



LIBRA (LONGHURST GROUP) TREASURY NO 2 PLC

(Incorporated in England and Wales with limited liability under the Companies Act 2006, registered number 11240880)

£250,000,000 3.250 per cent. Secured Bonds due 2043
(including £100,000,000 in principal amount of Retained Bonds)
Issue Price: 98.366 per cent.

The £250,000,000 3.250 per cent. Secured Bonds due 2043 (the "**Bonds**") are issued by Libra (Longhurst Group) Treasury No 2 Plc (the "**Issuer**").

Application has been made to the UK Financial Conduct Authority in its capacity as competent authority under Part VI of the Financial Services and Markets Act 2000 ("**FSMA**") (the "**UK Listing Authority**") for the entire class of Bonds (including any Retained Bonds) to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the "**London Stock Exchange**") for the entire class of Bonds (including any Retained Bonds) to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2014/65/EU (as amended, "**MiFID II**").

An investment in the Bonds involves certain risks. For a discussion of these risks see "Risk Factors".

Subject as set out below, the net proceeds from the issue of the Bonds, or (in the case of £100,000,000 in principal amount of the Bonds (the "**Retained Bonds**") which will be immediately purchased by the Issuer on the Closing Date (as defined below)), the net proceeds of any future sale of the Retained Bonds to one or more third parties, will be advanced by the Issuer to one or more of Axiom Housing Association Limited ("**Axiom**"), Friendship Care and Housing Limited ("**Friendship**"), Longhurst & Havelok Homes Limited ("**L&H**") or Spire Homes (LG) Limited ("**Spire**") (each a "**Borrower**" and together, the "**Borrowers**") pursuant to a loan agreement between the Borrowers and the Issuer to be dated on or around the Issue Date (the "**Loan Agreement**") to be applied in accordance with each Borrower's charitable objects. The Original Commitment (as defined in the Loan Agreement) may be drawn in one or more drawings, in an aggregate principal amount up to an amount which corresponds to the sum of (i) the Minimum Value of the Initial Properties (as defined below) and (ii) the Minimum Value of any additional Properties (as defined below) which have been charged in favour of the Issuer and the Security Trustee (the "**Additional Properties**") less the principal amount of all previous drawings in respect of the Original Commitment.

The Retained Bonds will be issued and subscribed by the Issuer on the Issue Date and will be held by or for the account of the Issuer pending sale of the Retained Bonds by the Issuer to one or more third parties. Retained Bonds shall carry the same rights and be subject in all respects to the same Conditions as other Bonds, excepted that pending sale or cancellation by the Issuer, such Retained Bonds will not be treated as outstanding for the purposes of determining a quorum or voting at meetings of Bondholders.

Interest on the Bonds is payable semi-annually in arrear in equal instalments on 15 November and 15 May in each year at the rate of 3.250 per cent. per annum, commencing on 15 November, 2018, as described in Condition 7 (*Interest*). Payments of principal of, and interest on, the Bonds will be made without withholding or deduction on account of United Kingdom taxes unless such withholding or deduction is required by law. In the event that any such withholding or deduction is so required, the Issuer may opt to gross up payments due to the Bondholders in respect thereof as described in Condition 10 (*Taxation*).

The Bonds may be redeemed at any time, in whole or in part, upon the prepayment by Axiom of the loan advanced to it under the Loan Agreement (the "**Axiom Loan**"), by Friendship of the loan advanced to it under the Loan Agreement (the "**Friendship Loan**"), by L&H of the loan advanced to it under the Loan Agreement (the "**L&H Loan**") or by Spire of the loan advanced to it under the Loan Agreement (the "**Spire Loan**" and together with the Axiom Loan, the Friendship Loan and the L&H Loan, the "**Loans**") in accordance with the terms of the Loan Agreement at the higher of their principal amount and an amount calculated by reference to the sum of (i) the yield on the relevant outstanding United Kingdom government benchmark gilt having the nearest maturity date to that of the Bonds and (ii) 0.25 per cent., together with accrued interest (or, in respect of a prepayment of the Loans following an event of default thereunder, at their principal amount, together with accrued interest). The Bonds will also be redeemed in full at their principal amount, plus accrued interest, in the event of a mandatory prepayment of the Loans following a Borrower ceasing to be a Registered Provider of Social Housing (other than if such Borrower regains its status as a Registered Provider of Social Housing within 180 days of such cessation), the Loans becoming repayable as a result of a Borrower Default (as defined in the Loan Agreement) or any withholding or deduction on account of United Kingdom taxes being required and the Issuer not opting to pay (or having so opted to pay notifying the Bond Trustee (as defined below) of its intention to cease to pay) additional amounts in respect of such withholding or deduction.

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 15 May, 2043 (the "**Maturity Date**"). The "**Group**" (being the Issuer, the Borrowers and any other present or future, direct or indirect, subsidiaries of Longhurst Group Limited ("**LG**")) has been assigned a credit rating of "A3" and it is expected that the Bonds will be rated "A3", by Moody's Investors Service Limited ("**Moody's**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Prospectus, Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September, 2009 on credit rating agencies, as amended (the "**CRA Regulation**"). The Bonds will be issued in denominations of £100,000 and integral multiples of £1,000 in excess thereof.

The Bonds will initially be represented by a temporary global bond (the "**Temporary Global Bond**"), without interest coupons, which will be deposited on or about 15 May, 2018 (the "**Closing Date**") with a common depository for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). Interests in the Temporary Global Bond will be exchangeable for interests in a permanent global bond (the "**Permanent Global Bond**" and, together with the Temporary Global Bond, the "**Global Bonds**"), without interest coupons, on or after 24 June, 2018 (the "**Exchange Date**"), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Bond will be exchangeable for definitive Bonds only in certain limited circumstances. See "*Form of the Bonds and Summary of Provisions relating to the Bonds while in Global Form*".

The Bonds have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States, and Bonds in bearer form are subject to U.S. tax law requirements. The Bonds may not be offered, sold or (in the case of Bonds in bearer form) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) except in certain transactions exempt from the registration requirements of the Securities Act.

Co-Arrangers and Joint Bookrunners

Lloyds Bank

NatWest Markets

The date of this Prospectus is 11 May, 2018.

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC, as amended.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Each of the Borrowers accepts responsibility for the information contained in this Prospectus in relation to itself and, to the best of their knowledge (each having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus in relation to the relevant Borrower is in accordance with the facts and does not omit anything likely to affect the import of such information. The Borrowers also accept responsibility for the information contained in this Prospectus relating to the security created pursuant to the Legal Mortgages (as defined below) and, to the best of their knowledge (each having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

Beever and Struthers, Chartered Accountants and Statutory Auditor (the "Auditor") accepts responsibility for its reports contained in the section "*Consolidated Financial Information on the Borrower and the Group*" and, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), such reports are in accordance with the facts and do not omit anything likely to affect the import thereof.

JLL (the "Valuer") accepts responsibility for the information contained in the section "*Valuation Report*" and, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information. The Valuation Report has been produced at the request of the Issuer, and the Valuer has authorised the content of the Valuation Report included in the Prospectus and has consented to the inclusion of the Valuation Report in the form and context in which it is included in this Prospectus. No material changes have occurred to the values of the properties disclosed in the Valuation Report since the date of the valuation.

Savills (UK) Ltd accepts responsibility for the information relating to the 2017 survey of the Borrowers' stock contained in the risk factor titled "Risks related to Social Rental Income" on page 16 and, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

Save for the Issuer, the Borrowers, the Auditor and the Valuer, no other person has independently verified any information contained herein. No representation, warranty or undertaking, express or implied, is made, no responsibility or liability is accepted by Lloyds Bank plc ("Lloyds") or NatWest Markets Plc ("NatWest Markets"), and together with Lloyds, the "Co-Arrangers" and the "Joint Bookrunners"), the Bond Trustee or the Security Trustee as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer or any acts or omissions of the Issuer or any other person (other than itself) in connection with the offering of the Bonds. Neither the delivery of this Prospectus nor the offering, sale or delivery of any of the Bonds shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus.

No person is or has been authorised by the Issuer, the Joint Bookrunners, the Bond Trustee or the Security Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Bonds or other such information as is in the public domain and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Joint Bookrunners, the Bond Trustee or the Security Trustee.

Prospective purchasers of Bonds should ensure that they understand the nature of the Bonds and the extent of their exposure to risk, that they have sufficient knowledge, experience and access to professional advisers to make their own legal, tax, accounting and financial evaluation of the merits

and the risks of investment in the Bonds and that they consider the suitability of the Bonds as an investment in light of their own circumstances and financial condition.

The distribution of this Prospectus and the offering, sale and delivery of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Bookrunners to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Bonds and on the distribution of this Prospectus and other offering material relating to the Bonds, see "*Subscription and Sale*".

In particular, the Bonds have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Bonds in bearer form are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act. The Bonds may be offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

NEITHER THIS PROSPECTUS NOR THE BONDS HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF ANY OFFERING OF BONDS OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "distributor") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, "IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

To the fullest extent permitted by law, none of the Bond Trustee nor the Joint Bookrunners accepts any responsibility for the contents of this Prospectus or for any other statement made or purported to be made by it or on its behalf in connection with the Issuer, the Borrowers or the issue and offering of the Bonds. Each of the Bond Trustee and the Joint Bookrunners accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

Neither this Prospectus nor any other information supplied in connection with the Bonds (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Joint Bookrunners or the Bond Trustee that any recipient of this Prospectus or any other information supplied in connection with the Bonds should purchase

any Bonds. Each investor contemplating purchasing any Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Borrowers. Neither this Prospectus nor any other information supplied in connection with the Bonds constitutes an offer or invitation by or on behalf of the Issuer, the Joint Bookrunners or the Bond Trustee to any person to subscribe for or to purchase the Bonds.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Bonds may be restricted by law in certain jurisdictions. The Issuer, the Joint Bookrunners and the Bond Trustee do not represent that this Prospectus may be lawfully distributed, or that any Bonds may be lawfully offered or sold, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Joint Bookrunners or the Bond Trustee which is intended to permit a public offering of any Bonds or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Bonds in the United States and the United Kingdom (see "*Subscription and Sale*").

IN CONNECTION WITH THE ISSUE OF THE BONDS, NATWEST MARKETS PLC AS STABILISING MANAGER (THE "*STABILISING MANAGER*") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

All references in this Prospectus to "*Sterling*" and "£" refer to pounds sterling, the lawful currency for the time being of the United Kingdom.

