and support teams	Recurring	Efficiency	Unknown
Learning and Development	Cheaper training and greater access to training from Skillgate	Recurring from 2017/18	Economy/ Efficiency	£7,155 in 2017/18
Business Support	Continued savings from archiving contract	One off	Economy	£5,819 in 2017/18
Waterloo transfer	Additional management charge income for additional 627 units.	Annually from 2017/18	Economy	£214,000 pa
Axiom merger	Operating efficiencies and increased development portfolio	Annually from 2019/20	Economy	£1.6m pa
Sales	Sales of new builds and resales on behalf of partner provider	One off	Economy	£25,000 in 2017/18

### Corporate Governance

The Group is committed to achieving and maintaining the highest standards of corporate governance in the delivery of the Group's Business Plan objectives and management of risk. A new streamlined governance structure came into effect on 1 January, 2016. The new structure supports our ambition to grow and to operate efficiently as well as ensuring we are fit for purpose and prepared to meet future challenges when they arise.

The Group's governance structure incorporates a co-terminous Board, known as the Homes Board, which brings together the Boards of all three Group member companies, L&H Homes, Spire Homes and Friendship Care and Housing. The co-terminous Board structure, which is tried and tested in the sector, creates a platform for collaborative working, driving good practice, innovation and efficiency across the Group, whilst respecting local need and priorities.

### Compliance with Governance and Financial Viability Standard

The Board have reviewed the requirements of the Governance and Financial Viability Standard and can confirm that the Group is fully compliant with the requirements of the Standard.

### Compliance with Governance Code

Longhurst Group continues to follow best practice with regard to corporate governance and has adopted the National Housing Federation's 'Code of Governance: promoting board excellence for housing associations 2015'. The Group has undertaken a detailed self-assessment against the Code during the year and complies with the provisions of the Code with the exception of one identified area of non-compliance, namely.

Code Provision	Reasoned Statement of Non-Compliance
D2 Maximum tenure must be agreed for all non-executives which must in total be 9 years or fewer, composed of two or more consecutive terms of office. This maximum tenure must apply to all board member service with an organisation or its predecessors or its subsidiaries.	For the year under review, Rob Lankey served as a Group Board member up to the point he resigned on the 1 November, 2016. Rob had been retained as a Group Board member due to his skill and experience in Treasury Management whilst a suitable replacement was identified.  At the end of March 2017 there were no serving Board members whose service had exceeded 9 years.



### Risk Management

In the context of the environment in which we are working, risk management has never been a more crucial element of the overall system of internal controls across the Longhurst Group and its member companies. The Regulator has stressed that they expect HA's to be placing an even greater emphasis on risk management to ensure that social housing assets are protected.

The Group has embedded a strong culture of risk management across all areas of the business. The process to identify and evaluate risks is undertaken at various levels within the business. Once risks are identified and quantified, management controls are considered to ensure risks are managed in the most effective and proportionate way.

Our approach to risk management has evolved to reflect the changing operating environment and the diverse range of risks which we may be exposed to. The Group Board recognises that the management of and provision of new social housing is a long-term business and as such the Group Board maintains a long-term perspective on managing risk when considering new business initiatives. Our work on risk management aims to ensure that we take a proportionate view of known and possible risks and do not make decisions which put short-term gains ahead of the long-term sustainability of the business and the security of our social housing assets.

We have developed robust systems to identify, evaluate and manage key business risks and have ensured that our Boards and Committees have the appropriate skills to manage the risks of the business both now and in the future.

New areas of business and major projects are individually risk-assessed and reported to the Group Board prior to any commitments being made. This process includes a prudent financial assessment, sensitivity analysis and exploration of whether additional management controls or insurance is required to mitigate against significant risks or financial loss. The strategic risk register is reviewed by the Group Board and the Audit and Risk Committee each quarter. The other Boards and Committees of the Group review the risks that fall under their area of responsibility. The Audit and Risk Committee regularly reviews the system of internal controls across the Group and our internal audit plan is focused on the key strategic risks facing our business.

The Group operates a live risk management database system across all companies. This has refined the quality of management reporting, enabling more effective co-ordination of risk management activities and providing efficiencies in the administration of risks. During 2016/17, the Group adopted the 'three lines of assurance' on controls within the risk system, which forms the basis of a new Controls Assurance reporting mechanism to Boards and Committees, which further underpins the Board Assurance Framework.

### Principal Risks and Uncertainties

The risks identified below are those which are currently seen as presenting the greatest potential impact to our business and the achievement of our Business Plan objectives.

Risk / Opportunity	Causes and Impact	Principal Mitigations	Key Control Assurances
<p><b>Delivery of Development Programme</b></p> <p>The Group aims to provide 3,000 new homes over the next 5-6 years</p>	<p><u>Cause</u></p> <ul style="list-style-type: none"> <li>Property market downturn</li> <li>Developers prices rise faster than expected.</li> </ul> <p><u>Impact</u></p> <ul style="list-style-type: none"> <li>Business Plan (BP) targets could be missed</li> <li>Cash flow and funding issues if units not delivered in line with BP assumptions.</li> </ul>	<ul style="list-style-type: none"> <li>BP uses prudent assumptions, reviewed by independent expert advisors</li> <li>The development programme is phased so as to not over commit at any one time</li> <li>Scenario modelling, sensitivity analysis incorporating change in tenures and reduction in sales value</li> <li>Flexibility exists to amend scheme profiles in terms of outright sale to rented</li> <li>A proportion of the schemes already have agreed contract prices up to 18 months' in advance.</li> </ul>	<ul style="list-style-type: none"> <li>Development Strategy and Land Acquisition Strategy approved at Group Board</li> <li>Development Programme performance for 2016/17 better than BP target</li> <li>Quarterly update to the Business Plan incorporates latest development projections and stress test.</li> </ul>
<p><b>Financial Performance</b></p> <p>Not delivering results in line with BP</p>	<p><u>Cause</u></p> <ul style="list-style-type: none"> <li>Rent reduction of 1% for further 3 years</li> <li>Uncertainty of what rent policy the government will follow post rent reduction policy in 3 years' time</li> <li>Higher cost inflation during period of rent cuts</li> <li>Not achieving planned efficiency savings identified as part of merger with Axiom.</li> </ul> <p><u>Impact</u></p> <ul style="list-style-type: none"> <li>Efficiency targets missed</li> <li>Credit rating could suffer</li> <li>Cost of funding could increase</li> <li>Unable to deliver BP aims and objectives.</li> </ul>	<ul style="list-style-type: none"> <li>BP is based on prudent assumptions on both inflation interest rates</li> <li>Robust programme of stress testing and scenario planning in place</li> <li>Operating costs reduction target of 7.5% over 4 years (first 2 years delivered in line with target)</li> <li>Significant improvement in financial performance over the last 5 years.</li> </ul>	<ul style="list-style-type: none"> <li>The Group's credit rating of A2 was confirmed by Moody's Investment services in December 2016</li> <li>The Group's HCA Regulatory rating was confirmed as V1 in March 2017 following an In-Depth Assessment.</li> </ul>

<p><b>Welfare Reform</b></p> <p>Under occupancy rules, introduction of Universal Credit, direct payments to tenants and LHA benefit caps</p>	<p><u>Cause</u></p> <ul style="list-style-type: none"> <li>Government and austerity measures</li> <li>Confusion around status with supported housing services</li> <li>Higher inflation reducing disposable income for our customers.</li> </ul> <p><u>Impact</u></p> <ul style="list-style-type: none"> <li>Rent element of benefit may not get paid to us as promptly as under previous system</li> <li>Pressure on discretionary Housing Benefit payments</li> <li>Under occupancy leaves tenants having to make extra payments.</li> </ul>	<ul style="list-style-type: none"> <li>Dedicated Income Teams have improved rent collection rates across the Group</li> <li>Money Guidance Officers provide advice on benefits to tenants</li> <li>BP has made prudent assumptions on arrears levels which may arise following Welfare Reform and these have been stress tested</li> <li>Tenancy Policies have been amended to reflect the changes in Welfare Reform.</li> </ul>	<ul style="list-style-type: none"> <li>Rent collection performance has improved over the last 4 years</li> <li>Group Income Management policy updated.</li> </ul>
<p><b>Government Policy</b></p> <p>Following hung parliament after the general election, uncertainty of Government policy</p>	<p><u>Cause</u></p> <ul style="list-style-type: none"> <li>Failure to anticipate and be responsive to changes in government policy.</li> </ul> <p><u>Impact</u></p> <ul style="list-style-type: none"> <li>BP assumptions and strategies can become outdated or obsolete</li> <li>Managing reputational issues following the new deregulatory approach from the HCA.</li> </ul>	<ul style="list-style-type: none"> <li>Engagement and horizon scanning by the Executive Leadership Team to ensure key issues can be anticipated</li> <li>BP modelled with various adverse scenarios to ensure financial robustness going forward under various strategies and Government policies.</li> </ul>	

<p><b>Regulation and Reputation</b></p> <p>The Group places high priority in maintaining excellent standards in line with regulators requirements and customer's expectations</p>	<p><u>Cause</u></p> <ul style="list-style-type: none"> <li>Rent reduction of 1% for further 3 years</li> <li>Changes in Government policies</li> <li>Compliance with HCA Regulatory Framework</li> </ul> <p><u>Impact</u></p> <ul style="list-style-type: none"> <li>Meeting customers' expectations</li> <li>Continued drive to improve KPI's.</li> </ul>	<ul style="list-style-type: none"> <li>Our self-assessment on the HCA Regulatory Standards and NHF Code of Governance shows compliance</li> <li>Independent review of compliance with regulatory standards and relevant laws</li> <li>Targets for continued and improved quality service provision are set out in the Groups BP</li> <li>Governance Standing Orders, Schemes of Delegation, Financial Regulations and other key policies in place.</li> </ul>	<ul style="list-style-type: none"> <li>The Group's HCA Regulatory rating was confirmed as G1&amp;V1 in March 2017 following an In-Depth Assessment</li> <li>Internal Audit programme delivers robust review of internal control environment.</li> </ul>
<p><b>Care and Support</b></p> <p>Providing a quality service and the need for services to be financially viable in the current market of low contract prices</p>	<p><u>Cause</u></p> <ul style="list-style-type: none"> <li>Further cuts to funding for care and support services</li> <li>National Living Wage (NLW) legislation</li> <li>Welfare Reform.</li> </ul> <p><u>Impact</u></p> <ul style="list-style-type: none"> <li>Ongoing viability of schemes if funding isn't increased and costs keep going up</li> <li>Reputation risks if service withdrawn.</li> </ul>	<ul style="list-style-type: none"> <li>A C&amp;S model has been developed to robustly price tender opportunities to ensure viability</li> <li>One local authority provider has agreed to increase contract prices to enable improved rates of pay</li> <li>New tenders and/or renegotiations are made in line with the new NLW.</li> </ul>	<ul style="list-style-type: none"> <li>CQC inspection May 16 overall rating "Good"</li> <li>Care and Support Business development strategy approved by Group Board (March 17).</li> </ul>





<p><b>Serious loss of ICT infrastructure and or Data Protection breach</b></p> <p>Cyber-attacks have increased on all types of business in the last 12 months and the increasing risk of issues arising from systems being taken down or the loss of sensitive data</p>	<p><u>Cause</u></p> <ul style="list-style-type: none"> <li>• Cyber-attacks, hacking, crypto locking and ransom ware are becoming ever more sophisticated and frequency of attacks greater</li> <li>• Weakness in controls of a third party who we deal with / share information</li> <li>• Failure of a member of staff to follow procedures (fraudulent attachment opened or link followed).</li> </ul> <p><u>Effect</u></p> <ul style="list-style-type: none"> <li>• Loss of ICT systems</li> <li>• Customers temporarily being unable to access our services</li> <li>• Loss of sensitive data</li> <li>• Regulator intervention and reputation damage.</li> </ul>	<ul style="list-style-type: none"> <li>• Use of up to date firewalls, anti-virus software and close monitoring by ICT Teams</li> <li>• Passwords, restrictions and permissions required to access systems, controlled and monitored by ICT Teams</li> <li>• Training and policies in place for staff to follow</li> <li>• Data Controller in place and work of Governance Teams.</li> </ul>	<ul style="list-style-type: none"> <li>• Penetration testing carried out</li> <li>• ICT business continuity testing undertaken</li> <li>• Membership of a Data Action Network hosted by Professional in this area.</li> </ul>
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## Review of Financial Performance

We are pleased to present the consolidated Group Financial Statements for the year ending 31 March, 2017.