CONTENTS

	Page
OVERVIEW	1
STRUCTURE DIAGRAM OF TRANSACTION	14
RISK FACTORS	15
FORM OF THE BONDS AND SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM.....	37
TERMS AND CONDITIONS OF THE BONDS.....	39
USE OF PROCEEDS	57
DESCRIPTION OF THE LOAN AGREEMENT	58
DESCRIPTION OF THE LEGAL MORTGAGES AND THE SECURITY TRUST DEEDS	71
DESCRIPTION OF THE ACCOUNT AGREEMENT, THE CUSTODY AGREEMENT AND THE RETAINED BOND CUSTODY AGREEMENT	75
DESCRIPTION OF THE ISSUER	80
DESCRIPTION OF THE GROUP	82
DESCRIPTION OF GROUP MEMBERS.....	86
RECENT DEVELOPMENTS.....	97
CONSOLIDATED FINANCIAL INFORMATION ON THE BORROWERS AND THE GROUP.....	98
VALUATION REPORT	109
TAXATION.....	110
SUBSCRIPTION AND SALE	112
GENERAL INFORMATION	114
INDEX OF DEFINED TERMS	117

OVERVIEW

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus.

This overview must be read as an introduction to this Prospectus and any decision to invest in the Bonds should be based on a consideration of this Prospectus as a whole.

Words and expressions defined in "*Form of the Bonds and Summary of Provisions relating to the Bonds while in Global Form*", "*Terms and Conditions of the Bonds*" and "*Description of the Loan Agreement*" shall have the same meanings in this overview.

Issuer: Libra (Longhurst Group) Treasury No 2 Plc

Description of the Bonds:..... £250,000,000 3.250 per cent. Secured Bonds due 2043 (the "**Bonds**") to be issued by the Issuer on 15 May, 2018 (the "**Issue Date**"). £100,000,000 in principal amount of the Bonds will be immediately purchased by or on behalf of the Issuer on the Issue Date (the "**Retained Bonds**").

Use of Proceeds: The net proceeds of the issue of the Bonds or, in the case of the Retained Bonds, the net proceeds of the sale of the Retained Bonds to one or more third parties (after deduction of expenses payable by the Issuer) will be applied by the Issuer to provide finance for the Borrowers.

Subject as described in "*Initial Cash Security Account*" below, the Issuer will lend such proceeds to the Borrowers pursuant to the Loan Agreement to be applied in accordance with each Borrower's charitable objects.

The Issuer may from time to time invest the funds held in the Initial Cash Security Account and the Disposal Proceeds Account in Permitted Investments (as defined below) until such time as such funds are on lent, or returned, to the Borrowers pursuant to the Loan Agreement.

Issue Price: 98.366 per cent.

Retained Bonds: £100,000,000 in principal amount of the Bonds issued on the Issue Date will initially constitute the Retained Bonds. Such Retained Bonds (including related Coupons and Talons) will be issued and subscribed by the Issuer on the Issue Date and will be held by or for the account of the Issuer and shall cease to be Retained Bonds upon sale by the Issuer to a third party.

Retained Bonds shall carry the same rights and be subject in all respects to the same Conditions as other Bonds, except that the Retained Bonds, pending sale or cancellation by the Issuer, will not be treated as outstanding (as defined in the Bond Trust Deed) for the purposes of determining a quorum or voting at meetings of Bondholders and for various other purposes, save as otherwise provided in the Bond Trust Deed. Bonds which have ceased to be Retained Bonds shall carry the same rights and be subject in all respects to the same Conditions as other Bonds. Upon the expiry of five years from the Issue Date, the Retained Bonds shall be cancelled if they have not been sold by the Issuer to a third party.

Pursuant to the terms of a custody agreement to be dated on or about the Issue Date relating to the Retained Bonds (the "**Retained Bond Custody Agreement**"), The Bank of New York Mellon, London Branch, as custodian for the Retained Bonds (the

"**Retained Bond Custodian**") will hold the Retained Bonds on the Issuer's behalf and the Issuer has instructed the Retained Bond Custodian to waive its rights to receive payments (of interest, principal or otherwise) on the Retained Bonds for so long as the Retained Bonds are held on the Issuer's behalf.

Pursuant to the Bond Trust Deed, the Issuer has covenanted with the Bond Trustee that it will, immediately prior to a sale of any Retained Bonds by the Issuer, deliver to the Bond Trustee a certificate in writing signed by two directors of the Issuer addressed to the Bond Trustee confirming that, immediately following the sale of such Retained Bonds, the Borrowers will be in compliance with the Asset Cover Test. For the purpose of giving such confirmation, the Issuer will require the Borrowers to deliver a Retained Bond Compliance Certificate pursuant to the Loan Agreement, as described further in "*Description of the Loan Agreement*".

- Form of Bonds:..... The Bonds will be issued in bearer form as described in "*Form of the Bonds and Summary of Provisions relating to the Bonds while in Global Form*".
- Interest:..... The Bonds will bear interest at a fixed rate of 3.250 per cent. per annum, from (and including) the Issue Date to (but excluding) 15 May 2043 (the "**Maturity Date**"), payable semi-annually in arrear in equal instalments on 15 November and 15 May of each year, subject to adjustment in accordance with Condition 8.5 (*Payment Day*) (each, an "**Interest Payment Date**").
- Final Redemption: Unless previously redeemed or purchased and cancelled in accordance with Condition 9 (*Redemption and Purchase*), the Bonds will be redeemed at their principal amount on the Maturity Date.
- Early Redemption: Subject as described in "*Mandatory Early Redemption*" below, the Bonds may be redeemed in whole or in part at any time prior to the Maturity Date upon the optional prepayment by Axiom of the loan advanced to it under the Loan Agreement (the "**Axiom Loan**"), by Friendship of the loan advanced to it under the Loan Agreement (the "**Friendship Loan**"), by L&H of the loan advanced to it under the Loan Agreement (the "**L&H Loan**") or by Spire of the loan advanced to it under the Loan Agreement (the "**Spire Loan**" and together with the Axiom Loan, the Friendship Loan and the L&H Loan, the "**Loans**") in accordance with the terms of the Loan Agreement at the higher of their principal amount and an amount calculated by reference to the sum of (i) the yield on the relevant outstanding UK Government benchmark conventional gilt having the nearest maturity date to that of the Bonds and (ii) 0.25 per cent., together with accrued interest.
- Early Redemption for Tax
Reasons: The Issuer shall redeem the Bonds in whole, but not in part, at their principal amount, together with any interest accrued, if, as a result of any actual change in tax law, the Issuer determines that it would be required to make a withholding or deduction on account of tax in respect of payments to be made by it in respect of the Bonds and the Issuer does not opt to pay additional amounts pursuant to Condition 10.2 (*No obligation to pay additional amounts*) or, having so opted, notifies the Bond Trustee and the Bondholders of its intention to cease paying such additional amounts.
- Mandatory Early Redemption: The Bonds shall be redeemed in full at their principal amount, plus accrued interest, upon the mandatory prepayment of the Loans

following a Borrower ceasing to be a Registered Provider of Social Housing (other than if such Borrower regains its status as a Registered Provider of Social Housing within 180 days of such cessation).

In addition, if the Loans become repayable as a result of a Borrower Default the Bonds shall be redeemed in full at their principal amount, plus accrued interest.

A "**Borrower Default**" includes non-payment, breach of other obligations, cross-acceleration, winding-up, cessation of business, insolvency, unlawfulness and breach of certain asset cover ratios by any Borrower, in each case as set out in the Loan Agreement and described further in "*Description of the Loan Agreement*". A Borrower Default under any of the Loans will automatically constitute a Borrower Default under the other Loans.

Investor Put Option:..... Within 30 days of the Issuer becoming aware of any failure of the Borrowers to comply with the Interest Cover Test (as defined in the Loan Agreement), the Issuer shall convene a meeting of Bondholders to consider, by Extraordinary Resolution and in accordance with Condition 17 (*Meetings of Bondholders, Modification and Waiver*), whether or not to approve the ability of Bondholders to exercise the investor put option as described in Condition 9.7 (the "**Investor Put Option**"). If the Bondholders approve such Extraordinary Resolution, then any Bondholder may, within 30 days of such approval, give an irrevocable notice to the Issuer of such Bondholder's decision to require the Issuer to redeem some or all of the Bonds owned by such Bondholder on the day falling 45 days after the date on which the Extraordinary Resolution was so approved (the "**Put Option Date**"), together with any interest accrued up to (but excluding) the Put Option Date. On the Put Option Date, the Issuer shall redeem, in whole (but not in part), all of the Bonds in respect of which the relevant Bondholders have exercised the Investor Put Option, at their aggregate principal amount together with any interest accrued up to (but excluding) the Put Option Date (the aggregate amount of principal and interest in respect of such redemption, the "**Investor Put Amount**").

Purchase: The Retained Bonds will be immediately purchased by the Issuer on the Issue Date.

The Borrowers and any other member of the Group (other than the Issuer) may at any time purchase Bonds in the open market or otherwise at any price. Following any such purchase, the Borrowers or such other member of the Group, as the case may be, may (but is not obliged to) surrender the Bonds to the Issuer for cancellation, but such Bonds may not be reissued or resold. An amount equal to the principal amount of the Bonds being surrendered shall be deemed to be prepaid under the Loan Agreement or, to the extent that no Loan is then outstanding, an amount of the Undrawn Commitment equal to the outstanding principal amount of the Bonds surrendered being deemed to be cancelled.

Events of Default:..... Following an Event of Default, the Bond Trustee may, and if so requested by the holders of at least one-fourth in principal amount of the Bonds then outstanding shall (subject to it being secured and/or indemnified and/or prefunded to its satisfaction and, upon certain events, the Bond Trustee having certified to the Issuer that

such event is, in its opinion, materially prejudicial to the interests of the Bondholders), give notice to the Issuer and the Bonds shall become immediately due and repayable.

The Events of Default include, *inter alia*, non-payment of any principal and interest due in respect of the Bonds, failure of the Issuer to perform or observe any of its other obligations under the Conditions, the Bond Trust Deed or the Bond Security Deed, insolvency, unlawfulness and acceleration, or non-payment, in respect of other indebtedness in an aggregate amount equal to or in excess of £10,000,000 (or its equivalent).

Upon the Bonds becoming repayable prior to the Maturity Date (other than as a result of a prepayment or termination of the Loan Agreement), the Borrowers are required to prepay the Loans in full together with accrued interest and commitment fee to and including the date of redemption. The Borrowers are also required, on a joint and several basis, to pay to the Issuer, within three Business Days of demand, the Issuer's reasonable costs, expenses and liabilities throughout the life of the Bonds.

Issuer Security: The Issuer's obligations in respect of the Bonds are secured pursuant to the Bond Security Deed in favour of the Bond Trustee for the benefit of itself and the Bondholders and the other Secured Parties by the following (the "**Issuer Security**"):

- (a) an assignment by way of security of the Issuer's rights, title and interest arising under the Loan Agreement, the Legal Mortgages, the Security Trust Deeds, the Agency Agreement, the Account Agreement and the Custody Agreement; and
- (b) a charge by way of first fixed charge over all moneys and/or securities from time to time standing to the credit of the Transaction Account, the Disposal Proceeds Account, the Initial Cash Security Account and the Custody Account and all debts represented thereby.