Statement of Comprehensive Income		
	2016/17	2015/16
	£'000	£'000
Turnover	110,843	112,913
Cost of Sales	(9,543)	(14,627)
Less Operating Expenditure	(60,971)	(65,493)
<b>Operating Surplus</b>	<b>40,329</b>	<b>32,793</b>
Gain/(Loss) on disposal of Property, Plant and Equipment	939	(623)
Interest Receivable	24	293
Interest Payable	(24,139)	(25,365)
Increase in valuation of investment properties	18	119
<b>Surplus before tax</b>	<b>17,171</b>	<b>7,217</b>
Taxation	(146)	25
<b>Net Surplus</b>	<b>17,025</b>	<b>7,242</b>
Statement of Financial Position		
	2016/17	2015/16
	£'000	£'000
Fixed Assets	932,385	912,184
Current Assets	41,989	29,135
Creditors due within 1 year	(31,304)	(30,711)
<b>Total Assets less Current Liabilities</b>	<b>943,070</b>	<b>910,609</b>
Creditors due after 1 year	(727,935)	(712,848)
Pension Provision	(3,505)	(3,165)
<b>Total Net Assets</b>	<b>211,630</b>	<b>194,595</b>
<b>Reserves</b>		
Income and Expenditure Reserve	103,563	85,792
Revaluation Reserve	139,502	140,757
Cashflow hedge reserve	(32,435)	(32,953)
Restricted reserve	1,000	1,000
	<b>211,630</b>	<b>194,595</b>

The consolidated Group surplus for the year was £17.03 million compared to a surplus of £7.24 million in the 2015/16 accounts.

The notes to the Financial Statements are shown in detail on pages 33-63. A review of the key areas of performance is summarised in the following sections.

### Statement of Comprehensive Income

The Group's turnover for the year was £110.84 million, down slightly on 2015/16 where turnover was £112.91 million for the year. The reduction in turnover is due to a combination of the one percent reduction in rent and a reduction in first tranche sales receipts on low cost home ownership where turnover was down from £14.92 million in 2015/16 to £9.41 million in 2016/17.

Operating costs have reduced from £65.49 million in 2015/16 to £60.971 million in 2016/17. £3.55 million of this movement is due to pension deficit costs which were included in the 2015/16 results as part of the reporting of the results of the triennial revaluation of the Social Housing Pension scheme. There were no changes recorded for 2016/17.

The operating surplus for 2016/17 was £40.33 million (£32.79 million in 2015/16) which equates to an operating margin of 36.38 percent for the year (29.04 percent in 2015/16). On a like for like basis without the inclusion of the pension deficit costs in 2015/16, the operating margin would have been 32.18 percent. The improvement in operating margin reflects the continuing progress which has been made in improving the efficiency of the business through reductions in management and maintenance costs.

The surplus on low cost home ownership sales dropped from £2.97 million in 2015/16 to £2.81 million in 2016/17. However, this was on the back of lower turnover and the margin achieved on new sales increased from 19.9 percent in 2015/16 to 29.9 percent in 2016/17.

Surpluses generated on the Group's commercial development programme saw an improvement in the year with a surplus of £583k from turnover of £3.53 million compared to a surplus of £1k in 2015/16 on turnover of 32.68 million.

Net interest costs were at £24.1 million for 2016/17 compared to £25.37 million in 2015/16. The reduction in net interest costs is due to a higher proportion of debt being linked to three month Libor rates and a reduction in rates during the year.

The surplus on sales associated with stock which were not developed for sale was £939k for 2016/17 compared to a loss in 2015/16 of £623k. The improvement in reported surplus is due to the 2015/16 results incorporating a write back of grant of £1.6 million following the collapse of the sale of a care home which was sold subject to contract at the end of the 2014/15 year.

### Statement of Financial Position and Cashflow

The net book value of the Group's Housing Assets grew from £912.2 million in 2015/16 to £932.39 million in 2016/17.

Work in progress on schemes being developed for outright sale and low cost home ownership sales increased from £13.2 million in 2015/16 to £27.35 million in 2016/17. £18 million of the £27.45 million was on work in progress on commercial development projects with the balance on schemes for low cost home ownership sales.

Total debt outstanding at the end of March 2017 had increased to £465.3 million from £447.3 million in 2015/16.

Cash balances stood at £10.23 million at the end of March 2017, a slight reduction on 2015/16 of £1.23 million.

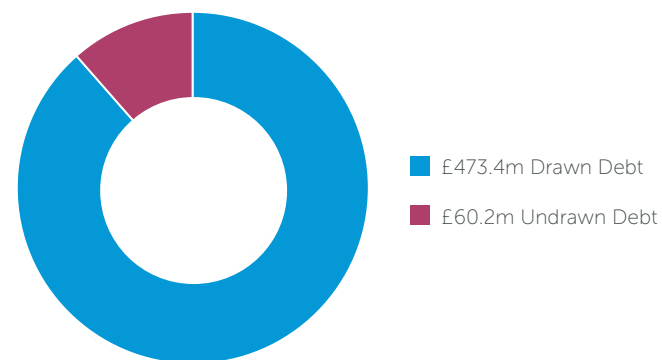
### Treasury Management

At 31 March, 2017, Longhurst Group had agreed loan facilities in place totalling £533.6 million (£490.3 million – 2016) of which £473.4 million (£453.5 million – 2016) was drawn. Since August 2012, all new funding for the Group has been arranged through the Group's special purpose funding vehicle, Libra (Longhurst Group) Treasury plc.

### Group Loan Facilities

Two new revolving credit facilities were agreed in the year with Santander bank Plc and Barclays Bank Plc totalling £52 million. The balance of undrawn facilities of £60.2 million is fully secured and available to draw at three days' notice.

### Total Committed Funding

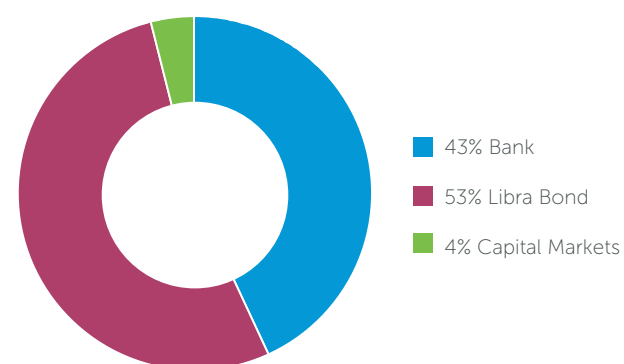


During the financial year 2016/17 additional short-term bank facilities have been agreed and fully secured totalling £52.0 million.

In addition, existing bank facilities have been extended £25.0 million (3 years), £50.0 million (2 years).

£447.6 million of total committed facilities has either been issued or is managed under Group Loan facilities by Libra (Longhurst Group) Treasury plc.

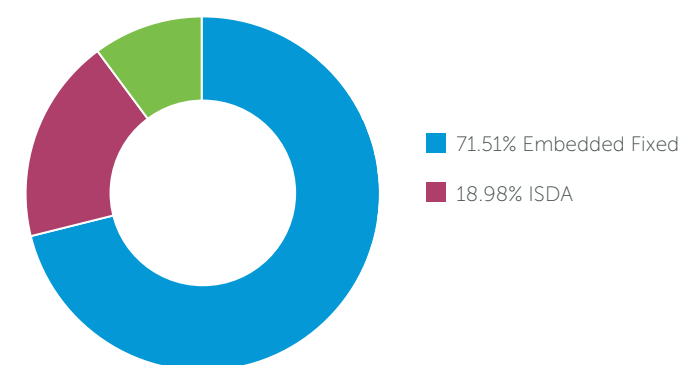
### Bank v Capital Market



Bond and capital markets debt now account for 57 percent of the Group's total debt with the balance being provided through a mix of short, medium and long-term bank debt.

The Group's strategy is to maintain its hedging activity within flexible parameters, as defined within the Board approved Treasury Management Policy. The precise proportion of fixed (where the rate is fixed for 12 months or more) rate borrowings will be set each year when the Board agrees the Group's annual Treasury Strategy. The mix of fixed and variable debt and maturity profile will be determined by an analysis of how sensitive the Group's cash flow forecast is to fluctuations in prevailing market interest rates, but subject always to the Group having at least 70 percent of its net position subject to fixed rates of interest, on a rolling 5 year average basis. The Group will ensure that no more than 100 percent of its net exposure is fixed at any time.

### Hedging Activity %

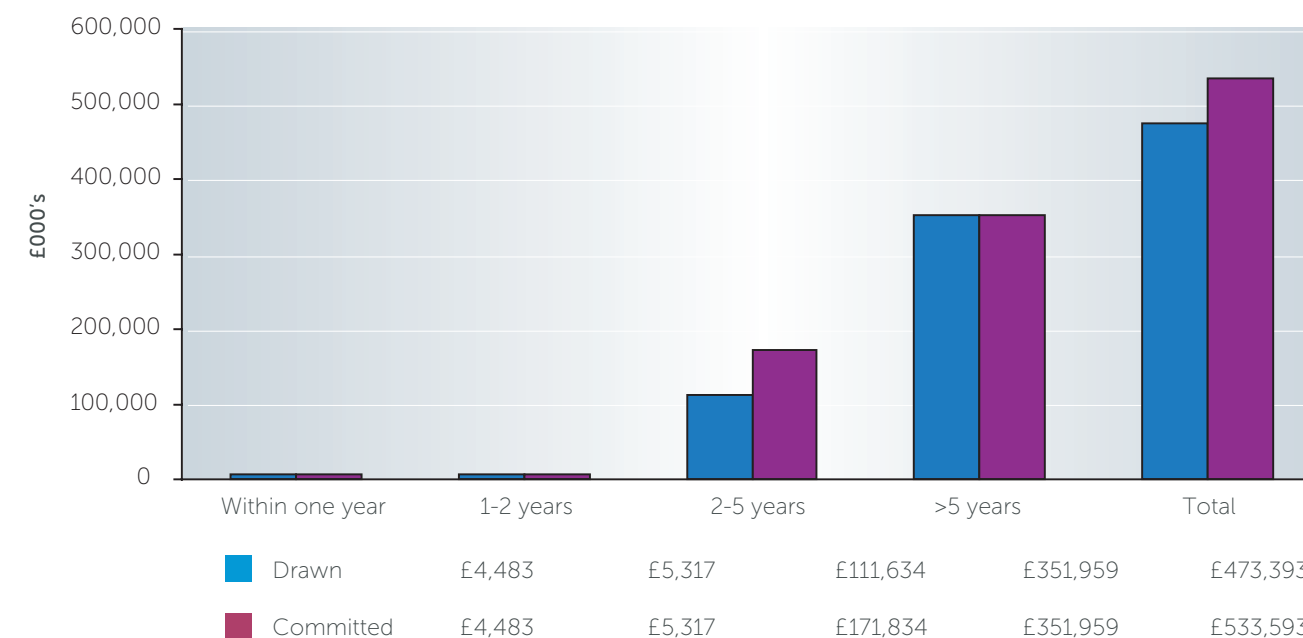


The Group's hedging activity is within the Treasury Management policy's agreed parameters, with a total of 90.49 percent fixed through a combination of embedded fixed rates and standalone derivatives (ISDA).

The ratio of fixed rate debt has reduced during 2016-17 as a result of additional variable debt drawn, fixed rate maturities and maturity of fixed rate loans (final repayment).

72 percent of the Group's Loans have been arranged under long-term facility periods with 28 percent being arranged as short term facilities with a final repayment date of between 2 and 5 years. The repayment profile for the drawn and undrawn debt held across the Group is summarised in the chart below.

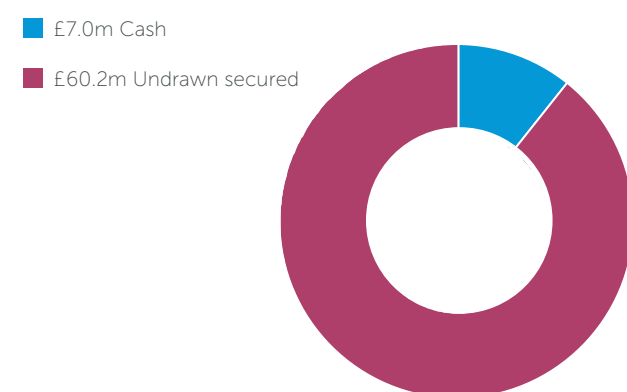
### Debt Repayment Profile





The undrawn committed facilities of £60.2 million comprises of three revolving credit facilities repayable within the next 5 years. 66 percent of committed facilities mature in more than 5 years a majority of which relates to our £250 million – 26 Year (2038) Bond issue.

### Available Liquidity



### Liquidity

At the 31 March, 2017 the Group has available cash of £7.0 million and £60.2 million of undrawn facilities available to draw with two days’ notice.

The Group has £25.0 million ring-fenced security to provide collateral (in excess of agreed unsecured thresholds) to cover any mark to market positions.