Initial Cash Security Account: For so long as insufficient security has been granted by the Borrowers in favour of the Security Trustee to permit the drawing of the Original Commitment in full or the Borrowers have not otherwise drawn any part of the Original Commitment, the amount of the Original Commitment that remains undrawn shall (subject, in the case of any portion of the Original Commitment which is to be funded by a sale of Retained Bonds, to receipt by the Issuer of the net sale proceeds thereof) be retained in an account charged in favour of the Bond Trustee (the "**Initial Cash Security Account**") of the Issuer (and may be invested in Permitted Investments) in accordance with the terms of the Account Agreement and the Custody Agreement (the "**Retained Proceeds**"). For the avoidance of doubt, in the event that the Borrowers have not drawn any part of the Original Commitment on the Issue Date, the Retained Proceeds at that date shall be the entire amount of the Original Commitment (less any amount which is to be funded by a sale of Retained Bonds). Any Retained Proceeds shall be advanced to the Borrowers at a later date pursuant to the Loan Agreement to the extent that Properties of a corresponding value have been charged in favour of the Issuer (and if applicable, subject to the sale by the Issuer of the Retained Bonds).

Funds standing to the credit of the Initial Cash Security Account may: (a) be held on deposit, in which case they shall accrue interest at a rate to be agreed from time to time between the Issuer and the Account Bank pursuant to the Account Agreement; or (b) be invested in Permitted Investments in accordance with the Custody Agreement. See "*Permitted Investments*" below.

Pursuant to the Loan Agreement, the Borrowers shall jointly and severally pay to the Issuer a commitment fee in respect of the Undrawn Commitment on each Loan Payment Date in an amount equal to (a) the aggregate of the interest payable by the Issuer under the Bonds on the following Interest Payment Date less (b) the interest received from the Borrowers under the Loan Agreement on such Loan Payment Date and the interest otherwise received by the Issuer in respect of the Retained Proceeds during that Loan Interest Period (including, but not limited to, any income received in respect of any Permitted Investments in which any Retained Proceeds are, for the time being, invested).

See "*Description of the Loan Agreement*" below.

Disposal Proceeds Account:..... Pursuant to the Loan Agreement, the Borrowers are required to procure that the specified asset cover ratio is maintained (see "*Description of the Loan Agreement*" below). In the event that the value of any Charged Property is insufficient to maintain the relevant asset cover ratio, the Borrowers may deposit moneys into the Disposal Proceeds Account. Such moneys will be charged in favour of the Bond Trustee pursuant to the terms of the Bond Security Deed.

Funds standing to the credit of the Disposal Proceeds Account may: (a) be held on deposit, in which case it shall accrue interest at a rate to be agreed from time to time between the Issuer and the Account Bank pursuant to the Account Agreement; or (b) be invested in Permitted Investments in accordance with the Custody Agreement. See "*Permitted Investments*" below.

Moneys standing to the credit of the Disposal Proceeds Account may be withdrawn (a) to be applied in the acquisition of Property to be charged in favour of the Security Trustee for the benefit of the Issuer or (b) to the extent that the relevant asset cover ratio would not be breached immediately after such withdrawal.

Permitted Investments: Permitted Investments shall consist of (a) triple-A rated off-shore money market funds, (b) direct obligations of the United Kingdom or of any agency or instrumentality of the United Kingdom which are guaranteed by the United Kingdom, (c) demand and time deposits in, certificates of deposit of and bankers' acceptances issued by any depositary institution or trust company with a maturity of no more than 360 days subject to, *inter alia*, such debt obligation having a long term debt credit rating of not less than "AA" from Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and "Aa2" from Moody's Investor Service Limited ("**Moody's**") or a short term debt or issuer (as applicable) credit rating of not less than "A 1" from S&P and "P 1" from Moody's (or, in each case, any other equivalent rating given by a credit rating agency registered under the CRA Regulation (an "**Equivalent Rating**")), (d) securities bearing interest or sold at a discount to the face amount thereof issued by any corporation having a long term credit rating of not less than "AA" from S&P and "Aa2" from Moody's (or an Equivalent Rating), and (e)

commercial paper or other short-term obligations which, *inter alia*, have a short term credit rating of not less than "A 1" from S&P and "P 1" from Moody's (or an Equivalent Rating),

provided that, in the case of (b) to (e) above, such investment shall be an investment which is an obligation of the United Kingdom or a company incorporated in the United Kingdom, and in all cases, such investment shall be an investment (i) the maturity of which is no later than 15 May, 2043 and (ii) which is denominated in Sterling.

In the event that any Permitted Investments are sold to fund a drawing by a Borrower pursuant to the Loan Agreement and such sale results in a loss realised by the Issuer, such drawing to be made by the Issuer to such Borrower pursuant to the Loan Agreement shall be advanced at a discount in an amount equal to the Actual Advance Amount (as defined in the Loan Agreement).

In the event that any Permitted Investments are sold to fund an advance to a Borrower pursuant to the Loan Agreement and such sale results in a gain realised by the Issuer (such gain, the "**Permitted Investment Profit**"), the Issuer shall advance monies to such Borrower at the principal amount requested and shall make a gift aid payment to a charitable member of the Group (a "**Charitable Group Member**") in an amount equal to the Permitted Investment Profit.

Immediately prior to the end of each accounting period, to the extent that the Issuer would otherwise be required to recognise a profit for tax purposes in respect of its Permitted Investments and/or Retained Bonds as a result of the movement in the fair value recognised in its accounts of such Permitted Investments and/or Retained Bonds for that accounting period, the Issuer shall sell Permitted Investments in an aggregate amount equal to the Accounting Profit (as defined in the Loan Agreement) and shall, in the same accounting period, make a gift aid payment to any Charitable Group Member in an amount equal to the Accounting Profit.

See "*Description of the Loan Agreement – Facilities*".

Account Agreement and Custody Agreement:.....

The Issuer has appointed The Bank of New York Mellon, London Branch as its Account Bank and The Bank of New York Mellon, London Branch as Custodian pursuant to the Account Agreement and the Custody Agreement, respectively, in relation to the issue of the Bonds.

Pursuant to the Account Agreement, the Account Bank shall maintain three accounts for the Issuer in respect of the Bonds: the Transaction Account, the Initial Cash Security Account and the Disposal Proceeds Account. Pursuant to the Account Agreement and the Bond Security Deed, the Issuer has entered into certain covenants in respect of the monies which may be credited to and debited from each Account.

Pursuant to the Custody Agreement, the Custodian shall, subject to receipt of such documents as it may require, open the Custody Account (consisting of the Disposal Proceeds Custody Sub-Account, the Initial Cash Security Custody Sub-Account, the Disposal Proceeds Cash Sub-Account and the Initial Cash Security Cash Sub-Account). The Issuer has authorised the Custodian to

make payments and delivery out of the Custody Account only for the purpose of any acquisition or sale of Permitted Investments or as set out therein.

See "*Description of the Account Agreement, the Custody Agreement and the Retained Bond Custody Agreement*" below.

Underlying Security: Each Borrower has created the following security, pursuant to the relevant Legal Mortgage and the relevant Security Trust Deed, in favour of the Security Trustee for the benefit of itself and the Issuer in respect of its obligations and the obligations of the other Borrowers under the Loan Agreement and for the other Beneficiaries named in the relevant Security Trust Deed:

- (a) first fixed legal mortgages over all of the relevant Borrower's right, title and interest from time to time in the relevant Real Property or Mortgaged Property (as the case may be) (as defined in the Legal Mortgages);
- (b) first fixed charges over, *inter alia*, all plant and machinery of the relevant Borrower which form part of the Real Property or Mortgaged Property (as the case may be) and the benefit of the relevant Insurances (as defined in the Legal Mortgages) and all present and future licences, consents and authorisations in respect thereof; and
- (c) in the case of Spire only, a first floating charge over the whole of Spire's undertaking and all of its property, assets, present and future (including without limitation, its uncalled capital),

and has covenanted that it will, following an Enforcement Event (as defined in the Legal Mortgages) which has occurred and is continuing unremedied or unwaived and has not been remedied within any applicable grace period, assign to the Security Trustee for the benefit of itself and the Issuer in respect of its obligations and the obligations of the other Borrowers under the Loan Agreement and for the other Beneficiaries named in the relevant Security Trust Deed, all of its rights, title and interest in and to certain agreements and covenants held by it as more particularly described in the Legal Mortgages granted by such Borrower, together, the "**Underlying Security**", **provided that** it shall be entitled to exercise all its rights and claims under or in connection therewith until a Borrower Default has occurred and is outstanding.

The Issuer has secured its rights, title and interest in respect of the Underlying Security in favour of the Bond Trustee pursuant to the Bond Security Deed. Pursuant to the terms of the relevant Security Trust Deed, the properties described in the Valuation Report, and any plant and machinery forming part of such property together with related Insurances, consents, licences and authorisations, have been designated as security for the relevant Borrower's obligations under the Loan Agreement only, and not for any other liabilities of such Borrower to any other Beneficiary (as defined in the relevant Security Trust Deed).

See "*Description of the Legal Mortgages and the Security Trust Deeds*" below.

It should be noted that the Underlying Security will only be provided by the Borrowers and not any members of the Group

which are not Borrowers.

Guarantee and Indemnity:

Pursuant to the Loan Agreement, the Borrowers have irrevocably and unconditionally:

- (a) guaranteed to the Issuer the punctual performance by each other Borrower of all such Borrowers' obligations under, *inter alia*, the Loan Agreement, the relevant Security Trust Deed and their respective Legal Mortgages, other than each other Borrower's obligations to repay principal and any prepayment premium thereon pursuant to their respective Loans (such amounts being, the **Guaranteed Interest and Fee Amounts**);
- (b) undertaken with the Issuer that, whenever any other Borrower does not pay any Guaranteed Interest and Fee Amounts when due under its respective Loan, the relevant Security Trust Deed or its respective Legal Mortgages, it must, immediately on demand by the Security Trustee and/or the Issuer, pay such Guaranteed Interest and Fee Amount as if it were the principal obligor;
- (c) undertaken with the Issuer that, to the extent that the proceeds of the enforcement of the Underlying Security are insufficient to satisfy the Borrowers' obligations under their respective Loans in full (the shortfall being, the "**Guaranteed Principal Amount**"), it must, immediately on demand by the Security Trustee and/or the Issuer, pay the Guaranteed Principal Amount as if it were the principal obligor; and
- (d) agreed to indemnify the Issuer immediately on demand against any loss or liability suffered by the Issuer if any obligation guaranteed by it in the Loan Agreement is or becomes illegal or invalid.

Addition, substitution and release of Charged Properties:.....

Pursuant to the relevant Security Trust Deed, on or prior to creating a Legal Mortgage in respect of any Property for the benefit of the Issuer, the relevant Borrower must, in respect of such security, provide the conditions precedent documents specified in the relevant Security Trust Deed. In addition, pursuant to the Loan Agreement, the relevant Borrower must provide a completed Additional Property Certificate confirming that, *inter alia*, the proposed Additional Properties are residential properties of a type and nature that are usually owned by registered providers of social housing, Valuation Reports in respect of each Additional Property and a Certificate of Title in respect of each Additional Property charged.