### Loan Structure

A majority of loan facilities for L&H, Spire Homes and FCH are now held and/or managed within Libra with the exception of long standing THFC and Housing Corporation (Orchardbrook) loans which are held at company level. Friendship Care and Housing (FCH) loans are currently held at company level, however, new facilities arranged during 2016/17 include FCH as a borrower, none of which was drawn by Friendship at 31 March, 2017. L&H, Spire Homes and Friendship are all party to the Group Security structure with all lenders and Libra being beneficiaries of their respective Security Trust Deeds allowing for cross collateralisation for all Group facilities.

### Loan Covenants and Compliance

The loan covenants are based on interest cover, loan gearing and asset cover ratios. A majority of Loan Covenants are measured on a Group Consolidated basis with the exception being FCH, where Loan covenants are measured at individual company level.

Compliance against Loan Covenants is monitored by the Group’s Treasury Team and reported to the Finance and Treasury Committee and Group Board. There were no breaches of any Loan Covenants during the year.

### Interest Rate Exposure

At 31 March, 2017, the Group had a negative stand-alone interest swap exposure of £29.5 million (2016: £30.0 million), based on £90.0 million (2016: £97.5 million) of notional paying fixed rate/receiving £3 million LIBOR swaps.

All of the Group’s interest rate swaps allow for the Mark to Market (M2M) position to be covered by either property assets or cash. At 31 March, 2017 the Group’s position was covered by property security for the M2M position in excess of the agreed threshold.

The Group’s Treasury Policy is approved annually and reviewed quarterly incorporating the Group’s objectives, relating to treasury management activities, together with their policies and practices.

### Basis of Consolidation

The results of the constituent members of the Group have been aggregated as this provides the most meaningful consolidated results for the Group.

The results for the Group are for the year ended 31 March, 2017.

### Employees

The Group places considerable value on the involvement of its employees and continues to keep staff informed on matters involving them as employees and the performance of the Group. This is achieved through regular formal and informal meetings, briefings and the intranet.

### Disabled Employees

Applications for employment by disabled employees are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and appropriate training made available. It is the policy of the Group that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### Board Members

The members of the Board who served during the year and their remuneration were as follows:

Name	Remuneration 2016/17	Longhurst Group Board	Homes Board	Libra Board & Finance & Treasury Committee	Keystone Board & Development Committee	Audit & Risk Committee	Remuneration & Nominations Committee
Anne Adamthwaite Resigned 31/07/16	£6,667	Chair to 31/07/16				*	
Robert Wilson	£16,667	Chair from 31/07/16			Chair to 31/07/16		
Patricia Stanley	£8,500					Chair	
Daniel Elkins	£7,000						Chair
Julie Doyle Executive Member	£0		*				
Ernest Hendricks Resigned 01/11/2016	£7,045		Chair to 01/11/16				
Robert Lankey Resigned 01/11/2016	£6,375			Chair to 01/11/16			
Clive Barnett	£7,625			Chair to 01/11/16			
Stephen Wenham	£9,083		Chair to 01/11/16		*		
Parmjit Dhandra Appointed 01/09/16	£3,500					*	
Patricia Brandum	£4,708				Chair from 01/09/16		



**Statement of the Board’s Responsibilities in Respect of the Accounts**

The Board is required to prepare financial statements for each financial year that give a true and fair view of the Company’s state of affairs and of its income and expenditure 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
- Prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the Company will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and enable it to ensure that the financial statements comply with the Companies Acts. The Board is also responsible for safeguarding the Company assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities, by establishing, and maintaining a satisfactory system of control over the Company’s accounting records, cash holdings and all its receipts and remittances.

As far as the Directors are aware:

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

**Directors Statement on Internal Controls**

The Board acknowledges its ultimate responsibility in ensuring that the Association has an effective system of internal controls in place. The system of internal controls is designed to manage key risks, provide reasonable assurance that planned business objectives are achieved and well-managed and to protect the Association’s assets and interests from loss of any kind.

Risk management is a key element of the system of internal controls in place across the Group. The Group has continued to develop the system which is used to assess, record and monitor risks, both at a company level and at an overall Group level.

It is the Group Board’s responsibility to establish and maintain appropriate systems of internal control for all Group companies. Such systems of control can only provide reasonable and not absolute assurance against material financial misstatement or loss. The Group Board is supported in its responsibility in overseeing the adequacy and effectiveness of internal controls across the Group by the Audit and Risk Committee.

The Group Board and the Audit and Risk Committee receive an independent assessment on the overall quality and robustness of internal controls via the programme of work undertaken by the Group’s Internal Auditors. The Group’s Internal Auditors are PWC who were re-appointed as Internal Auditors at the beginning of the 2016/17 financial year. The focus of internal audit work in 2016/17 was aligned to key risks on the Group’s risk map and was further informed via meetings with Board members and Senior Officers along with sector specific risks identified by PWC.

The Board’s approach to risk management includes the regular evaluation of the nature and extent of the risks to which the Company is exposed. This approach is consistent with the combined code on Corporate Governance and its associated guidance. Key elements of the system of internal control and approach to risk management include:

- i. Formal policies and procedures are in place, including the documentation of key systems and policies relating to the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of the Company’s assets.
- ii. The Group Board has adopted a clear anti-fraud and anti-bribery policy statement and approved a detailed fraud response plan. The policy statement has been communicated to staff and is part of the Governance Policy of the Company. The Audit and Risk Committee has reviewed the fraud register on a quarterly basis during 2016/17. There was one fraud relating to Direct Debits which was reported to the HCA during the financial year.
- iii. The Group Board has approved a risk management strategy and continues to develop procedures to identify, assess and manage risks to which the Association is exposed.

- iv. The Group has implemented an integrated Group-wide risk management system to co-ordinate work on key risks across the Group and to ensure that risks are appropriately managed and reported to the Board and Audit Committee. The risk management system is also used to track progress made against internal audit recommendations.
- v. The Group undertakes a thorough stress testing review of the key assumptions which underpin the Business Plan and models this against the headroom which exists on the Group’s financial covenants and key financial indicators. This process is updated at quarter two and quarter three as part of a review of progress against the approved financial plan.
- vi. All significant new initiatives, major commitments and investment projects are subject to a robust risk assessment, formal authorisation procedures, through relevant sub-committees comprising Group Board members and Board members from other Group Companies.
- vii. The Audit and Risk Committee reviews reports from management, from the internal auditors and from the external auditors to provide reasonable assurance that control procedures are in place and being followed. This includes a review of the major risks facing each Company within the Group.
- viii. A Group-wide Asset and Liability register.
- ix. A Group-wide Finance and Treasury Committee which meets four times a year focusing on the Group’s treasury strategy and monitoring compliance with the approved treasury policy.
- x. Formal procedures have been established for instituting appropriate action to correct weaknesses identified by the internal and external auditors as well as issues identified by the Audit and Risk Committee and individual Boards across the Group.

**Review of Internal Controls**

No weaknesses were found in internal controls that resulted in material losses, contingencies, or uncertainties that require disclosure in the financial statements or in the auditor’s report on the financial statements.

**Strategic Report**

The Company has chosen, in accordance with section 414C (11) of the Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013, to set out in the Group’s Strategic Report and Review of Financial Performance the information required by schedule seven of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. This includes information that would have been included in the business review and the principal risks and uncertainties.

**Auditors**

In accordance with Section 485 of the Companies Act 2006, a resolution to re-appoint the Company’s auditors, Beever and Struthers, will be proposed at the Annual General Meeting.

Approved by the Group Board on 27 July, 2017 and signed on its behalf by:

**Rachel Challinor**  
Company Secretary

We have audited the financial statements of Longhurst Group Limited for the year ended 31 March, 2017 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Financial Position and Consolidated Statement of Cash Flows and related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective Responsibilities of the Board and the Auditor

As explained more fully in the Statement of Director's Responsibilities set out on page 24, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March, 2017 and of the Group's and parent company's profit or surplus for the year then ended

- Have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- Have been properly prepared in accordance with the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

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

In our opinion:

- The information given in the Board's Report and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements
- The Strategic Report has been prepared in accordance with applicable legal requirements.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us
- The parent company financial statements are not in agreement with the accounting records and returns
- Certain disclosures of directors' remuneration specified by law are not made
- We have not received all the information and explanations we require for our audit.

### Maria Hallows (Senior Statutory Auditor)

For and on behalf of Beever and Struthers

Statutory Auditor

215-219 Chester Road

Manchester, M15 4JE

Dated: 27/07/2017





	Notes	Year ended 31 Mar 2017		Year Ended 31 Mar 2016	
		Consolidated £'000	Parent Company £'000	Consolidated £'000	Parent Company £'000
Turnover	2	110,843	8,850	112,913	8,584
Cost of sales	2	(9,543)	-	(14,627)	-
Operating expenditure	2	(60,971)	(8,718)	(65,493)	(8,925)
<b>Operating surplus/(deficit)</b>		<b>40,329</b>	<b>132</b>	<b>32,793</b>	<b>(341)</b>
Gain/(Loss) on disposal of property, plant and equipment (fixed assets)	6	939	-	(623)	-
Interest receivable		24	2	293	2
Interest and financing costs	7	(24,139)	(41)	(25,365)	(32)
Increase in valuation of investment properties		18	-	119	-
<b>Surplus/(deficit) before tax</b>	8	<b>17,171</b>	<b>93</b>	<b>7,217</b>	<b>(371)</b>
Taxation	9	(146)	-	25	-
<b>Surplus/(deficit) for the year after tax</b>		<b>17,025</b>	<b>93</b>	<b>7,242</b>	<b>(371)</b>
Actuarial (loss)/gain in respect of pension schemes		(508)	-	537	-
<b>Total comprehensive income for the year</b>		<b>16,517</b>	<b>93</b>	<b>7,779</b>	<b>(371)</b>

The financial statements on pages 28 to 63 were approved and authorised for issue by the Board on 27 July, 2017 and were signed on its behalf by:

Board Member:

Board Member:

Secretary:

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The consolidated and parent results relate wholly to continuing activities and the notes on pages 33 to 63 form an integral part of these accounts.





	Notes	Year ended 31 Mar 2017		Year Ended 31 Mar 2016	
		Consolidated £'000	Parent Company £'000	Consolidated £'000	Parent Company £'000
<b>Fixed assets</b>					
Tangible fixed assets	13	926,937	364	906,723	443
Investment properties	14	5,448	-	5,461	-
Investment in subsidiaries	15	-	50	-	50
		<u>932,385</u>	<u>414</u>	<u>912,184</u>	<u>493</u>
<b>Current assets</b>					
Stock	16	27,348	-	13,200	-
Trade and other debtors	17	4,415	755	4,481	480
Cash and cash equivalents	18	<u>10,226</u>	<u>812</u>	<u>11,454</u>	<u>757</u>
		41,989	1,567	29,135	1,237
<b>Less: Creditors:</b> amounts falling due within 1 year	19	<u>(31,304)</u>	<u>(1,234)</u>	<u>(30,711)</u>	<u>(882)</u>
<b>Net current assets/(liabilities)</b>		<u>10,685</u>	<u>333</u>	<u>(1,576)</u>	<u>355</u>
<b>Total assets less current liabilities</b>		<u>943,070</u>	<u>747</u>	<u>910,608</u>	<u>848</u>
<b>Creditors:</b> amounts falling due after more than 1 year	20(a)	<u>(727,935)</u>	<u>(1,676)</u>	<u>(712,848)</u>	<u>(1,870)</u>
<b>Provisions for liabilities</b>					
Pension provision	12	<u>(3,505)</u>	-	<u>(3,165)</u>	-
<b>Total net assets/(liabilities)</b>		<u>211,630</u>	<u>(929)</u>	<u>194,595</u>	<u>(1,022)</u>
<b>Reserves</b>					
Non-equity share capital	30	-	-	-	-
Income and expenditure reserve		103,563	(929)	85,791	(1,022)
Revaluation reserve		139,502	-	140,757	-
Cashflow hedge reserve		(32,435)	-	(32,953)	-
Restricted reserve		<u>1,000</u>	-	<u>1,000</u>	-
<b>Total reserves</b>		<u>211,630</u>	<u>(929)</u>	<u>194,595</u>	<u>(1,022)</u>

The financial statements on pages 28 to 63 were approved and authorised for issue by the Board on 27 July, 2017 and were signed on its behalf by:

Board Member:

Board Member:

Secretary:

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The notes on pages 33 to 63 form an integral part of these accounts.