At the request and expense of the relevant Borrower, the Security Trustee shall, without recourse, representation or warranty (subject to receiving an amended Designated Properties Schedule or Designation Certificate (as applicable) from such Borrower and the Issuer in accordance with the relevant Security Trust Deed), release from the Issuer's Designated Security (or reallocate, if applicable) such of the Properties forming part of the Issuer's Designated Security and substitute such of the Properties as may be selected by the relevant Borrower, **provided that** the relevant Borrower satisfies the conditions precedent specified in the Loan Agreement in relation to the Substitute Properties. Such conditions precedent include, *inter alia*, a completed Substitute Property Certificate

certifying, *inter alia*, that the relevant Substitute Property is a residential property of a type and nature that is usually owned by registered providers of social housing and that, immediately following such release (or reallocation, if applicable), the Asset Cover Test will not be breached as a result of the substitution of the relevant Charged Properties, Valuation Reports in respect of each Substitute Property and a Certificate of Title in respect of the Substitute Properties.

At the request and expense of the relevant Borrower, the Security Trustee shall, without recourse, representation or warranty, release (subject to receiving an amended Designated Properties Schedule or Designation Certificate (as applicable) from such Borrower and the Issuer in accordance with the relevant Security Trust Deed) from the Security (or reallocate, if applicable) such Charged Properties as may be selected by the relevant Borrower **provided that** the relevant Borrower delivers to the Issuer and the Security Trustee a completed Property Release Certificate, certifying that, immediately following such release (and reallocation, if applicable), the Asset Cover Test will not be breached as a result of the release (or reallocation, if applicable) of such part of the security.

Notwithstanding the above, where any disposal is a Statutory Disposal the relevant Borrower shall have the right to withdraw such Property from the Issuer's Designated Security. In such circumstances the relevant Borrower is obliged to deliver, as soon as reasonably practicable after it has received notice of such Statutory Disposal, a completed Statutory Disposal Certificate to the Issuer and the Security Trustee confirming that the relevant withdrawal relates to a Statutory Disposal and, if the Statutory Disposal would result in a breach of the Asset Cover Test, confirming that it shall procure that additional Properties are charged pursuant to the relevant Security Trust Deed and/or moneys are deposited into the Disposal Proceeds Account, in accordance with the Loan Agreement, such that any breach of the Asset Cover Test will be cured.

Enforcement of the Underlying
Security and the Issuer Security:..

Following a Borrower Default, the Issuer may declare the Underlying Security immediately enforceable and/or declare the relevant Loan(s) immediately repayable. Pursuant to each Security Trust Deed, the Security Trustee shall only be required to take action to enforce or protect the security in respect of the Loan Agreement if so instructed by the Issuer (and then only if it has been indemnified and/or secured to its satisfaction).

The Issuer has assigned its rights under, *inter alia*, the Legal Mortgages and the Security Trust Deeds to the Bond Trustee, and, pursuant to Condition 6.3 (*Loan Agreement, Legal Mortgages and Security Trust Deeds Consents Covenant*), has covenanted not to take any action or direct the Security Trustee to take any action pursuant thereto except with the prior consent of the Bond Trustee. The Bond Trustee may, but is not obliged to, seek the consent of the Bondholders in accordance with the Bond Trust Deed prior to giving any such consent.

In enforcing the Issuer Security (including the Issuer's rights, title and interests in the Legal Mortgages and the Security Trust Deeds insofar as they relate to the Bonds) the Bond Trustee may act in its discretion. It is, however, required to take action, pursuant to Condition 12.2 (*Enforcement*), where so directed by the requisite

majority of the Bondholders **provided, however, that** it is secured and/or indemnified and/or prefunded to its satisfaction.

See "*Description of the Legal Mortgages and the Security Trust Deeds*" below.

It should be noted that the Issuer will only have recourse to the Borrowers and will not have any recourse to members of the Group which are not Borrowers.

Priorities of Payments:

Prior to the enforcement of the Issuer Security, the Issuer shall apply all monies standing to the credit of the Transaction Account on each Interest Payment Date and such other dates on which a payment is due in respect of the Bonds in the following order of priority (the "**Pre-enforcement Priority of Payment**"):

- (a) *first*, in payment of any taxes due and owing by the Issuer to any taxing authority (insofar as they relate to the Bonds);
- (b) *second*, in payment of any unpaid fees, costs, charges, expenses, indemnity payments and all other liabilities incurred by the Bond Trustee (including remuneration payable to it and any Appointee) in carrying out its functions under the Bond Trust Deed or the Bond Security Deed;
- (c) *third*, in payment of any unpaid fees and expenses and all other liabilities of the Issuer owing to the Paying Agents under the Agency Agreement, the Account Bank under the Account Agreement, the Custodian under the Custody Agreement and the Retained Bond Custodian under the Retained Bond Custody Agreement on a *pro rata* and *pari passu* basis;
- (d) *fourth*, in payment of any other unpaid fees, expenses and liabilities of the Issuer (in so far as they relate to the Bonds) on a *pro rata* and *pari passu* basis;
- (e) *fifth*, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any interest due and payable in respect of the Bonds;
- (f) *sixth*, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any principal due and payable in respect of the Bonds;
- (g) *seventh*, in payment, on a *pro rata* and *pari passu* basis, to the Borrowers of any amount due and payable under the terms of the Loan Agreement;
- (h) *eighth*, in payment of any Permitted Investment Profit, Accounting Profit, Retained Bond Profit or Retained Bond Premium Amount as the case may be to any Charitable Group Member.

Following the enforcement of the Issuer Security, all monies standing to the credit of the Transaction Account, the Disposal Proceeds Account and the Initial Cash Security Account and the net proceeds of enforcement of the Issuer Security shall be applied in the following order of priority (the "**Post-enforcement Priority**"):

of Payment"):

- (a) *first*, in payment of any unpaid fees, costs, charges, expenses, indemnity payments and all other liabilities incurred by the Bond Trustee, any Appointee or any receiver in preparing and executing the trusts under the Bond Trust Deed or the Bond Security Deed (including the costs of realising any Issuer Security and the Bond Trustee's and such receiver's remuneration);
- (b) *second*, in payment of all amounts owing to the Paying Agents under the Agency Agreement, the Account Bank under the Account Agreement, the Custodian under the Custody Agreement and the Retained Bond Custodian under the Retained Bond Custody Agreement on a *pro rata* and *pari passu* basis;
- (c) *third*, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any interest due and payable in respect of the Bonds;
- (d) *fourth*, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any principal due and payable in respect of the Bonds;
- (e) *fifth*, in payment of any other unpaid fees and expenses of the Issuer (insofar as they relate to the Bonds) on a *pro rata* and *pari passu* basis;
- (f) *sixth*, in payment, on a *pro rata* and *pari passu* basis, to the Borrowers of any amount due and payable under the terms of the Loan Agreement; and
- (g) *seventh*, in payment of any Permitted Investment Profit, Accounting Profit, Retained Bond Profit or Retained Bond Premium Amount, as the case may be, to any Charitable Group Member.

Status of the Bonds:..... The Bonds and Coupons will constitute direct, secured, unsubordinated obligations of the Issuer and will rank *pari passu* among themselves.

Covenants: Pursuant to Condition 6 (*Covenants*), the Issuer has covenanted not to engage in any activity or do anything other than carry out the business of a company which has as its purpose raising finance and on-lending such finance for the benefit of the Group, acting as treasury manager for the Group or performing any act incidental to or necessary in connection with the aforesaid, without the consent of the Bond Trustee. Notwithstanding the foregoing, the proceeds of the Bonds described in this Prospectus may only be on-lent to one or more of the Borrowers in accordance with the terms of the Loan Agreement.

The Issuer has also covenanted to deliver to the Bond Trustee and, upon request by a Bondholder to the Issuer, to make available to any of the Bondholders, a copy of the Compliance Certificate received from each Borrower pursuant to the terms of the Loan Agreement and a copy of the annual reports of each Borrower following publication of the same. In addition to the rights of Bondholders to convene a meeting pursuant to Condition 17 (*Meetings of Bondholders, Modification and Waiver*), at the

request of the requisite majority of the Bondholders, the Issuer shall hold a meeting of the Bondholders to discuss the financial position of the Issuer and the Group, **provided that** the Issuer shall not be required to hold any such meeting more than once in any calendar year.

In addition, the Issuer has covenanted that, for so long as any of the Bonds remain outstanding, it shall not consent to any waiver, amendment or modification of, or take any action or direct the Security Trustee to take any action pursuant to, the Loan Agreement, the Legal Mortgages or the Security Trust Deeds except with the prior consent of the Bond Trustee. The Bond Trustee may seek the consent of the Bondholders in accordance with the Bond Trust Deed prior to giving any such consent.

Taxation: All payments in respect of the Bonds will be made without withholding or deduction for or on account of any taxes unless a tax deduction is required by law. In the event that any such withholding or deduction is required, the Issuer may at its option but will not be obliged to pay to Bondholders such additional amounts as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction will equal the amounts of principal and interest which would have been received in respect of the Bonds in the absence of such withholding or deduction. In the event that the Issuer does not opt to pay, or opts to pay and thereafter notifies the Bond Trustee and the Bondholders of its intention to cease paying, such additional amounts, the Bonds shall be redeemed at their principal amount, together with any accrued interest, in accordance with Condition 9.3 (*Early Redemption for Tax Reasons*).

Meetings of Bondholders: The Terms and Conditions of the Bonds and the Bond Trust Deed contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

Risk Factors: There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Bonds. These are set out under "*Risk Factors*" below and include factors which may affect the Issuer's and/or the Borrowers' ability to fulfil their obligations under the Bonds and the Loan Agreement, respectively, factors which are material for the purpose of assessing the market risks associated with the Bonds, risks relating to the security for the Bonds and risks relating the market generally.