Group	Income and expenditure reserve £'000	Restricted reserve £'000	Cashflow hedge reserve £'000	Revaluation reserve £'000	Total £'000
<b>Balance at 31 March 2016</b>	85,791	1,000	(32,953)	140,757	194,595
Surplus from Statement of Comprehensive Income	16,517	-	-	-	16,517
Transfer of depreciation	1,255	-	-	(1,255)	-
Fair value movement on financial derivative	-	-	518	-	518
<b>Balance at 31 March 2017</b>	<u>103,563</u>	<u>1,000</u>	<u>(32,435)</u>	<u>139,502</u>	<u>211,630</u>

The notes on pages 33 to 63 form an integral part of these accounts.

Parent Company	Income and expenditure reserve £'000
<b>Balance at 31 March 2016</b>	<u>(1,022)</u>
Surplus from Statement of Comprehensive Income	93
<b>Balance at 31 March 2017</b>	<u>(929)</u>

The notes on pages 33 to 63 form an integral part of these accounts.

	Year ended 31 Mar 2017 £'000	Year Ended 31 Mar 2016 £'000
<b>Net cash generated from operating activities</b>	<b>36,096</b>	44,296
<b>Cash flow from investing activities</b>		
Purchase of tangible fixed assets	(40,535)	(35,879)
Proceeds from sale of tangible fixed assets	6,399	4,836
Grants received	578	1,706
Interest received	608	41
Tax paid	(146)	26
	(33,096)	(29,270)
<b>Cash flow from financing activities</b>		
Interest paid	(24,921)	(25,851)
New secured loans	40,234	18,326
Repayment of borrowings	(19,541)	(4,505)
	(4,228)	(12,030)
<b>Net change in cash and cash equivalents</b>	<b>(1,228)</b>	2,996
<b>Cash and cash equivalents at beginning of the year</b>	<b>11,454</b>	8,458
<b>Cash and cash equivalents at end of the year</b>	<b>10,226</b>	11,454
<b>Note i</b>		
<b>Cash flow from operating activities</b>		
Surplus for the year	17,169	7,243
<b>Adjustments for non-cash items:</b>		
Depreciation of tangible fixed assets	13,791	13,642
Amortisation of intangible assets	(2,286)	(2,303)
Impairment charges	243	4
(Increase) in stock	(14,148)	(1,415)
Decrease/(increase) in trade and other debtors	(781)	2,269
(Increase) in trade and other creditors	(49)	(3,568)
Pension costs less contributions payable	(1,005)	2,803
<b>Adjustments for investing or financing activities:</b>		
Proceeds from the sale of tangible fixed assets	(939)	622
Movement on valuation of investment properties	(18)	(119)
Interest payable	24,726	25,365
Interest received	(607)	(247)
<b>Net cash generated from operating activities</b>	<b>36,096</b>	44,296

The notes on pages 33 to 63 form an integral part of these accounts







## Legal Status

Longhurst Group Limited is incorporated in England under the Companies Act 2006 as a company limited by guarantee without share capital (registered number 3958380) and is registered with the Homes and Communities Agency as a Private Registered Provider of Social Housing by the Housing and Regeneration Act 2008, (registration number L4277). The registered office is 50 Newhall Hill, Birmingham, B1 3JN.

## 1. Principal Accounting Policies

### Basis of Accounting

The Group's financial statements have been prepared in accordance with applicable United Kingdom Accounting Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice for registered housing providers: Housing SORP 2014. Longhurst Group is a Public Benefit Entity and the financial statements have been prepared in compliance with FRS102.

The financial statements comply with the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The accounts are prepared on the historical cost basis of accounting as modified by the revaluation of investment properties and the deemed cost adoption of a section of housing properties and are presented in sterling £ (rounded to the nearest £'000).

### Parent company disclosure exemptions

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS102:

- No cash flow statement has been presented for the parent company.

### Basis of consolidation

The consolidated financial statements incorporate the results of Longhurst Group Limited and all of its subsidiary undertakings as at 31 March, 2017.

## Going concern

The Group's financial statements have been prepared on a going concern basis which assumes an ability to continue operating for the foreseeable future.

## Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

- Development expenditure.** The Group capitalises development expenditure in accordance with the accounting policy described on page 38. Initial capitalisation of costs is based on management's judgement that development scheme is confirmed, usually when Board approval has taken place including access to the appropriate funding. In determining whether a project is likely to cease, management monitors the development and considers if changes have occurred that result in impairment.
- Categorisation of housing properties.** The Group has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the Group has considered if the asset is held for social benefit or to earn commercial rentals. The Group has determined that market rented property are investment properties.
- Impairment.** The Group has identified a cash generating for impairment assessment purposes at a property scheme level.

## Other key sources of estimation and assumptions:

- Tangible fixed assets.** Other than investment properties, tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.
- Revaluation of investment properties.** The Group carries its investment property at fair value, with changes in fair value being recognised in profit and loss. The Group engaged independent valuation specialists to determine fair value at 31 March 2016 and 31 March, 2017. The valuer used a valuation technique based on a discounted cash flow model. The determined fair value of the investment property is most sensitive to the estimated yield as well as the long-term vacancy rate. The key assumptions used to determine the fair value of investment property are further explained in note 14.
- Pension and other post-employment benefits.** The cost of defined benefit pension plans and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific sector. Future salary increases and pension increases are based on expected future inflation rates for the respective sector. Further details are given in note 12.
- Impairment of non-financial assets.** Reviews for impairment of housing properties are carried out when a trigger has occurred and any impairment loss in a cash generating unit is recognised by a charge to the Statement of Comprehensive Income. Impairment is recognised where the carrying value of a cash generating unit exceeds the higher of its net realisable value or its value in use. A cash generating unit is normally a group of properties at scheme level whose cash income can be separately identified.  
  
During the year a new scheme development, at Friendship Care and Housing, which was approaching practical completion was identified as having a significant cost overrun compared to the Board approved budget. The Board considered the cost overrun to be a trigger for an impairment review, which was undertaken on the full scheme development project.  
  
In accordance with the guidance in the 2014 SORP, the Board considered the most appropriate method of undertaking an assessment for impairment would be to compare the carrying value of the asset with the depreciated replacement cost. Having undertaken a review of the project and considering the depreciated replacement cost, the Board concluded that the scheme development was impaired by £80,000.  
  
During the year, the office which is owned by Beechdale Community Development, but was occupied by Friendship Care and Housing, was vacated, leaving the office unoccupied. The Board considered the vacation of the office to be a trigger for an impairment review. The Board considered the most appropriate method of undertaking an assessment for impairment would be to compare the carrying value of the asset with the net realisable value. Having undertaken a review of the asset, and considering the likely realisable value upon a market sale, the Board concluded the office was impaired by £162,346.  
  
Following the assessment of impairment, total impairment losses of £242,346 were identified in the reporting period.

## 1. Principal Accounting Policies (continued)

### Turnover and revenue recognition

Turnover represents rental income receivable, amortised capital grant, revenue grants from local authorities and the Homes and Communities Agency, income from the sale of shared ownership and other properties developed for outright sale and other income and are recognised in relation to the period when the goods or services have been supplied. Rental income is recognised when the property is available for let, net of voids. Income from property sales is recognised on legal completion. Supporting People Income is recognised under the contractual arrangements. Sales of properties developed for outright sale are included in Turnover and Cost of Sales.

### Support income and costs including Supporting People income and costs

Supporting People (SP) contract income received from Administering Authorities is accounted for as SP income in the Turnover as per note two. The related support costs are matched against this income in the same note. Support charges included in the rent are included in the Statement of Comprehensive Income from social housing lettings note three and matched against the relevant costs.

### Service charges

Service charge income and costs are recognised on an accruals basis. The Group operates both fixed and variable service charges on a scheme by scheme basis in full consultation with residents. Where variable service charges are used the charges will include an allowance for the surplus or deficit from prior years, with the surplus being returned to residents by a reduced charge and a deficit being recovered by a higher charge. Until these are returned or recovered they are held as creditors or debtors in the Statement of Financial Position. Where periodic expenditure is required a provision may be built up over the years, in consultation with the residents; until these costs are incurred this liability is held in the Statement of Financial Position within creditors.

### Loan interest costs

Loan interest costs are calculated using the effective interest method of the difference between the loan amount at initial recognition and amount of maturity of the related loan.

### Loan finance issue costs

These are amortised over the life of the related loan. Loans are stated in the Statement of Financial Position at the amount of the net proceeds after issue, plus increases to account for any subsequent amounts amortised. Where loans are redeemed during the year, any redemption penalty and any connected loan finance issue costs are recognised in the Statement of Comprehensive Income account in the year in which the redemption took place.

### Financial Instruments

#### Initial measurement

Financial Assets and liabilities are initially measured at fair value (including transaction costs and liabilities not measured at fair value through the Statement of Comprehensive Income).

#### Measurement subsequent to initial recognition

Subsequently, financial assets and liabilities (including derivatives) are measured at fair value, with the following exceptions.

Loans and receivable, held to maturity and non-derivative financial liabilities where measured at amortised cost using the effective interest method.

- Financial assets and liabilities that are designated as a hedged item are subject to measurement under the hedge accounting requirements of FRS 102
- Fair value is determined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. To calculate fair value, the group uses
- Where they exist, quoted market prices in an active market to measure the financial instrument
- If a market for a financial instrument is not active or freely available, the group will use a valuation technique which makes reference to current fair value of another instrument which is substantially the same.

### Hedge Accounting

Hedge accounting is applied to financial assets and liabilities for the group where a hedging relationship qualifies for hedge accounting and if the following conditions in section 12.18 of FRS 102 are met:

- The hedging relationship consists of only a hedged item and a hedged risk
- The hedging relationship is consistent with the Group's approved Treasury Management strategy
- There is an economic relationship between the hedged item and hedged instrument
- Clear documentation is in place on the risk being hedged and the hedged item and hedging instrument are clearly identified.

### Hedging Instruments

A hedging instrument is defined as an instrument where the fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.

### Hedged items

A hedged item is one which exposes the Group to the risk of changes in the fair value or future cash flows and is designated as being hedged. A hedged item can be a single or group of recognised assets or liabilities, a firm commitment or a highly probable future event.

### Hedge effectiveness

The Group assesses hedge effectiveness both retrospectively and prospectively. To qualify for hedge accounting, the hedged item must be expected to be highly effective in offsetting the cumulative changes in the cashflow or fair value of the hedged risk.

### Accounting treatment – Cash flow hedges

Where the Group hedges its exposure to variability in cash flows that are attributable to a specific risk associated with a recognised asset or liability (such as all or a proportion of future interest payments on variable debt) or a highly probable forecast transaction and could offset profit or loss.

A cash flow hedge is accounted for as follows:

- The portion of the gain or loss on the hedging instrument which is determined to be effective will be recognised in other comprehensive income and accumulated in the cash flow hedge reserve.
- The ineffective element of the gain or loss on the hedging instrument will be recognised in interest payable in the Statement of Comprehensive Income.

In a cash flow hedge, if the hedged future cash flows are no longer expected to occur, the amount that has been accumulated in the cash flow hedge reserve is reclassified from the cash flow hedge reserve to profit or loss immediately.

If the hedged future cash flows are still expected to occur, the cumulative gain or loss in the cash flow reserve is accounted for as follows:

- If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group will remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or liability.
- For cash flow hedges other than those covered by (i), that amount will be reclassified from the cash flow hedge reserve to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss (for example, in the periods that interest income or interest expense is recognised or when a forecast sale occurs).
- If the amount is a loss, and all or part of that loss is not expected to be recovered, the amount of the loss not expected to be recovered will be reclassified to profit or loss immediately.



**Financial Instruments**

Financial assets and financial liabilities are measured at transaction price initially, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

At the end of each reporting period, financial instruments are measured as follows, without any deduction for transaction costs the entity may incur on sale or other disposal.

Debt instruments that meet the conditions in paragraph 11.8(b) of FRS 102 are measured at amortised cost using the effective interest method, except where the arrangement constitutes a financing transaction. In this case the debt instrument is measured at the present value of the future payments discounted at a market rate of interest for a similar debt.

Commitments to receive or make a loan to another entity which meet the conditions in para 11.8(c) of FRS 102 are measured at cost less impairment.

Investments in non-convertible preference shares and non-puttable ordinary shares or preference shares are measured at:

- Fair value with changes in fair value recognised in profit or loss if the shares are publicly traded or their value can otherwise be measured reliably,
- At cost less impairment for all other such investments.

Financial instruments held by the Group are classified as follows:

- Financial assets such as cash, current asset investments and receivables are classified as loans and receivables and held at amortised cost using the effective interest method
- Financial liabilities such as bonds and loans are held at amortised cost using the effective interest method
- Loans to or from subsidiaries including those that are due on demand are held at amortised cost using the effective interest method
- Commitments to receive or make a loan to another entity which meet the conditions above are held at cost less impairment

- An investment in another entity's equity instruments other than non-convertible preference shares and non-puttable ordinary and preference shares are held at fair value
- Derivatives such as interest rate swaps are classified as financial assets or financial liabilities at fair value.