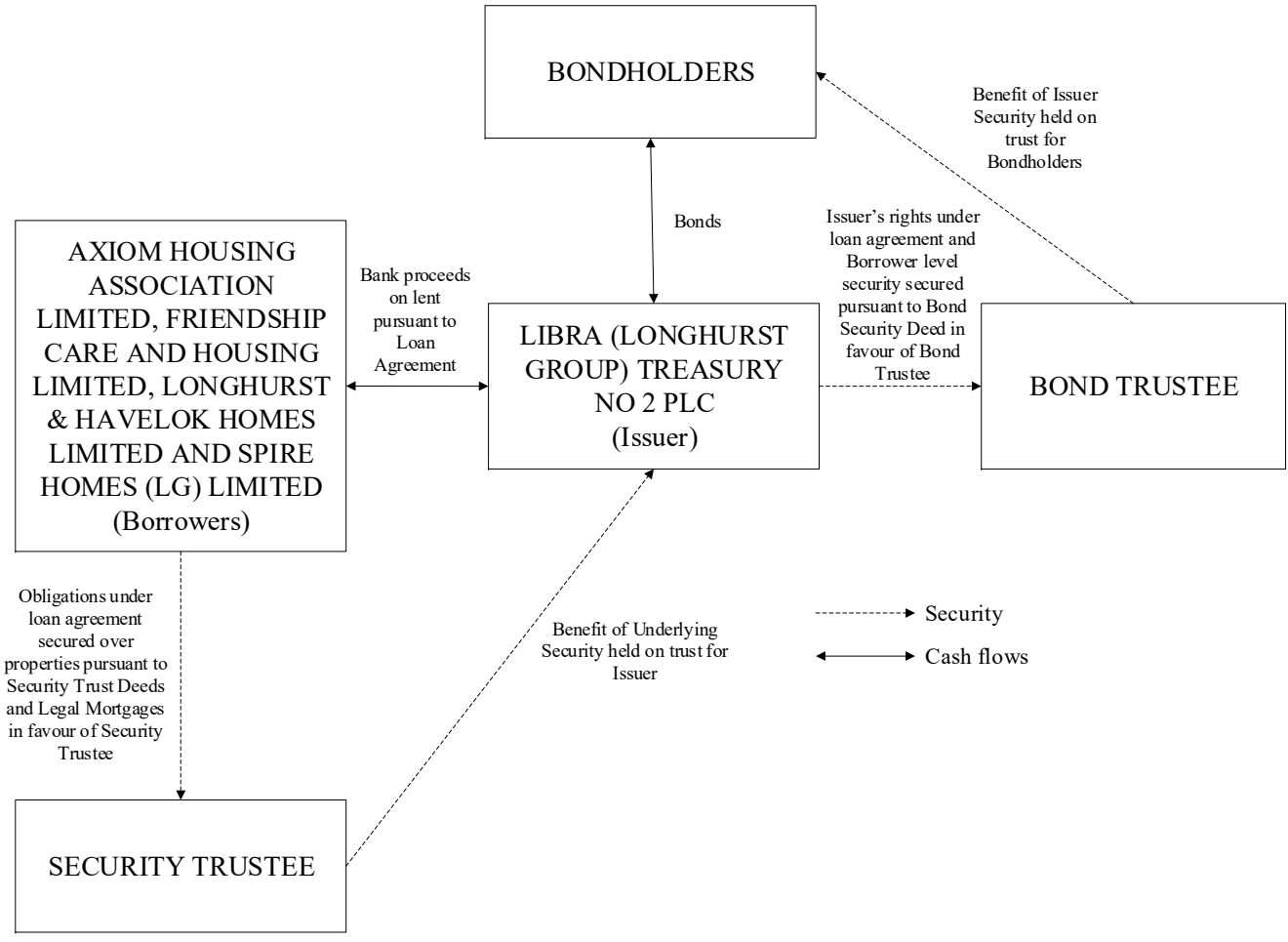
See "*Risk Factors*" below.

Rating: The Bonds have been assigned a rating of "A3" by Moody's. As of the date of this Prospectus, Moody's is established in the European Union and is registered under the CRA Regulation.

Listing and admission to trading:.... Application has been made for the entire class of Bonds (including the Retained Bonds) to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the "**London Stock Exchange**") for the entire class of Bonds (including the Retained Bonds) to be admitted to trading on the London Stock Exchange's regulated market.

Co-Arrangers and Joint Bookrunners:.....	Lloyds Bank plc NatWest Markets Plc
Principal Paying Agent:.....	The Bank of New York Mellon, London Branch
Account Bank:	The Bank of New York Mellon, London Branch
Custodian:	The Bank of New York Mellon, London Branch
Bond Trustee:.....	Prudential Trustee Company Limited
Borrowers:.....	Axiom Housing Association Limited (" Axiom "), Friendship Care and Housing Limited (" Friendship "), Longhurst & Havelok Homes Limited (" L&H ") and Spire Homes (LG) Limited (" Spire ")
Security Trustee:	Prudential Trustee Company Limited as security trustee under the Axiom Security Trust Deed, the Friendship Security Trust Deed, the L&H Security Trust Deed and the Spire Security Trust Deed
Selling Restrictions:.....	There are restrictions on the offer, sale and transfer of the Bonds in the United States and the United Kingdom, see " <i>Subscription and Sale</i> ".
Governing Law:	The Bonds and any non-contractual obligations arising out of or in connection with them are governed by English law.

STRUCTURE DIAGRAM OF TRANSACTION



RISK FACTORS

The Issuer believes that the following factors (which include factors which may affect the ability of the Borrowers to fulfil their obligations under the Loan Agreement) may affect its ability to fulfil its obligations under the Bonds. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Bonds issued are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. This section is not intended to be exhaustive and prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. If any of the following risks actually materialise, the Issuer's and/or the Borrowers' business, financial condition and prospects could be materially and adversely affected. No assurance can be given that prospective Bondholders will receive full and/or timely payment of interest and principal or ultimate recovery in relation to the Bonds.

Factors which may affect the Issuer's ability to fulfil its obligations under the Bonds

Special Purpose Vehicle Issuer: The Issuer is a special purpose finance entity with no business operations other than the incurrence of financial indebtedness, including the issuance of the Bonds, on-lending the proceeds thereof to or for the benefit of members of the Group (it being noted that the proceeds of the Bonds described herein may only be on-lent to the Borrowers) and investing in Permitted Investments. As such the Issuer is entirely dependent upon receipt of funds from the Borrowers under the Loan Agreement in order to fulfil its obligations under the Bonds, including the payment of interest and principal to the Bondholders.

Credit Risk: LG controls 100 per cent. of the issued share capital of the Issuer and the Borrowers. LG is the investment partner with the Regulator of Social Housing (the "**Regulator**") for accessing grant funding for future development across the Group. The Issuer, and therefore payments by the Issuer to the Bondholders in respect of the Bonds, will therefore be subject to the credit risk of the Group. The Issuer will be subject to the risk of delays in the receipt, or risk of defaults in the making, of payments due from the Borrowers in respect of the Loan Agreement. The Issuer acts as a financing vehicle for the Group and does not own any social housing assets in its own right. The proceeds of the Bonds will be lent by the Issuer to the Borrowers pursuant to the Loan Agreement and the payments to be made by the Issuer will be dependent upon the Issuer receiving from the Borrowers the payments due to it under the Loan Agreement. Delays in the receipt of payments due from the Borrowers under the Loan Agreement could adversely affect the ability of the Issuer to fulfil its payment obligations under the Bonds. For a discussion of the factors which may affect the Borrowers' ability to fulfil their obligations under the Loan Agreement, please see "*Factors which may affect the Borrowers' ability to fulfil their obligations under the Loan Agreement*".

Effect of Losses on Loans on Interest Payments and Repayments on the Bonds: There can be no assurance that the levels or timeliness of payments of collections received in respect of the Loans will be adequate to ensure fulfilment of the Issuer's obligations to the Bondholders in respect of the Bonds on each Interest Payment Date or on the Maturity Date. In addition, a default under the Loan Agreement could ultimately result in the enforcement of the Underlying Security. The proceeds of any such enforcement may be insufficient to cover the full amount due from the Borrowers resulting in a shortfall in funds available to repay the Bonds.

Factors which may affect the Borrowers' ability to fulfil their obligations under the Loan Agreement

Risks related to Social Rental Income

The tenants of the social housing (as defined in Part 2 of the Housing and Regeneration Act 2008) properties of the Borrowers are personally responsible for the rental payments on the relevant occupied

properties and, consequently, the Borrowers are exposed to the risk of arrears and bad debts. For the year ended 31 March, 2017, gross current tenant arrears for the Borrowers (excluding Axiom, which joined the Group as a subsidiary of LG on 7 July, 2017 (see "*Risks Related to Business Mergers and Acquisitions*" below) and is therefore not included in the Group's annual consolidated financial statements for such year) stood at 2.35 per cent. or £1.98 million, with bad debts at £0.532 million. Any significant exposure to arrears and bad debts may adversely affect the ability of the Borrowers to meet their payment obligations under the Loan Agreement.

The Borrowers receive a material proportion of their social rental income from housing benefit payable directly by local authorities. For the year ended 31 March, 2017, 48 per cent. of the Borrowers' social rental income (excluding Axiom's social rental income, because Axiom joined the Group as a subsidiary of LG on 7 July, 2017 (see "*Risks Related to Business Mergers and Acquisitions*" below) and is therefore not included in the Group's annual consolidated financial statements for such year) was received in the form of housing benefit either directly from the local authority or indirectly via the tenant. As noted in more detail in the "*Risks related to Universal Credit*" indirect payments may be considered a risk. The Welfare Reform and Work Act 2016 incorporates a series of welfare reforms that make provision on social housing rents, the household benefit cap, social security and tax credits that expose the Borrowers to the risk of a reduction in rental income and an increase in arrears. Registered providers of social housing are required to reduce rents in respect of almost all tenancies that are subject to the rent standard by 1 per cent. per annum from April 2016 for a four-year period. As at the date of this Prospectus, a rent reduction of 1 per cent. per annum has been applied to rents since 1 April, 2016. The reduction in rental income could, if material, adversely affect the ability of each Borrower to make payments in respect of the Loan Agreement (see "*Risks related to Welfare Reform*" below).

Receipt of rental income by the Borrowers relies on their ability to let properties. Demand for the Borrowers' properties is mainly driven by the local housing need and property condition compared to any alternatives. A net reduction in demand for the Borrowers' properties could reduce overall rental income. If material, this may adversely affect the ability of each affected Borrower to make payments in respect of the Loan Agreement. Each Borrower considers that housing need in the areas in which it operates is high and that it maintains its properties to a good standard. In 2017, 70 per cent. of the Borrowers' stock was independently surveyed by Savills (UK) Ltd to validate the proposed investment in the stock provided for within the Group's business plan. The results of the independent surveys have confirmed that the stock investment provision within the business plan is appropriate in order to maintain the stock to a high standard. The Borrowers collectively hold stock throughout England, where household formation continues to outpace the provision of new housing supply, increasing the demand for rented housing. On 31 March 2017 occupancy in the Borrowers' general needs housing and housing for older people (other than Axiom's, which joined the Group as a subsidiary of LG on 7 July, 2017 (see "*Risks Related to Business Mergers and Acquisitions*" below) and so is not included in the Group's annual consolidated financial statements for such year) was 99.46 per cent.

Risks related to Welfare Reform

Risks Related to Social Housing Rents

The relevant rent standard guidance for registered providers of social housing, first published on 31 March, 2015 (as updated on 18 March, 2016 and 3 May, 2016), is contained within the Rent Standard and Rent Standard Guidance sections of the regulatory framework for social housing in England (the "**Regulatory Framework**") issued by the Regulator.

Each Borrower adjusts its rents for social housing (as defined in Part 2 of the Housing and Regeneration Act 2008) annually from 1 April each year and has, in accordance with the Welfare Reform and Work Act 2016, applied the first two 1 per cent. rent reductions effective from 1 April, 2016 and 1 April, 2017, respectively, and will apply the reductions annually thereafter up to and including 1 April, 2019 (the exception being that the first 1 per cent. rent reduction that applies to supported housing was effective from 1 April, 2017).

In the Welfare Reform and Work Act 2016 and associated amendment regulations there is provision for exceptions to the rent reduction requirement and the Secretary of State has regulation making powers to introduce other exemptions. For example, reductions do not apply to rents payable by residents in low cost home ownership, shared ownership properties and intermediate rent properties. Furthermore, the Welfare Reform and Work Act 2016 also gives the Regulator the power, by direction, to exempt a

registered provider of social housing from the rent reduction requirement. Such an exemption will only be granted where compliance with the requirement would jeopardise the registered provider of social housing's financial viability (see "*Risks related to Regulation*" below). The Borrowers do not expect to benefit from the exemption and therefore the changes to the rent policy imposed by the Welfare and Reform Act 2016 will impact on the Borrower's social housing properties.

As at 31 December, 2017, the Borrowers together had approximately 17,500 social housing properties (general needs, affordable rents and supported housing tenures) which are expected to be impacted by the changes to the rent policy introduced by the Welfare Reform and Work Act 2016. For the period from 1 April, 2017 to 31 December, 2017, turnover from general needs housing, affordable rent, supported housing and sheltered housing tenures was £67.23 million, or 61.8 per cent. of the Group's £108.8 million of turnover. Operating surpluses from general needs housing, affordable rents, sheltered and supported housing tenures were £25.6 million, or 76 per cent. of the Group's £33.7 million of operating surpluses. As at 3 April, 2018, the Borrowers together had 1,690 low cost home ownership properties and 558 intermediate rent properties which are not currently impacted by the changes to the rent policy introduced by the Welfare Reform and Work Act 2016.

The Group has forecast, based on the current number of social housing properties impacted by the changes imposed by the Welfare Reform and Work Act 2016, that, following the application of the 1 per cent. per annum reduction, rental income relating to its current portfolio of social housing properties will reduce by approximately £0.7 million per annum for the financial years ending 31 March, 2018 to 31 March, 2020. The reduction in rental income could have an adverse impact on the Borrowers' cash flows that could adversely affect the ability of each Borrower to make payments in respect of the Loan Agreement. However, this risk is not considered by the Borrowers to be material in the context of their existing and future rental income streams (that take account of forecast additional social housing completions). The projected reduction in rents has already been built into the Group's current business plan.

In response to the Government's change to rent policy, the Group has introduced asset management, maintenance and operational efficiencies to offset the rent reduction.

In addition, on 4 October, 2017 the Government confirmed that, for five years, effective from 1 April, 2020, social housing rents may be increased by up to the Consumer Price Index plus 1 per cent., thus giving the Group certainty over future income streams, subject to any future Government rent policy changes.

Risks related to the Household Benefit Cap

The Summer Budget 2015 announced, and the Spending Review and Autumn Statement 2015 confirmed, that the total household benefit cap (the combined income from a number of welfare benefits for those receiving housing benefit or Universal Credit and that are of working age) will be reduced from £26,000 per year (£18,200 per year for single people) to £23,000 per year in Greater London (£15,410 per year for single people) and £20,000 per year (£13,400 per year for single people) outside Greater London, to be phased in from April 2016. Measures to implement the lowering of the threshold were included in the Welfare Reform and Work Act 2016, however, the implementation of such measures is behind schedule and will not be completed until 2022.

Exemptions to the total household benefit cap can apply to those tenants who qualify for working tax credit; are above the qualifying age for pensions credit; obtain certain benefits for sickness and disability; or claim a war pension. The benefit cap will not apply in circumstances where a tenant or a tenant's partner is in receipt of, or is responsible for, a child or young person who is in receipt of benefits such as disability living allowance, personal independence payment or carer's allowance. Housing benefit will not be included when calculating total benefit income where tenants are housed in specified accommodation including supported housing.

The reduction in the household benefit cap may have an adverse impact on the ability of those tenants affected by the Welfare Reform and Work Act 2016 to pay their rent (particularly where the other sources of income of those tenants remain unchanged or decrease), as, where the total amount of welfare benefits exceeds the benefit cap, the local authority will reduce a claimant's entitlement to housing benefits by the amount of that excess, meaning that affected tenants would have to pay a larger proportion of the rent themselves. Increasingly the benefit cap will be administered through Universal Credit (see "*Risks related*

to *Universal Credit*"). In turn, this could have an adverse impact on the Borrowers' cash flows and could affect the ability of each Borrower to make payments in respect of the Loan Agreement.

It is estimated that the benefit cap affects less than 100 of the current residents of properties owned by the Borrowers, mainly tenants paying social and affordable rents. Therefore this risk is not considered by the Group to be material in the context of its existing and future rental income streams.

The Spending Review and Autumn Statement 2015 announced that housing benefit for tenants in the social housing sector will be limited to the level of the relevant Local Housing Allowance ("**LHA**"), being the rate that applies to recipients of housing benefit in the private rented sector, that itself has been frozen for four years from 1 April, 2016 until 1 April, 2020. This will include the shared accommodation rate which applies to single people, with no dependants, under the age of 35. The policy (there is currently no legalisation before Parliament) is expected to come into force in April 2019 and will only apply to new and re-let tenancies signed on or after 1 April, 2016 (for supported housing this is 1 April, 2017) but will apply to all *Universal Credit* tenants.

The risk is that there is a gap between the maximum LHA rate and actual rents for those tenants impacted that in turn could have an adverse impact on the Borrowers' cash flows and could affect the ability of each Borrower to meet its payment obligations on a timely basis under the Loan Agreement. However, this risk is not considered by the Borrowers to be material in the context of their existing and future rental income streams and the level of social rents charged compared to LHA (see "*Risks related to the Housing Market*"). In particular, the Borrowers undertake a wide range of measures to help minimise any loss of rental income including, but not limited to, educating their tenants on how to manage their financial affairs, assisting unemployed tenants to find employment and, where necessary, eviction, if rent is not being paid.

Risks related to Occupation Size Criteria

The Welfare Reform Act 2012 introduced a size criterion for working age social housing tenants in receipt of housing benefit known as the "removal of the spare room subsidy" or "bedroom tax". The arrangements allow each of certain defined categories of people (such defined categories being: (a) a couple, (b) an adult (over 16), (c) two children of the same sex, (d) two children under the age of 10, (e) any other child, (f) those with a disability, and (g) a non-resident overnight carer) to be entitled to one bedroom. Exemptions are applied to supported housing tenants. Where a household has one extra bedroom, housing benefit is reduced by 14 per cent. of the rent charge. Where a household has two or more extra rooms, the reduction to housing benefit is 25 per cent.

As at 31 December, 2017, the Group has estimated that 6.4 per cent. of its current tenants are affected by reductions in benefit due to occupation size criteria.

The introduction of occupation size criteria may have an adverse impact on the ability of tenants to pay their rent. In turn, this could have an adverse impact on the Borrowers' cash flow and could affect the ability of each Borrower to meet its payment obligations on a timely basis under the Loan Agreement. However, this risk is not considered by the Borrowers to be material in the context of their existing and future rental income streams.

Risks related to Universal Credit

Universal Credit, introduced under the Welfare Reform Act 2012, replaces six existing means-tested benefits and tax credits for working-age families, namely income support, income-based jobseeker's allowance, income-related employment and support allowance, housing benefit, child tax credit and working tax credit with a single monthly payment, transferred directly into a household bank account of choice, and is currently in an extended "roll out" phase across the UK which is expected to last until March 2022.

The implementation of *Universal Credit* is likely to increase transaction costs and the receipt of rental payments by the Borrowers may be delayed by in-built mechanisms in the payment of *Universal Credit* and/or the failure of the tenant to apply for *Universal Credit* and/or to regularly pay rent which is due in addition to the housing benefit and/or in circumstances where the housing benefit is not paid directly, a failure to pass on the housing benefit payments. In such circumstances, non-payment, partial payment or any delay in the payment of rent could increase the Borrowers' rental income arrears and bad debts, and

could affect the ability of each Borrower to meet its payment obligations on a timely basis under the Loan Agreement.

To address concerns that delays in payments of Universal Credit were having an adverse effect on many first time claimants, the Autumn Budget 2017 announced that: (a) the seven-day "waiting period" for such claimants would be abolished from February 2018 (and this has been abolished); (b) a full month's advance payment would be available within five days of applying from January 2018, that would then be repaid, interest-free, over a twelve-month period from future payments of Universal Credit; and (c) claimants who previously received housing benefit will, from April 2018, continue to receive housing benefit for another two weeks after their application for Universal Credit.

To mitigate the risks related to Universal Credit, the Group has invested heavily in its rental collection and associated systems. Money advice and benefits training is also provided to customers as part of the Group's approach to maximising income recovery, and the Group promotes direct debit to its customers as the primary method of payment. As of 31 March, 2018 approximately 11,900 of the Borrower's tenants paid their rent by direct debit and over £29 million of the Borrower's income was received by direct debit in the financial year ending 31 March, 2018. In addition, there are three types of alternative payment arrangements available for claimants: (1) direct payment of the housing cost element to landlords (known as managed payments); (2) splitting of payments between members of a couple; and (3) more frequent payment of benefit where a claimant is in arrears with their rent for an amount equal to, or more than, two months of their rent or where a claimant has continually underpaid their rent over a period of time, and they have accrued arrears of an amount equal to or more than one month's rent. If the Department of Work and Pensions (the "DWP") does not set up a managed payment, the Borrowers can request a managed payment and inform the DWP of any other reasons why a managed payment might be needed. Landlords can request deductions from a claimant's Universal Credit to repay existing rent arrears. Deductions may amount to a minimum of 10 per cent. and a maximum of 20 per cent. of a claimant's Universal Credit standard allowance.

As at 31 December, 2017, the Borrowers had 432 tenants in receipt of Universal Credit and it is expected that, once fully rolled out, Universal Credit will impact around 40 per cent. of the Borrowers' existing social housing tenants. The Borrowers' total current arrears balance at 31 December, 2017 for those tenants in receipt of Universal Credit, inclusive of alternative payment arrangements, was £150,000 representing 7 per cent. of rental income from those tenants but less than 0.2 per cent. of the Group's £88.39 million of turnover from social housing lettings. This risk could be material in the context of the Group's existing and future rental income streams.

To manage the risks in relation to welfare reform, the Group has taken a proactive approach to financial inclusion and supporting tenants through its Rent First policy. The importance of paying rent is highlighted to tenants and dedicated income teams have focused on improving rent collection rates across the Group. New tenants are asked to pay four weeks' rent in advance to provide a buffer if difficulties arise (individual cases where new tenants are unable to afford this are assessed on their own merits). Furthermore, the Group recognises (i) the spread of its tenancies across local authorities, (ii) the willingness of existing employed tenants to preserve "life-time" tenancies, (iii) an acknowledgement amongst tenants that social rents are significantly lower in the areas it operates than an equivalent private rented sector property, (iv) the scarcity of social and affordable housing in the areas it operates that means demand for social and affordable housing is high and (v) its ability to charge re-let tenancies at Affordable Rent.