Financial assets and financial liabilities at fair value are classified using the following fair value hierarchy:

- The best evidence of fair value is a quoted price in an active market
- When quoted prices are unavailable, the price of a recent transaction for an identical asset, adjusted to reflect any circumstances specific to the sale, such as a distress sale, if appropriate
- Where there is no active market or recent transactions then a valuation technique is used to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

**Taxation**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit and loss, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company's subsidiaries operate and generate taxable income.

**Value Added Tax**

The Group charges VAT on some of its income and is able to recover part of the VAT it incurs on expenditure. All amounts disclosed in the accounts are inclusive of VAT to the extent that it is suffered by the Group and not recoverable.

**Tangible fixed assets and depreciation**

**Housing properties**

Tangible fixed assets are stated at cost, less accumulated depreciation. Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion of construction. Freehold land is not depreciated. Where a housing property comprises two or more major components with substantially different useful economic lives (UELs), each component is accounted for separately and depreciated over its individual UEL. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred. The Group depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories. UEL's identified components are as follows:

	Years
Structure	120
Roof	60
Windows	30
Electricals, bathrooms, windows and doors	30
Kitchen	20
Heating and lifts	15

The association depreciates housing properties held on long-term leases in the same manner as freehold properties, except where the unexpired lease term is shorter than the longest component life envisaged, in which case the unexpired term of the lease is adopted as the useful economic life of the relevant component category.

Depreciation is charged on other tangible fixed assets on a straight-line basis over the expected economic useful lives which are as follows:

	% per annum on cost
Freehold offices	1%
Fixtures and fittings	15-25%

**Low cost home ownership properties**

The costs of low cost home ownership properties are split between current and fixed assets on the basis of the first tranche portion. The first tranche portion is accounted for as a current asset and the sale proceeds shown in turnover. The remaining element of the shared ownership property is accounted for as a fixed asset and subsequent sales treated as sales of fixed assets.

**Capitalisation of interest and administration costs**

Interest on loans financing development is capitalised up to the date of the completion of the scheme and only when development activity is in progress. Administration costs relating to development activities are capitalised only to the extent that they are incremental to the development process and directly attributable to bringing the property into their intended use.

**Property managed by agents**

Where the Group carries the majority of the financial risk on property managed by agents, income arising from the property is included in the Statement of Comprehensive Income. Where the agency carries the majority of the financial risk, income includes only that which relates solely to the Group. In both cases, the assets and associated liabilities are included in the Group's Statement of Financial Position.

**Leasing**

Payments for operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the term of the lease.

**Investment property**

Investment property includes commercial and other properties not held for the social benefit of the Group. Investment property is measured at cost on initial recognition, which includes purchase cost and any directly attributable expenditure, and subsequently at fair value at the reporting date. Fair value is determined annually by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the Statement of Comprehensive income.

**Valuation of investments**

Investments in subsidiaries are measured at cost less accumulated impairment. Investments in unlisted company shares, which have been classified as fixed asset investments as the Group intends to hold them on a continuing basis, are re-measured to market value at each balance sheet date. Gains and losses on re-measurement are recognised in profit or loss for the period.

**Stock and properties held for sale**

Properties developed for outright sale are included in current assets as they are intended to be sold, at the lower of cost or estimated selling price less costs to complete and sell. At each reporting date, stock and properties held for sale are assessed for impairment. If there is evidence of impairment, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in Statement of Comprehensive Income.

**Short-term debtors and creditors**

Debtors and creditors with no stated interest rate and receivable or payable within 1 year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

**Non-government grants**

Grants received from non-government sources are recognised under the performance model. If there are no specific performance requirements the grants are recognised when received or receivable. Where grant is received with specific performance requirements it is recognised as a liability until the conditions are met and then it is recognised as Turnover.

**Social Housing and other government grants**

Where developments have been financed wholly or partly by social housing and other grants, the amount of the grant received has been included as deferred income and recognised in Turnover over the estimated useful life of the associated asset structure (not land), under the accruals model. SHG must be recycled by the Group under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the Homes and Communities Agency. However, SHG may have to be repaid if certain conditions are not met. If grant is not required to be recycled or repaid, any unamortised grant is recognised as Turnover. In certain circumstances, SHG may be repayable, and, in that event, is a subordinated unsecured repayable debt.

**Recycling of Capital Grant**

Where Social Housing Grant is recycled, as described above, the SHG is credited to a fund which appears as a creditor until used to fund the acquisition of new properties, where recycled grant is known to be repayable it is shown as a creditor within 1 year.

**Disposal Proceeds Fund (DPF)**

Receipts from the sale of SHG funded properties less the net book value of the property and the costs of disposal are credited to the DPF, this creditor is carried forward until it is used to fund the acquisition of new social housing.

**Holiday pay accrual**

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

**Retirement benefits**

The cost of providing retirement pensions and related benefits is charged to management expenses over the periods benefiting from the employees' services. The disclosures in the accounts follow the requirements of Section 28 of FRS 102 in relation to multi-employer funded schemes in which the Group has a participating interest.

Contributions payable under an agreement with SHPS to fund past deficits are recognised as a liability in the Group's financial statements calculated by the repayments known, discounted to the net present value at the year ended using a market rate discount factor of 2.06 percent at 31 March, 2016 and 1.33 percent at 31 March, 2017. The unwinding of the discount is recognised as a finance cost in the Statements of Comprehensive Income in the period incurred.

**Revaluation Reserve**

The revaluation reserve represents the difference on transition between the fair value of social housing properties and the historical cost carrying value, where deemed cost transitional relief was taken.

**Loan Prepayment Clause**

The Group's debt has been treated as "basic" in accordance with paragraphs 11.8 and 11.9 of FRS 102. The Group has some fixed rate loans which have a two way break clause (i.e. in addition to compensation being payable by a borrower to a lender if a loan is prepaid where the prevailing fixed interest rate is lower than the existing loan's fixed rate, compensation could be payable by the lender to the borrower in the event that a loan is prepaid and the prevailing fixed rate is higher than the existing loan's fixed rate). The Financial Reporting Council (FRC) issued a statement on 2 June, 2016 in respect of such loans with no prescriptive direction as to whether they should be classified as "basic" or "non-basic". On the grounds that the Group believes the recognition of each liability at cost provides a more transparent and understandable position of the Group's financial position and that each loan still satisfies the requirements of paragraphs 11.8 and 11.9 of FRS 102, the Group has retained its "basic" treatment of its debt following the FRC announcement.

## 2(a). Turnover, cost of sales, operating expenditure and operating surplus

Group	2017			
	Turnover £'000	Cost of sales £'000	Operating Costs £'000	Operating surplus £'000
Social housing lettings (note 3a)	88,390	-	(52,801)	35,589
<b>Other social housing activities</b>				
First tranche low cost home ownership sales	9,405	(6,596)	-	2,809
Charges for support services	648	-	(645)	3
Supporting people	2,680	-	(2,488)	192
Development services	1,348	-	(1,157)	191
Managed associations	2,221	-	(2,183)	38
Other Activities	737	-	(130)	607
<b>Activities other than social housing</b>				
Lettings (Note 3b)	365	-	(41)	324
Properties developed for outright sale	3,530	(2,947)	-	583
Other	1,519	-	(1,526)	(7)
<b>Total</b>	<b>110,843</b>	<b>(9,543)</b>	<b>(60,971)</b>	<b>40,329</b>
	2016			
	£'000	£'000	£'000	£'000
Social housing lettings (notes 3a)	86,892	-	(57,417)	29,475
<b>Other social housing activities</b>				
First tranche low cost home ~ ownership sales	14,917	(11,946)	-	2,971
Charges for support services	668	-	(682)	(14)
Supporting people	2,506	-	(2,363)	143
Development services	791	-	(983)	(192)
Managed associations	2,197	-	(2,391)	(194)
Other Activities	767	-	(164)	603
<b>Activities other than social housing</b>				
Lettings (Note 3b)	338	-	(36)	302
Properties developed for outright sale	2,682	(2,681)	-	1
Other	1,155	-	(1,457)	(302)
<b>Total</b>	<b>112,913</b>	<b>(14,627)</b>	<b>(65,493)</b>	<b>32,793</b>

## 2(b). Turnover, cost of sales, operating expenditure and operating surplus

Parent Company	2017		
	Turnover £'000	Operating Costs £'000	Operating surplus £'000
<b>Activities other than social housing</b>			
Development	1,587	(1,329)	258
General Management	2,101	(2,278)	(177)
Health and Safety	300	(266)	34
IT	1,724	(1,844)	(120)
Marketing	509	(466)	43
Human Resources	935	(956)	(21)
Group Financial Services	1,617	(1,579)	38
Other	77	-	77
<b>Total</b>	<b>8,850</b>	<b>(8,718)</b>	<b>132</b>
	2016		
	£'000	£'000	£'000
<b>Activities other than social housing</b>			
Development	1,562	(1,423)	139
General Management	1,021	(1,891)	(870)
Health and Safety	359	(327)	32
IT	2,049	(1,981)	68
Marketing	632	(614)	18
Human Resources	954	(960)	(6)
Group Financial Services	1,930	(1,729)	201
Other	77	-	77
<b>Total</b>	<b>8,584</b>	<b>(8,925)</b>	<b>(341)</b>

3(a). Turnover and operating expenditure from social housing lettings

Group	General Housing £'000	Supported Housing and Housing for Older People £'000	Low Cost Home Ownership £'000	Care Homes £'000	Total 2017 £'000	Total 2016 £'000
<b>Income</b>						
Rent receivable net of identifiable service charge and voids	68,720	4,446	3,070	1,203	77,439	76,700
Service charge income	2,251	1,850	223	593	4,917	4,328
Amortised government grants	2,012	107	128	39	2,286	2,303
Other grants	-	-	-	3,582	3,582	2,658
Other income from Social Housing Lettings	-	1	153	12	166	903
<b>Total Turnover from Social Housing Lettings</b>	<b>72,983</b>	<b>6,404</b>	<b>3,574</b>	<b>5,429</b>	<b>88,390</b>	<b>86,892</b>
<b>Operating expenditure</b>						
Management	10,533	930	654	859	12,976	16,566
Service charge costs	3,166	1,753	89	5,022	10,030	9,423
Routine maintenance	9,119	630	13	40	9,802	10,713
Planned maintenance	3,684	363	5	122	4,174	5,111
Major repairs expenditure	1,699	352	2	14	2,067	2,456
Bad debts	520	36	(9)	(15)	532	366
Depreciation of Housing Properties	11,775	688	360	89	12,912	12,514
Impairment of Housing Properties	242	-	-	-	242	4
Other Costs	66	-	-	-	62	264
Operating expenditure on Social Housing Lettings	40,804	4,752	1,114	6,131	52,801	57,417
<b>Operating Surplus/(Deficit) on Social Housing Lettings</b>	<b>32,179</b>	<b>1,652</b>	<b>2,460</b>	<b>(702)</b>	<b>35,589</b>	<b>29,475</b>
<b>Void losses</b> (being rental income lost as a result of property not being let, although it is available for letting)	<b>567</b>	<b>190</b>	<b>(1)</b>	<b>216</b>	<b>972</b>	<b>1,353</b>

3(b). Turnover from activities other than social housing

	2017 £'000	2016 £'000
<b>Lettings</b>		
Market Renting	365	338
<b>Total</b>	<b>365</b>	<b>338</b>

4. Accommodation owned, managed and in development

	2017 No. of properties		2016 No. of properties	
	Owned	Managed	Owned	Managed
<b>Social Housing</b>				
Under development at end of year:				
General needs housing social rent	155	-	165	-
General needs housing affordable rent	157	-	107	-
General needs housing intermediate rent	252	-	230	-
Market Rent	-	-	-	-
Low-cost home ownership	356	-	250	-
Deferred Equity	8	-	10	-
Help to Buy	-	-	-	-
Outright Sale	39	-	-	-
	<b>967</b>	<b>-</b>	<b>762</b>	<b>-</b>
Under management at end of year:				
General needs housing	14,165	188	14,339	187
Affordable Rent	558	-	191	-
Supported housing and housing for older people	1,110	-	1,179	-
Low-cost home ownership	1,518	35	1,406	37
Registered Care Homes	156	-	116	-
Leasehold Properties	1,226	155	1,080	155
	<b>18,733</b>	<b>378</b>	<b>18,311</b>	<b>379</b>
	<b>19,700</b>	<b>378</b>	<b>19,073</b>	<b>379</b>
<b>Non-Social Housing</b>				
Under management at end of year:				
Market rented	47	-	47	-
	<b>47</b>	<b>-</b>	<b>47</b>	<b>-</b>
	<b>19,747</b>	<b>378</b>	<b>19,120</b>	<b>379</b>



## 5. Accommodation managed by others

The Longhurst Group owns property managed by other bodies.