Risks related to right to buy

The introduction of the right to buy to assured tenants of registered providers of social housing was a manifesto commitment by the Conservative party for the 2015 general election. An announcement from the Secretary of State for Communities and Local Government on 24 September, 2015 confirmed a proposal made by the National Housing Federation ("NHF") to introduce the right to buy voluntarily. The voluntary arrangement is based on four key principles: (1) tenants would have the right to purchase a home at right to buy discounts (maximum discount of £77,900 (£103,900 in London)) subject to government funding for the scheme; (2) registered providers of social housing will have the final decision about whether to sell an individual property; (3) registered providers of social housing will receive the full market value of the properties sold, with the value of the discount funded by the Government; and (4) nationally, for every home sold under the agreement a new affordable property would be built.

The Prime Minister confirmed on 7 October, 2015 that the NHF's proposal had been accepted by the Government. This means that, rather than including the right to buy extension in the Housing and Planning Act 2016 as a statutory obligation, there is an agreement by the social housing sector to deliver the extension voluntarily. The Housing and Planning Act 2016 establishes a statutory framework to facilitate the implementation of the voluntary right to buy scheme and makes provision for grants to be paid to registered providers of social housing to cover the cost of selling housing assets at a discount. The Housing and Planning Act 2016 states that such grant may be made on any terms and conditions that the Secretary of State considers appropriate.

In November 2015 a voluntary right to buy pilot scheme was set up by the Ministry of Housing, Communities and Local Government (the "MHCLG") (previously known as the Department for Communities and Local Government) and launched with five registered providers of social housing whereby a tenant who has been a public sector tenant for at least ten years and who lives in one of the local authority areas within which the pilot scheme is operating could be eligible to buy their home via the pilot scheme. The scope and funding of the pilot scheme was limited to a maximum of 600 completed sales.

The Autumn Statement 2016 announced that the Government would fund a "large-scale regional pilot of the right to buy for housing association tenants". The original pilot was delayed, but the Autumn Statement 2017 announced that a pilot would run for one year from July 2018 and be based in the Midlands. It is expected that over 3,000 tenants will be able to buy their own home with right to buy discounts under this extended pilot scheme. The pilot will test two aspects of the voluntary agreement that the original pilots did not cover, namely (a) one for one replacement (which aims to maintain the supply of social housing properties) and (b) portability of discounts (which would allow tenants who are in homes that cannot be purchased to have a portable discount so that they may be able to purchase a similar property held by the same registered provider of social housing or a partner registered provider of social housing). The Borrowers anticipate around 10,500, being 46.5 per cent., of their properties will be subject to the voluntary right to buy during this limited trial period, this figure having been calculated based on the expected number of properties that would be eligible for the voluntary right to buy after taking account of the expected exclusions relating to planning agreements and in rural properties.

Until the Government sets a date for full national roll-out which, at the earliest, will not take place until after April 2018, and legislation is in place to extend the right to buy to assured tenants of registered providers of social housing, it is difficult to determine with any certainty exactly how this proposal could impact the Group. Relevant factors include local housing markets, the demographic profile of households, the size and type of stock and the cost consequences for discounts and replacement. The change could generate significant cash receipts and operating surpluses for the Borrowers. However, the policy could have an adverse impact on the Borrowers' rental cash flows (and operating margin) which could affect the ability of each Borrower to meet its payment obligations on a timely basis under the Loan Agreement. It is currently unclear whether the extension of the right to buy to housing association tenants will be enacted; there was no commitment to do so in the Conservative Party's 2017 manifesto.

Notwithstanding the obligations of a Borrower in relation to any Charged Property owned by it which is subject to a right to buy, that Borrower must ensure that the relevant Asset Cover Test is satisfied in respect of the Loan Agreement.

Risks related to Non Social Rental Income

Shared Ownership Risk

The Borrowers may also generate revenue from their housing for sale programmes, which includes shared ownership sales and outright sales. Shared ownership income is generated on the initial part of the property (known as the "first tranche") which is sold to the "shared owner"; on subsequent sales of further portions of the property to the shared owner (known as "staircasings"); and in the form of subsidised rent on the part of the property which the shared owner does not own until the property is fully owned by the shared owner. Household income eligibility thresholds of shared ownership properties have been increased to £80,000 outside London and £90,000 in London. Other restrictions, such as local authorities' right to set additional eligibility criteria, are in the process of being relaxed or removed. This type of product is also provided as "shared equity" and "Leasehold Schemes for the Elderly" ("LSE").

Both first tranche sales and staircasing receipts are exposed to demand and pricing risks (see "*Market and Development Risk* below") that could, in turn, impact on the Group's cashflows and the Issuer's ability to meet its payment obligations on a timely basis under the Bonds.

There is a risk that if a tenant of a shared ownership property borrows monies through a mortgage from a commercial lender (having obtained consent from the relevant landlord) then that lender's mortgage may take priority ahead of any security arrangements that are in place. However, if that commercial lender were to enforce its security following a tenant defaulting on its mortgage, such lender could staircase (i.e. purchase a portion of the freehold property) up to 100 per cent. in order to be able to sell the whole leasehold interest, in which case the relevant Borrower as landlord could receive such staircasing payments from the commercial lender. If the price for the full 100 per cent. receivable on sale is not sufficient to meet the principal outstanding (plus 18 months' interest and other statutorily permitted costs) then the shortfall will remain as a debt due to the landlord from the defaulting leaseholder. Under current Homes England rules, any shortfall not recovered is borne first by the provider of any grant in respect of the property, and thus the Group is only affected to the extent that the shortfall cannot be covered by grant monies. This only applies where shared ownership is grant-funded. The Borrowers would also consider buying back shared ownership properties in certain circumstances.

57 per cent. of the Group's shared ownership properties have been grant funded and 8.8 per cent. of the value of the Charged Properties are shared ownership properties. Notwithstanding the obligations of a Borrower in relation to any Charged Property owned by it which is a shared ownership property, the Borrowers must ensure that the Asset Cover Test is satisfied in respect of the Loan Agreement.

Sale of Properties Risk

The Group's strategy has been to develop principally social rented (general needs, sheltered and supported) housing, which has a limited exposure to housing market downturn risk. Rental income from these properties provides the major source of the Group's income. As part of its provision of affordable housing, the Group has developed and receives income from sales of properties that do not fit with its future asset management strategy, shared ownership first tranche receipts, shared ownership staircasing receipts and redemptions of shared equity properties. These markets are subject to the impact of changing property values and in some circumstances the availability of mortgages, as well as being exposed to demand and pricing risks (see "*Market and Development Risk* below") that could, in turn, impact on the Group's cash flows and the Issuer's ability to meet its payment obligations on a timely basis under the Bonds.

Shared ownership properties account for circa 40 per cent. of the Borrowers' development programme. Where shared ownership properties remain unsold for a period longer than envisaged, the Group (acting through the Development Committee, in the first instance) will review a number of options that include reduced sales values and switching tenure to market rents or to intermediate market rents (which are between affordable and market rents). Both options will be for an interim period until the market recovers. The Group does not, however, include future sales income in its business plan projections save for initial sales.

The Group is exposed to the trading performance of Keystone Developments (LG) Limited ("**Keystone**"), a wholly-owned subsidiary of LG, whose prime activity is the development of property for sale and whose surpluses are currently re-invested back into the business to reduce the working capital requirement on new development projects. Although some of the Charged Properties were originally developed by Keystone, all have subsequently been transferred to the relevant Borrower(s) and none of the Charged Properties are or will be owned by Keystone on the date on which they become Charged Properties. There is, however, a risk that Keystone's trading performance could be affected by market conditions and, in turn, the Issuer's ability to meet its obligations under the Bonds could be affected.

To mitigate the risk related to sales receipts, the Group's policies take a conservative approach to financial planning and project appraisal ensuring that sales receipts are not relied upon to service debt obligations or to meet covenants in a stress tested environment. As part of the Group's approach to managing development and sales risk, it ensures that contractual development commitments are phased so as to enable the programme to be switched off or re-modelled in the event of a market downturn.

In addition, the Group has a large element of discretion in the authorisation of spending relating to its maintenance expenditure, control over the phasing and timing of development completions and, in the event of a market downturn, can be further protected by its ability to shift the homes into a rental tenure.

Furthermore, the Group's development plan is targeted at areas where demand is high for the product that the Group is offering, primarily retirement schemes for the elderly where the local demographics are proving that the product is in high demand as evidenced by strong off-plan sales even in the current market.

For the year ended 31 March, 2017, the Group's turnover (excluding Axiom's turnover, because Axiom joined the Group as a subsidiary of LG on 7 July, 2017 (see "*Risks Related to Business Mergers and Acquisitions*" below) and so is not included in the Group's annual consolidated financial statements for such year) from shared ownership first tranche sales and open market sales was £12.94 million, whilst operating surpluses from shared ownership first tranche sales and open market sales were £3.39 million. 17 per cent. of this was delivered by Keystone.

Market and Development Risk

Residential property investment is subject to varying degrees of market and development risks. Market values of properties are generally affected by overall conditions in the economy; political factors and systemic events, including the condition of the financial markets; the cost and availability of finance to businesses and consumers; fiscal and monetary policies; changes in government legislation; political developments, including changes in regulatory or tax regimes; changes in unemployment, gilt yields, interest rates and credit spreads; levels of prevailing inflation; changes in consumer spending; an increase in the supply of, or a reduction in demand for, residential property; infrastructure quality; the returns from alternative assets as compared to residential property; environmental considerations; changes in planning laws and practices; and the perceived threat from terrorism. Residential real estate values and rental revenues are also affected by factors specific to each local market in which the property is located, including the supply of available property and demand for residential real estate and the availability of mortgage finance to prospective purchasers.

These market risks may impact upon the expenses incurred by the Group associated with existing residential properties, the rental income produced by these properties, the value of its existing investments, its ability to develop land that it has acquired, its ability to sell properties and its ability to acquire additional sites. This could, in turn, impact upon the Issuer and Borrowers' cash flows and their ability to satisfy any covenants which they are required to maintain pursuant to the terms of existing financing arrangements.

Among other things, the Borrowers perceive that these market risks have marginally increased as a result of the UK vote to leave the European Union on 23 June, 2016 and these risks have the potential to impact on the value of the Group's assets, expenses incurred by the Group with respect to existing residential properties, the rental income produced by these properties, the ability to develop land acquired (including, without limitation, the availability of a labour workforce for construction), the ability to sell properties and the ability to acquire additional sites (see "*Risks relating to Withdrawal of the UK from the European Union*" below). This, in turn, could impact on each Borrower's cash flow and the ability of each Borrower to satisfy any covenants which it is required to maintain pursuant to the terms of existing and any future financing arrangements, including its obligations under the Loan Agreement.