	2017 No. of properties	2016 No. of properties
General Needs	44	44
Market Rent	47	47
Supported housing and housing for older people	52	52
Residential care homes	<u>5</u>	<u>5</u>
	<u>148</u>	<u>148</u>

## 6. Gain/(loss) on disposal of property, plant and equipment (fixed assets)

	Right to Buy and Voluntary Sales £'000	Shared Ownership Staircasing Sales £'000	Total 2017 £'000	Total 2016 £'000
Proceeds of sales	2,416	4,028	6,444	4,836
Less: Costs of sales	<u>(2,466)</u>	<u>(3,039)</u>	<u>(5,505)</u>	<u>(5,459)</u>
(Deficit) / Surplus	<u>(50)</u>	<u>989</u>	<u>939</u>	<u>(623)</u>
Capital grant recycled (Note 22)	449	543	992	635
Disposal proceeds fund (Note 23)	<u>35</u>	<u>-</u>	<u>35</u>	<u>-</u>
	<u>484</u>	<u>543</u>	<u>1,027</u>	<u>635</u>

## 7. Interest and financing costs

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Deferred benefit pension charge	360	299	41	32
On loans repayable within 5 years	8,176	5,694	-	-
On loans wholly or partly repayable in more than 5 years	16,453	20,393	-	-
Costs associated with financing	<u>1,314</u>	<u>1,161</u>	<u>-</u>	<u>-</u>
	<u>26,303</u>	<u>27,547</u>	<u>41</u>	<u>32</u>
Less: interest capitalised on housing properties under construction	<u>(2,164)</u>	<u>(2,182)</u>	<u>-</u>	<u>-</u>
	<u>24,139</u>	<u>25,365</u>	<u>41</u>	<u>32</u>

The weighted average interest on borrowings of 5.71 percent (2016: 5.851 percent) was used for calculating capitalised finance costs.



10(a). Key Management Personnel – Group

	2017 £'000	2016 £'000
The aggregate emoluments paid to or receivable by non-executive Directors and former non-executive directors	<u>101</u>	<u>131</u>
The aggregate emoluments paid to or receivable by executive Directors and former executive directors	<u>912</u>	<u>1,135</u>
The aggregate amount of Directors or past Directors pensions, excluding amounts payable under a properly funded pension scheme	=	<u>73</u>
The aggregate amount of any consideration payable to Directors for loss of office	=	<u>444</u>
The emoluments paid to the highest paid Director excluding pension contributions Chief Executive – 2017: Ms J Doyle (2016: Mr R V Walder)	<u>200</u>	<u>186</u>

Key management personnel are defined as Board Members, the Chief Executive and other members of the Group Executive Team. Members of this Executive Team, including the Chief Executive, are directors on behalf of all Group operating companies and are employed and paid via Longhurst Group (parent company).

10(b). Key Management Personnel – Parent Company

	2017 £'000	2016 £'000
The aggregate emoluments paid to or receivable by non-executive Directors and former non-executive directors	<u>79</u>	<u>39</u>
The aggregate emoluments paid to or receivable by executive Directors and former executive directors	<u>912</u>	<u>701</u>
The emoluments paid to the highest paid Director excluding pension contributions Chief Executive – 2017: Ms J Doyle (2016: Mr R V Walder)	<u>200</u>	<u>186</u>
The aggregate amount of Directors or past Directors pensions, excluding amounts payable under a properly funded pension scheme	=	<u>49</u>
The aggregate amount of any consideration payable to Directors for loss of office	=	<u>261</u>

The Chief Executive (Ms J Doyle) is an ordinary member of the pension scheme. The pension scheme is a Care 1/60<sup>th</sup> scheme funded by annual contributions by the employer and employee. No enhanced or special terms apply. There are no additional pension arrangements. A contribution by the Company of £10,939 was paid in addition to the personal contributions of the Chief Executive.

Key management personnel are defined as Board Members, the Chief Executive and other members of the Group Executive Team. Members of this Executive Team, including the Chief Executive, are directors on behalf of all Group operating companies and are employed and paid via Longhurst Group (parent company).

11. Employee information

The average number of persons employed during the year expressed in full time equivalents (36.25 hours per week) was:

	Group		Parent Company	
	2017 No.	2016 No.	2017 No.	2016 No.
Office staff	<u>346</u>	370	<u>121</u>	132
Wardens, caretakers and cleaners	<u>368</u>	<u>344</u>	<u>2</u>	<u>3</u>
	<u>714</u>	<u>714</u>	<u>123</u>	<u>135</u>

Staff costs (for the above persons)

	£'000	£'000	£'000	£'000
Wages and salaries	<u>19,505</u>	19,153	<u>5,225</u>	4,978
Social Security costs	<u>1,498</u>	1,318	<u>482</u>	391
Other pension costs	<u>1,340</u>	<u>5,224</u>	<u>311</u>	<u>876</u>
	<u>22,343</u>	<u>25,695</u>	<u>6,018</u>	<u>6,245</u>

Aggregate number of full time equivalent staff whose remuneration exceeded £60,000 in the period:

	No.	No.	No.	No.
£60,000 - £70,000	<u>5</u>	6	<u>2</u>	3
£70,000 - £80,000	<u>3</u>	4	<u>1</u>	2
£80,000 - £90,000	<u>5</u>	4	<u>3</u>	3
£90,000 - £100,000	<u>3</u>	1	<u>3</u>	1
£100,000 - £110,000	<u>2</u>	1	<u>2</u>	1
£110,000 - £120,000	-	2	-	1
£120,000 - £130,000	-	-	-	-
£130,000 - £140,000	<u>1</u>	-	<u>1</u>	-
£140,000 - £150,000	<u>2</u>	-	<u>2</u>	-
£150,000 - £160,000	-	1	-	1
£160,000 - £170,000	-	1	-	-
£170,000 - £180,000	<u>1</u>	-	<u>1</u>	-
£180,000 - £190,000	-	-	-	-
£190,000 - £200,000	-	1	-	1
£200,000 - £210,000	-	1	-	1
£210,000 - £220,000	<u>1</u>	-	-	-
£220,000 - £230,000	-	<u>1</u>	<u>1</u>	<u>1</u>
	<u>23</u>	<u>23</u>	<u>16</u>	<u>15</u>



## 12. Pension obligations

### Social Housing Pension Scheme and Pensions Trust Growth Plan

#### SHPS deficit payment agreement

In calculating the net present value of the liability included within provisions the association has used a discount rate based on a market rate AA corporate bond for the same period as the contractual obligations.

	Group		Parent Company	
	£'000	£'000	£'000	£'000
At start of the year	<b>13,183</b>	10,061	<b>2,145</b>	1,748
Re-measurements in the year	<b>351</b>	4,072	<b>52</b>	577
Interest for the year	<b>254</b>	183	<b>41</b>	32
Released to expenditure in the year	<b>(1,557)</b>	(1,133)	<b>(275)</b>	(212)
	<b><u>12,231</u></b>	<u>13,183</u>	<b><u>1,963</u></b>	<u>2,145</u>

During the year ended 31 March, 2017 no additional payments to reduce the deficit have been agreed with SHPS (2016 - £577k).

### Social Housing Pension Scheme

Longhurst Group participates in the Social Housing Pension Scheme (SHPS). This Scheme is a multi-employer defined benefit scheme which is contracted out of the state scheme. Longhurst Group has elected to operate a final salary with a 1/60 accrual rate and the career average revalued earning with a 1/60 accrual rate benefit for active members as at 1 April, 2007. For new entrants to the scheme from 1 April, 2007, the career average revalued earnings structure is the only option available.

During the year under review, Longhurst Group paid contributions at the rate of 6.45 percent for the final salary scheme and 6.65 percent for the career average scheme plus a monthly lump sum to fund past deficit amounts. Contributions by members varied between 8.45 percent and 14.55 percent depending on their age and which scheme they are in. At the balance sheet date there were 85 active members of the scheme employed by Longhurst Group and the scheme remains open to new members.

It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the scheme is a multi-employer scheme where the scheme assets are co-mingled for investment purposes, and benefits are paid from total scheme assets. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS 102 represents the employer contribution payable.

The Trustee commissions an actuarial valuation of the Scheme every 3 years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required so that the Scheme can meet its pension obligations as they fall due.

The last formal valuation of the Scheme was performed as at 30 September 2014 by a professionally qualified actuary using the Projected Unit Method. This actuarial valuation was then certified on 23 November 2015. The market value of the Scheme's assets at the valuation date was £3,123 million, liabilities were £4,446 million revealing a shortfall of assets compared with the value of liabilities of £1,323 million.

There is a potential debt on the employer that could be levied by the Trustee of the scheme. The debt is due in the event of the employer ceasing to participate in

the scheme, or the scheme winding up. The estimated amount of employer debt on withdrawal liability for Longhurst Group as at 30 September, 2016 has been calculated as £21,078,663.

### Growth Plan

Longhurst Group participates in the Pension Trust's multi-employers Growth Plan. The plan is funded and is not contracted out of the state scheme.

The rules of the Growth Plan state that the proportion of obligatory contributions, to be borne by the member and the member's employer, shall be determined by agreement between them. Longhurst Group paid contributions at the rate of 0 percent during the accounting period. Members paid contributions at varying rates during the accounting period. As at the Balance Sheet date, there were no active members of the plan employed by Longhurst Group. Longhurst Group continues to offer membership of the plan to its employees.

The Trustee commissions an actuarial valuation of the Growth Plan every 3 years. The last formal valuation of the scheme was carried out at 30 September, 2016 by a professionally qualified actuary. The valuation revealed a shortfall in assets of £230.6 million, equivalent to a funding level of 79.6 percent.

The estimated amount of employer debt on withdrawal liability for Longhurst Group Ltd as at 30 September, 2016 has been calculated as £46,151.

### Spire Homes (LG) Limited

Spire Homes (LG) Limited contributes to the Northamptonshire County Council Pension Fund and the Leicestershire County Council Pension Fund, which are both local government funded defined benefit pension schemes. The total employer's contributions made for the year ended 31 March, 2017 were £256k (2016: £213k), of which employer's contributions totalled £241k (2016: £199k) and employees' contributions totalled £15k (2016: £3k). The agreed employer contribution rates for future years are 19.4 percent for the Northamptonshire County Council scheme and 19.37 percent for the Leicestershire County Council scheme.





## 12. Pension obligations (continued)

## Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March, 2017 by a qualified independent actuary.

	At 31 March 2017	At 31 March 2016
Rate of increase in salaries	3.05%	3.65%
Rate of increase for pensions	2.40%	2.15%
Discount rate for scheme liabilities	2.55%	3.45%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	At 31 March 2017	At 31 March 2016
Retiring today	years	years
Males	22.10	22.25
Females	24.25	24.3
Retiring in 20 years		
Males	23.85	24.1
Females	26.15	26.6

	At 31 March 2017 £'000	At 31 March 2016 £'000
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## Analysis of the amount charged to operating costs in the Statement of Comprehensive Income

Contributions by employer including unfunded	241	199
Current service cost	<u>(53)</u>	<u>(59)</u>
Total operating charge	<u>188</u>	<u>140</u>

## Analysis of pension finance income / (costs)

Interest on Assets	148	135
Interest costs	<u>(211)</u>	<u>(208)</u>
Amounts charged/credited to financing costs	<u>(63)</u>	<u>(73)</u>

## Amounts of gains and losses recognised in the Statement of Comprehensive Income

Actuarial gains/(losses) on pension scheme assets	680	(102)
Actuarial gains/(losses) on scheme liabilities	<u>(990)</u>	<u>535</u>
Actuarial gain/(loss) recognised	<u>(310)</u>	<u>433</u>

## Movement in surplus/(deficit) during year

	At 31 March 2017 £'000	At 31 March 2016 £'000
(Deficit) in scheme at 1 April	(1,922)	(2,422)
Movement in year:		
Current service costs	(53)	(59)
Interest income on plan assets	148	135
Interest cost on defined benefit obligation	(211)	(208)
Employer contributions	241	199
Change in financial assumptions	(990)	(535)
Return on assets, excluding net interest	<u>680</u>	<u>(102)</u>
<b>(Deficit) in scheme at 31 March</b>	<b><u>(2,107)</u></b>	<b><u>(1,922)</u></b>

## Asset and Liability Reconciliation

	At 31 March 2017 £'000	At 31 March 2016 £'000
<b>Reconciliation of liabilities</b>		
<b>Opening defined benefit obligation</b>	6,249	6,751
Current service cost	53	59
Interest cost	211	208
Contributions by Scheme participants	15	14
Change in financial assumptions	990	(535)
Estimated benefits paid net of transfers in	<u>(218)</u>	<u>(248)</u>
<b>Closed defined benefit obligation</b>	<b><u>7,300</u></b>	<b><u>6,249</u></b>
<b>Reconciliation of assets</b>		
<b>Opening fair value of Fund Assets</b>	<b>4,327</b>	<b>4,329</b>
Interest on assets	148	135
Return on asset less interest	680	(102)
Contributions by employer including unfunded	241	199
Contributions by Fund participants	15	14
Estimated benefits paid plus unfunded net of transfers in	<u>(218)</u>	<u>(248)</u>
<b>Closing fair value of fund assets</b>	<b><u>5,193</u></b>	<b><u>4,327</u></b>

The total return on the fund assets for the year to 31 March, 2017 is £828k (2016: £33k).

## 12. Pension obligations (continued)

## Friendship Care and Housing Limited

Friendship Care and Housing Limited contributes to the West Midlands Pension Fund scheme which is a defined-benefit pension scheme, with the assets held in separate funds administered by West Midlands Local Authority. The total contributions made for the year ended 31 March, 2017 were £103k (2016: £93k), of which employer's contributions totalled £100k (2016: £90k) and employees' contributions totalled £3k (2016: £3k). The agreed contribution rates for future years are 25.3 percent for employers.

## Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March, 2016 updated to 31 March, 2017 by a qualified independent actuary.

	At 31 March 2017	At 31 March 2016
Rate of increase in salaries	4.10%	3.75%
Rate of increase for pensions in payment/inflation	2.60%	2.00%
Discount rate for scheme liabilities	2.60%	3.50%
Inflation assumption (CPI)	2.60%	2.00%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	At 31 March 2017	At 31 March 2016
Retiring today	years	years
Males	21.8	23
Females	24.2	25.7
Retiring in 20 years		
Males	23.9	25.3
Females	26.5	28

	At 31 March 2017 £'000	At 31 March 2016 £'000
--	---------------------------	---------------------------

## Analysis of the amount charged to operating costs in the Statement of Comprehensive Income

Contributions by employer including unfunded	<u>100</u>	<u>90</u>
Total operating charge	<u>100</u>	<u>90</u>

## Analysis of pension finance income / (costs)

Interest on Assets	98	92
Interest costs	<u>(140)</u>	<u>(135)</u>
Amounts charged/credited to financing costs	<u>(42)</u>	<u>(43)</u>

## Amounts of gains and losses recognised in the Statement of Comprehensive Income

Actuarial gains/(losses) on pension scheme assets	504	(102)
Actuarial gains/(losses) on scheme liabilities	<u>(1,039)</u>	<u>206</u>
Actuarial gain/(loss) recognised	<u>(535)</u>	<u>104</u>

## Movement in surplus/(deficit) during year

	At 31 March 2017 £'000	At 31 March 2016 £'000
(Deficit) in scheme at 1 April	(1,243)	(1,379)
Movement in year:		
Employer service cost (net of employee contributions)	(14)	(15)
Employer contributions	100	90
Past service cost	-	-
Net interest/return on assets	(43)	(43)
Re-measurements	(198)	104
Curtailments and settlements	—	—
<b>(Deficit) in scheme at 31 March</b>	<b><u>(1,398)</u></b>	<b><u>(1,243)</u></b>

## Asset and Liability Reconciliation

	At 31 March 2017 £'000	At 31 March 2016 £'000
<b>Reconciliation of liabilities</b>		
<b>Opening defined benefit obligation</b>	4,072	4,305
Current service cost	14	14
Interest cost	140	135
Contributions by Scheme participants	3	3
Change in financial assumptions	1,039	(206)
Change in demographic assumptions	(122)	-
Experience loss/(gain) on defined benefit obligation	(65)	-
Estimated benefits paid net of transfers in	(163)	(179)
Past service cost	-	-
Past service costs, including curtailments	—	—
<b>Closed defined benefit obligation</b>	<b><u>4,918</u></b>	<b><u>4,072</u></b>
<b>Reconciliation of assets</b>		
<b>Opening fair value of Fund Assets</b>	2,829	2,926
Interest on assets	98	92
Return on asset less interest	504	(102)
Other actuarial gains/(losses)	150	-
Administration expenses	(1)	(1)
Contributions by employer including unfunded	100	90
Contributions by Fund participants	3	3
Estimated benefits paid plus unfunded net of transfers in	<u>(163)</u>	<u>(179)</u>
<b>Closing fair value of fund assets</b>	<b><u>3,520</u></b>	<b><u>2,829</u></b>

The total return on the fund assets for the year to 31 March, 2017 is £602k (2016: £10k).

## 13(a). Tangible fixed assets

Group	Housing Properties				Other fixed assets				
	Social Housing Properties for Letting Completed £'000	Social Housing Properties for letting under Construction £'000	Low cost home ownership Properties completed £'000	Low cost home ownership properties under construction £'000	Total Housing Properties £'000	Freehold offices £'000	Long Leasehold Property £'000	Furniture and office equipment £'000	Total fixed assets £'000
<b>Cost</b>									
At start of the year	898,167	14,259	63,165	11,955	987,546	13,335	1,221	4,880	1,006,982
Additions to properties	412	23,622	722	7,216	31,972	997	-	387	33,356
Works to existing properties	6,188	-	-	-	6,188	118	-	-	6,306
Schemes completed in year	16,993	(17,259)	8,748	(9,479)	(997)	-	-	-	(997)
Components Capitalised	1,427	-	-	-	1,427	-	-	-	1,427
Components Replaced	(1,885)	-	-	-	(1,885)	-	-	-	(1,885)
Disposals	(3,622)	(2,637)	-	-	(6,259)	-	-	(865)	(7,124)
At end of the year	917,680	17,985	72,635	9,692	1,017,992	14,450	1,221	4,402	1,038,065
<b>Depreciation and impairment</b>									
At start of the year	92,428	-	2,653	-	95,081	1,742	237	3,199	100,259
Charge for the year	11,633	-	354	-	11,987	94	8	780	12,869
Components Replaced	(960)	-	-	-	(960)	-	-	-	(960)
Disposals	(301)	-	(116)	-	(417)	-	-	(865)	(1,282)
Impairment losses	80	-	-	-	80	162	-	-	242
At end of the year	102,880	-	2,891	-	105,771	1,998	245	3,114	111,128
<b>Net book value at the end of the year</b>	<u>814,800</u>	<u>17,985</u>	<u>69,744</u>	<u>9,692</u>	<u>912,221</u>	<u>12,452</u>	<u>976</u>	<u>1,288</u>	<u>926,937</u>
<b>Net book value at the start of the year</b>	<u>805,739</u>	<u>14,259</u>	<u>60,512</u>	<u>11,955</u>	<u>892,465</u>	<u>11,593</u>	<u>984</u>	<u>1,683</u>	<u>906,723</u>

## Housing Properties comprise:

	2017 £'000	2016 £'000
Freeholds	506,433	495,221
Long leaseholds	405,648	397,243
Total	912,081	892,465

Cost of properties includes £1,348k (2016:£790k) for direct administrative costs capitalised during the year.

## Expenditure on works to existing properties in the year

	2017 £'000	2016 £'000
Components capitalised	7,615	9,303
Amounts charged to expenditure	2,067	2,456
Total	9,682	11,759
<b>The aggregate amount of interest and finance costs included in the cost of housing properties</b>	<u>13,627</u>	<u>8,507</u>



13(b). Tangible fixed assets

Parent Company	Computer Equipment £'000	Furniture and office equipment £'000	Total fixed assets £'000
<b>Cost</b>			
At start of the year	1,525	49	1,574
Additions	208	6	214
Disposals	<u>(593)</u>	<u>(13)</u>	<u>(606)</u>
At end of the year	<u>1,140</u>	<u>42</u>	<u>1,182</u>
<b>Depreciation</b>			
At start of the year	1,101	30	1,131
Charge for the year	285	8	293
Disposals	<u>(593)</u>	<u>(13)</u>	<u>(606)</u>
At end of the year	<u>793</u>	<u>25</u>	<u>818</u>
<b>Net book value at the end of the year</b>	<b><u>347</u></b>	<b><u>17</u></b>	<b><u>364</u></b>
<b>Net book value at the start of the year</b>	<b><u>424</u></b>	<b><u>19</u></b>	<b><u>443</u></b>

14. Investment properties held for letting

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
At start of year	5,461	5,296	-	-
Additions	(31)	46	-	-
Gain from adjustment in value	<u>18</u>	<u>119</u>	<u>-</u>	<u>-</u>
At end of year	<u>5,448</u>	<u>5,461</u>	<u>-</u>	<u>-</u>

Investment properties were valued at 31 March, 2016 using Savills Rental Automated Valuation Model which operates in accordance with the Royal Institute of Chartered Surveyors Valuation Standards.

15. Fixed asset investments (Parent Company)

Parent Company	2017 £'000	2016 £'000
This represents the parent company's investment in Libra (Longhurst Group) Treasury PLC (Libra). The Company owns 100 percent of the share capital of Libra.	<u>50</u>	<u>50</u>

16. Stock

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
<b>Properties held for sale</b>				
Completed	7,414	6,328	-	-
Work in progress	<u>19,934</u>	<u>6,872</u>	<u>-</u>	<u>-</u>
Total	<u>27,348</u>	<u>13,200</u>	<u>-</u>	<u>-</u>



17. Trade and other debtors

Amounts falling due within 1 year.

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Rent arrears	3,075	4,157	-	-
Less: provision for bad debts	(1,588)	(1,930)	-	-
Social Housing Grant receivable	222	-	-	-
Other debtors	833	829	153	97
Prepayments and accrued income	1,729	1,278	384	201
Deferred Tax Credit	92	92	92	92
Amount Owed by Group Companies	-	-	126	90
Other Taxation	52	55	-	-
<b>Total</b>	<b>4,415</b>	<b>4,481</b>	<b>755</b>	<b>480</b>

18. Cash and cash equivalents

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Money market investments	-	11	-	-
Cash at bank	10,226	11,443	812	757
	<b>10,226</b>	<b>11,454</b>	<b>812</b>	<b>757</b>

In the above are balances totalling £2,861k (2016: £2,981k) which are held in trust for leaseholders.

19. Creditors: amounts falling due within 1 year

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Loans and overdrafts (Note 20b)	8,455	9,049	-	-
Funders Interest	3,408	2,267	-	-
Trade creditors	1,727	2,542	31	57
Social Housing Grant received in advance	-	-	-	-
Amounts owed to group undertakings	-	-	363	64
Rents and service charges paid in advance	2,416	1,750	-	-
Service charge balances held on behalf of leaseholders	2,841	2,748	-	-
Corporation tax	147	-	-	-
Other taxation and social security payable	705	713	207	242
Accruals and deferred income	5,887	5,415	346	244
SHPS pension agreement plan (Note 12)	1,619	1,559	287	275
Deferred Capital Grant (Note 21)	2,270	2,263	-	-
Recycled Capital Grant Fund (Note 22)	827	941	-	-
Disposal proceeds fund (Note 23)	109	-	-	-
Other creditors	893	1,464	-	-
	<b>31,304</b>	<b>30,711</b>	<b>1,234</b>	<b>882</b>

20(a). Creditors: amounts falling due after more than 1 year

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Loans (Note 20b)	456,998	438,368	-	-
Interest Rate Swaps (Note 20b)	32,313	32,825	-	-
Deferred Capital Grant (Note 21)	226,734	228,260	-	-
Recycled capital grant fund (Note 22)	1,277	1,661	-	-
SHPS pension agreement plan (Note 12)	10,612	11,624	1,676	1,870
Disposal proceeds fund (Note 23)	1	110	-	-
	<u>727,935</u>	<u>712,848</u>	<u>1,676</u>	<u>1,870</u>

20(b). Debt analysis

	Group	
	2017 £'000	2016 £'000
<b>Loans repayable by instalments:</b>		
Within 1 year	4,483	1,900
In 1 year or more but less than 2 years	5,317	8,314
In 2 years or more and less than 5 years	24,469	14,139
In 5 years or more	94,867	87,476
<b>Loans not repayable by installments:</b>		
Within 1 year	3,850	7,021
In 1 year or more but less than 2 years	-	55,757
In 2 years or more and less than 5 years	83,315	22,500
In 5 years or more	257,393	262,578
Less: loan issue costs	(8,063)	(7,895)
Total loans	<u>465,331</u>	<u>447,289</u>

These loans are secured by specific charges to the Association's housing properties and are repayable at varying rates of interest. The average rate at 31 March, 2017 was 5.305 percent. (2016: 5.71 percent).

The Group has entered into standalone and embedded interest rate swaps with the following institutions.

Counterparty	Type	Period Years	Maturity Date	Rate %	Swap Amount £'000
Lloyds	Standalone	10	18 June 2019	4.32%	10,500
Lloyds	Standalone	17	19 January 2021	5.07%	4,000
Lloyds	Standalone	7	01 April 2021	4.49%	3,000
Lloyds	Standalone	20	01 June 2022	5.10%	6,000
Lloyds	Standalone	15	17 October 2022	5.40%	5,000
Lloyds	Standalone	13	01 April 2023	4.49%	4,000
Lloyds	Standalone	13	03 April 2023	4.61%	5,000
Lloyds	Standalone	12	03 April 2023	4.49%	4,000
Lloyds	Standalone	25	19 February 2026	5.43%	6,000
Lloyds	Standalone	20	31 March 2027	4.42%	5,000
Lloyds	Standalone	20	05 October 2027	4.55%	3,000
Lloyds	Standalone	20	18 October 2027	4.90%	3,000
Lloyds	Standalone	15	03 April 2028	4.49%	4,000
Lloyds	Standalone	25	03 June 2030	4.64%	10,000
Lloyds	Standalone	22	02 January 2032	4.49%	5,000
Lloyds	Standalone	23	01 December 2034	4.68%	5,000
Lloyds	Standalone	27	01 April 2039	4.59%	7,500
Barclays	Embedded	4	02 July 2017	4.76%	3,000
Barclays	Embedded	4	02 July 2017	4.88%	2,500
Lloyds	Embedded	22	30 March 2035	4.35%	5,000
					<b>100,500</b>

The fair value measurement of these swaps has been categorised as Level 2 and the valuation techniques include discounted cash flow pricing models with observable inputs. The most significant inputs into those models are interest rate yield curves, developed from publicly quoted rates and market available information.

Interest Rate Swap Creditor Profile

	2017 £'000	2016 £'000
Within 1 year	122	128
In 1 year or more but less than 2 years	-	345
In 2 years or more and less than 5 years	2,080	2,041
In 5 years or more	30,233	30,439
<b>Total</b>	<b>32,435</b>	<b>32,953</b>



## 21. Deferred capital grant

	Group	
	2017 £'000	2016 £'000
At start of the year	230,523	230,287
Grant received in the year	607	3,008
Grant disposed of in the year	(1,401)	(1,240)
Released to income in the year	(2,098)	(2,156)
Transferred from RCGF	1,373	624
At the end of the year	<u>229,004</u>	<u>230,523</u>
	£'000	£'000
Amount due to be released < 1 year	2,270	2,263
Amount due to be released > 1 year	226,734	228,260
	<u>229,004</u>	<u>230,523</u>

## 22. Recycled capital grant fund

	Group	
	2017 £'000	2016 £'000
At the start of the year	2,602	2,823
Inputs: Grants recycled	992	635
Interest accrued	3	7
Recycling: New build	(1,338)	(624)
Major repairs	(155)	(239)
At the end of the year	<u>2,104</u>	<u>2,602</u>
Amount 3 years or older where repayment may be required	—	—
This grant is from the HCA.		

## 23. Disposal proceeds fund

	Group	
	2017 £'000	2016 £'000
At start of year:	110	109
Funds recycled	35	-
Net PRTB receipts	-	1
Interest accrued	-	-
Use/allocation of funds:	-	-
New build	-	-
Major repairs and works to existing stock	(35)	-
Repayment of funds to the HCA/GLA	-	-
At end of year	110	110
Amounts 3 years old or older where repayment may be required	-	-

## 24. Operating leases

The Longhurst Group holds properties and office equipment under non-cancellable operating leases. At the end of the year the Longhurst Group had commitments of total future minimum lease payments as follows:

Leases expiring in:	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Land and buildings:				
Not later than 1 year	38	138	-	-
Later than 1 year and not later than 5 years	110	224	-	-
Later than 5 years	-	-	-	-
Others:				
	535	551	205	196
Not later than 1 year	636	901	264	312
Later than 1 year and not later than 5 years	—	—	—	—
Later than 5 years	—	—	—	—
	<u>1,319</u>	<u>1,814</u>	<u>469</u>	<u>508</u>

The lease agreements do not include any contingent rent or restrictions. Other operating leases for motor vehicles include purchase options. Leases for land and buildings include renewal periods after 5 years throughout the lease.

## 25. Contingent liability

There are no contingent liabilities at the Statement of Financial Position date.

## 26. Grant and financial assistance

The total accumulated government grant and financial assistance received or receivable at 31 March:

Held as deferred capital grant

Recognised as income in statement of Comprehensive Income

	2017 £'000	2016 £'000
Held as deferred capital grant	228,824	230,523
Recognised as income in statement of Comprehensive Income	<u>47,334</u>	<u>45,140</u>
	<u>276,158</u>	<u>275,663</u>

## 27. Related parties

### Transactions with Regulated Group Members

Longhurst Group has taken advantage of the exemption conferred to it in FRS102 section 38 not to disclose related party transactions with its wholly owned subsidiaries (note 28).

### Transactions with Non-Regulated Group Members

During the year the parent company transacted with two non-regulated subsidiaries. This involved the parent company providing back office support and development project management services to Keystone (LG) Developments and Libra (LG) Treasury PLC. The services provided to Keystone were based upon staff time and direct costs incurred and totalled £297k for the year (2016: £294k). The back office support provided to Libra involved the management and administration of the loan portfolio which Libra manages on behalf of Spire Homes, Longhurst and Havelok Homes and Friendship Care and Housing. This service is provided at no cost to Libra with the related staff costs being recharged to Spire Homes, Longhurst and Havelok Homes and Friendship Care and Housing.

Libra acts as the Group's Loans Manager with new funding arranged and managed through Libra. At the year end facilities arranged through Libra and re-distributed to Group members amounted to £198 million to L&H Homes, £172 million to Spire Homes and £16 million to Keystone Developments.

### Other

Spire Homes, Longhurst and Havelok Homes and Friendship Care and Housing are founder members of CHIC (Central Housing Investment Consortium). The main purpose of the consortium is to achieve savings on materials, labour and other services through collaborative working and joint procurement of repairs and maintenance contracts. As founder members, Spire Homes, Longhurst and Havelok Homes and Friendship Care and Housing have a place on the Board and liabilities are limited to a £1 share. All companies have signed a Members' Agreement and the Articles of Association.

## 28. Group Subsidiaries

Longhurst Group Limited is the parent company of the Longhurst Group of companies. It provides services to the subsidiary companies within the Group and also receives services from its subsidiary companies. The following companies are wholly owned subsidiaries of Longhurst Group Limited and are all registered in England.

### i. Longhurst and Havelok Homes Limited (Regulated)

Registered under the Co-Operative and Community Benefit Societies Act 2014, the principal activity of this association is the provision of social housing.

### ii. Spire Homes (LG) Limited (Regulated)

Registered under the Companies Act and a Registered Charity, the principal activity of this association is the provision of social housing.

### iii. Jubilee Teetotal Homes (Regulated)

Jubilee Teetotal Homes is a subsidiary of Longhurst and Havelok Homes and is registered with the Charity Commission and the HCA.

### iv. Keystone Developments (LG) Limited (Non-Regulated)

Registered under the Companies Act, the principal activity of this company is to build housing for sale.

### v. Friendship Care and Housing Limited (Regulated)

Registered under the Co-Operative and Community Benefit Societies Act 2014, the principal activity of this association is the provision of social housing.

### vi. Beechdale Community Development Limited (Non-Regulated)

Registered under the Co-Operative and Community Benefit Societies Act 2014, the principal activity is to hold legal ownership of an office building and land which were previously part of Beechdale Community Housing Association Ltd. BCDL is a subsidiary of Friendship Care and Housing Limited.

### vii. Libra (Longhurst Group) Treasury PLC (Non-Regulated)

Registered under the Companies Act, the principal activity of this company is to provide treasury management and loan services to the Group.



## 29. Financial instruments

### Risk management

The Treasury Management function is responsible for ensuring that member companies have sufficient cash to meet on-going capital and revenue commitments and to protect the Group against adverse movements in interest rates. The risks faced by this company are discussed in the Strategic report.

### Financial assets and financial liabilities at book value and fair value

With the exception of the bond stock, the book value of all financial assets and financial liabilities is deemed to equal fair value. At 31 March, 2017 the fair value of the £250 million bond stock was £336,999,928 (2016: £308,617,907). The fair value of the bond stock is based on market value at 31 March, 2017. The terms of the 2038 bond are fixed and it is intended that the 2038 bond will be in place until maturity. Therefore, no adjustment has been made to align the book value to fair value.

### Fair value hierarchy

Fair value is deemed to be book value in relation to most financial assets and financial liabilities. Where the fair value of a financial instrument differs from its book value the following valuation methods are used:

- Bond stock – valued using the quoted market price at the reporting date. (Level 1).

### Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is not currently exposed to fluctuations where loans are subject to a variable rate of interest as the company's loans are currently 90.49 percent fixed either on an embedded basis or by the use of Interest Rate SWAPS.

The Group's strategy is to maintain its hedging activity within flexible parameters, as defined within the Treasury Management Policy. The precise proportion of fixed (where

the rate is fixed for 12 months or more) rate borrowings will be set each year when the Board agrees the Group's annual treasury strategy. It will be determined by an analysis of how sensitive the Group's cash flow forecast is to fluctuations in prevailing market interest rates, but subject always to the Group having at least seven percent of its net position subject to fixed rates of interest, on a rolling 5 year average basis. The Group will ensure that no more than 100 percent of its net exposure is fixed at any time. Any fluctuations in interest rates are fully borne by each group borrower.

### Financial assets and liabilities

Financial assets are defined as cash or any asset that is a contractual right to receive cash or another financial asset from another entity, or a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable, or an equity instrument of another entity. Financial liabilities are defined as any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial instruments with another entity under conditions that are potentially unfavourable. Derivatives are measured at fair value and where they are part of an effective hedging relationship the effective portion of the changes in the fair value are taken to the cash flow hedge reserve.

### Cash flow hedge reserve

The Group utilises derivative financial instruments where appropriate in order to manage financial risk. In accordance with applicable accounting standards hedge accounting is applied to these instruments. In order to reduce volatility in the primary statements. The cash flow hedge reserve contains fair value movements of debt and associated derivatives that are in cash flow hedge relationships.

The Group uses interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value at each reporting date. The Group manages its interest rates by converting the cash flows from variable rate debt into fixed interest rates with the use of interest rate swaps. The Group applies this strategy to hedge the risk associated with interest rate fluctuations.

At 31 March, 2017 the fair value of derivative financial instruments held by Libra is £32.435 million (2016: £32.953 million). A reduction in fair value of £518k has therefore been recognised in the cash flow hedge reserve.

The cash flows of the hedging instruments occur quarterly and are in line with the hedged item. The fair value of the hedging instrument equals the fair value of expected cash flows and as such no amounts were reclassified from equity to surplus during the period.

The Group's derivative financial instruments constitute an effective cash flow hedge therefore any gains or losses arising from changes in the fair value of the derivatives are taken to the cash flow hedge reserve.

The use of financial derivatives is governed by the group's policies approved by the Longhurst Group Board, which provide written principles on the use of financial derivatives.





## 29. Financial instruments (continued)

The Group's financial instruments may be analysed as follows:

	2017 £'000	2016 £'000
Financial assets		
Financial assets that are debt instruments measured at amortised cost:		
Cash at bank and in hand	10,226	11,454
Trade debtors	1,487	2,227
Other debtors	830	814
Accrued income	496	63
Fixed asset investments	386,495	359,694
Derivative financial instruments designated as hedges of variable interest rate risk	32,435	32,825
(c) Financial liabilities at amortised cost:		
Loans	872,868	830,987
Finance leases	-	-
Trade creditors	1,727	2,542
Accruals	3,444	3,308
Other creditors	823	745
Recycled capital grant fund	2,104	2,602
Deferred capital grant fund	229,004	212,523

## 30. Share Capital

The Company is limited by guarantee and has no equity or non-equity shared capital. Members of the Company guarantee to contribute a maximum of £1 should there be a call upon their guarantee.

## 31. Capital Commitments

	Group	
	2017 £'000	2016 £'000
Capital expenditure that has been contracted for but not provided for in the accounts	103,367	93,466
Capital expenditure that has been authorised by the Board but has not yet been contracted for	17,920	22,200
	<b>121,287</b>	<b>115,666</b>
The Group expects these commitments to be financed with:		
Social housing grant	956	722
Proceeds from the sale of properties	34,981	25,696
Committed loan facilities	85,350	89,248
	<b>121,287</b>	<b>115,666</b>

## 32. Post Balance Sheet Events

On 7 July, 2017, Axiom Housing Association formally joined the Longhurst Group as a wholly owned subsidiary of Longhurst Group Ltd.



# Financial Statement 2017

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