Operational and Construction Risk

Operational risks may result from major system failure or breaches in system security (although the Group has prepared business continuity plans in order to mitigate against this, it is dependent upon its technology in order to deliver business processes) and the consequences of theft, fraud, health and safety and environmental issues, natural disaster, cyber-attacks and acts of terrorism. These events could result in financial loss to the Group and therefore to the Borrowers, which could affect the ability of the Borrowers to meet their payment obligations in respect of the Loan Agreement and so impact on the ability of the Issuer to meet its payment obligations under the Bonds on a timely basis.

Construction risks may result from major or a series of health related incidents, incorrect assumptions, flawed assessments underlying cost estimates, material defects, sub-contractor risk, insufficient warranty coverage and market downturn which may have a material adverse effect on the business, results of operations, financial condition and/or the prospects of the Group (for further information see "*Market and Development Risk*" above). This, in turn, could affect the ability of the Borrowers to meet their payment obligations in respect of the Loan Agreement and, therefore, the ability of the Issuer to meet its payment obligations under the Bonds on a timely basis.

Joint Ventures Risk

The Group currently participates in three joint venture contracts (the largest contract being £21 million and totalling £34.5 million across the three contracts) through its commercial development company, Keystone. The joint venture contracts provide for an equal sharing of risk and rewards on the commercial developments between Keystone and the development partner. Joint venture risks may arise from the Group exercising a more limited operational control in such ventures, coupled with the potential risk of disagreements between the Group and the joint venture partners. Difficulties in exiting joint ventures along with complications in realising the value of the Group's input into and profits from such joint ventures may also be considered a risk. Any joint venture arrangement which is in relation to real estate investment is also exposed to market sales and development risks. See "*Market and Development Risk*" and "*Operational and Construction Risk*" above.

The Group will consider whether to invest in further joint venture arrangements (whether directly or indirectly) based on the merits of any opportunity at the relevant time. Any assessment of potential joint venture arrangements will include a robust risk assessment of the proposed partner(s) and will set out appropriate exit strategies. The investment income received from joint ventures is not relied upon to service any debt obligations of the Group nor is it required to satisfy any covenants which the Group is required to comply with pursuant to the terms of its financing arrangements.

Risks related to Housing Grant and Regulatory Framework

Risks Related to Regulation

The Housing and Regeneration Act 2008, as amended by the Localism Act 2011 and the Housing and Planning Act 2016, makes provision for the regulation of social housing provision in England. Pursuant to the Act, the Regulator acts as the regulator of registered providers of social housing in England including the Borrowers. The Regulator exercises its functions as regulator acting through a separate statutory committee established to undertake this regulatory role. The Regulator continues to provide economic regulation for registered providers of social housing in order to ensure that they are financially viable and well governed.

The Regulator regulates in accordance with the Regulatory Framework that sets out the standards which apply to registered providers of social housing (the "**Standards**"). The Standards cover: governance and financial viability; value for money; rent; quality of accommodation; repairs and maintenance; allocations, mutual exchanges and tenure; neighbourhood management, local area co-operation and anti-social behaviour; and tenant involvement and empowerment. Registered providers of social housing are expected to comply with the Standards and to establish arrangements to ensure that they are accountable to their tenants, the Regulator and relevant stakeholders.

The enforcement by the Regulator of the Standards other than those relating to governance and financial viability, rent and value for money is restricted to cases in which there is, or there is a risk of, serious detriment to tenants (including future tenants). The Regulatory Framework includes guidance as to how the Regulator will assess whether serious detriment may arise.

In April 2015, the Regulator published updates to the Regulatory Framework. These provide for changes in the way the Regulator regulates, including asset and liability registers which aim to ensure that social housing assets are not put at risk, to protect the public value in those assets and to ensure that registered providers of social housing, including the Borrowers, can continue to attract the necessary finance to build new homes. The Borrowers have adhered to the requirements of the Regulatory Framework.

On 30 October, 2015, the Office for National Statistics (the "**ONS**") announced that private registered providers of social housing (which includes the Borrowers) should be re-classified as public non-financial corporations, effectively categorising them as part of the public sector in the national accounts of the ONS. The Government quickly made a commitment to deregulation of the sector to reverse the classification. In a speech on 5 November, 2015 the Secretary of State said that the ONS decision was a technical matter and that the Government intended to restore the classification outside the public sector. Subsequently, the Government introduced deregulatory measures through the Housing and Planning Act 2016 with the intention that the private sector status of registered providers of social housing be restored.

As part of these deregulatory measures, the Regulator, in March 2017, published new directions under the Housing and Planning Act 2016 that became effective from 6 April, 2017 and replaced the previous "before the event" consent regime with an "after the event" notifications requirement. In connection with the introduction of the notifications requirement, the Regulator provided detailed guidance on when and how to notify the Regulator about: (a) constitutional or structural changes (which means that Regulator consent will no longer be required for registered providers of social housing to undertake certain changes such as mergers, change of status, restructuring, winding-up or dissolution); and (b) disposals of social housing dwellings (meaning that registered providers of social housing will no longer need consent from the Regulator for sales, charging for security and changes of ownership of social housing stock). They were designed to persuade the ONS to reverse its reclassification judgement and take registered providers of social housing back out of the "public sector" classification. The explicit purpose of the new directions notifications are to: (i) validate adherence to all relevant laws and compliance with the governing documents of registered providers of social housing; (ii) ensure accountability to tenants and enshrine proper consultation with tenants when considering a disposal that would mean a change in the tenant's landlord or changes that affect the tenant's statutory or contractual rights; and (iii) promote the achievement of value for money in the delivery of social housing.

On 16 November, 2017, the ONS published a notification letter confirming that English registered providers of social housing (including the Borrowers) have been reclassified as private non-financial corporations. The effective date for this reclassification is 16 November, 2017, which is the date on which the Regulation of Social Housing (Influence of Local Authorities) (England) Regulations 2017 came into force.

The Regulator's intention is to strengthen its expectations of registered providers of social housing in relation to risk management and planning for adverse events. The changes are designed to underpin the financial viability of registered providers of social housing, including the Borrowers, but it is possible that compliance with on-going regulatory requirements may result in increased costs.

From October 2017, the Regulator also charges fees to registered providers of social housing for regulation, following the granting of the power to charge fees under the Housing and Regeneration Act 2008 and a consultation with registered providers of social housing which commenced in late 2016. Such fees will amount to approximately £4.15 per social housing unit owned by each Borrower and the Borrowers do not consider such fees to be material in the context of their obligations in respect of the Loan Agreement.

Any breach of new or existing regulations could lead to the exercise of the Regulator's statutory powers. The Regulator publishes guidance on how it regulates. It adopts a proportionate approach with an emphasis on self-regulation and co-regulation. In practice, use of statutory powers is rare. Serious non-compliance by any registered provider of social housing with the economic standard is more likely to lead to a downgrade of the Regulator's published regulatory judgement and agreement with the Regulator of the corrective action to be taken. The Regulator may downgrade a registered provider of social housing to a non-compliant rating (being "G3" or lower for governance and/or "V3" or lower for viability) where it concludes that such registered provider does not meet the viability and/or governance standards. Any such intervention and/or downgrade to a non-compliant rating by the Regulator in respect of the Borrowers may adversely impact the ability of the Borrowers to meet their payment obligations in respect of the Loan Agreement and, therefore, the Issuer's ability to meet its obligations under the Bonds.

On 20 December, 2017, the Regulator issued a regulatory judgement which concluded that LG met both the viability and governance standards and re-affirmed LG as "G1" for governance and "V1" for viability. This judgement was carried out against LG and the Borrowers were included under this judgement. Further detail is provided in the section headed "*Description of the Group*" below.

Risks related to Housing Grant

The Borrowers have historically received grant funding from a variety of sources. Due to the nature of grant funding, there is a risk that the amount of funding available and the terms of grants will vary. Following approval of a grant there is a risk that Homes England may revise the terms of a grant and reduce the entitlement or suspend or cancel any instalment of such a grant. In certain circumstances, set out in the "*Capital Funding Guide and the Recovery of Capital Grants and Recycled Capital Grant Fund General Determination*" of Homes England, including, but not limited to, failure to comply with conditions associated with the grant or a disposal of the property funded by a grant, the grant may be

required to be repaid or re-used. Any such reduction in, withdrawal of, repayment or re-use of grant funding could adversely impact the future development of the Borrowers.

Any material repayment of historical grant funding held on the Group's balance sheet has the potential to impact on the Group's cash flow which could, in turn, materially increase the Borrowers' net debt position and thus their ability to satisfy any obligations which they are required to comply with pursuant to the terms of existing financing arrangements. In turn, this could adversely affect the ability of the Borrowers to meet their payment obligations under the Loan Agreement.

As at 31 March, 2017, the Group (other than Axiom, which joined the Group as a subsidiary of LG on 7 July, 2017 (see "*Risks Related to Business Mergers and Acquisitions*" below)) had received £2.3 million of grant funding in the form of deferred grant income due to be amortised within one year, with the overall deferred grant income of the Group being £226.7 million (such amount being all grant funding received by the Group due to be amortised in greater than one year, all of which relates to schemes which have already been delivered) and nil contingent grant liability.

Grant funding for registered providers of social housing has, in recent years, undergone significant and material change. Under the 2011-2015 Affordable Homes Programme, the level of capital grant made available to fund new affordable homes was reduced to £4.5 billion compared to £8.4 billion under the previous review period. To compensate for this, registered providers of social housing are able to charge Affordable Rents where a Framework Delivery Agreement with Homes England has been entered into. The Borrowers received £2,815,509 of grant under the 2011-2015 Affordable Homes Programme and 2013-2015 Affordable Homes Guarantee Programme to deliver 425 properties for rent and affordable home ownership. As at 31 March, 2017, there were 558 Affordable Rent tenancies owned and managed by the Borrowers.

The 2015-2018 Affordable Homes Programme was launched in January 2014. The level of capital grant made available nationally to fund new affordable housing was £2.9 billion, £1.7 billion being made available for outside London and administered by Homes England and £1.2 billion being made available for London and administered by the Greater London Authority. The primary change was that all of the available funding will not be allocated from the outset. Instead, up to 75 per cent. would be allocated, with the remainder being made available via on-going market engagement. The Borrowers have been allocated £7,480,990 under the 2015-2018 Affordable Homes Programme to deliver 481 properties for affordable rent and affordable home ownership.

In April 2016, Homes England announced that it was making available £4.7 billion of capital grant between 2016 and 2021 under the Shared Ownership and Affordable Homes Programme 2016-2021. That marked a decisive shift towards support for home ownership. However, the Autumn Statement 2016 announced that an additional £1.4 billion would be made available to build 40,000 affordable homes and that the Shared Ownership and Affordable Homes Programme 2016-2021 will support a variety of tenures which now includes affordable rent, shared ownership and rent to buy. This, together with the publication of the Housing White Paper "*Fixing our broken housing market*" published in February 2017, has marked a shift of emphasis in Government investment priorities back towards rented housing.

The Borrowers do currently benefit from housing grant under the Shared Ownership and Affordable Homes Programme 2016-2021. As at the date of this Prospectus, this allocation has been confirmed and the outstanding allocations will be delivered on the successful completion of the relevant projects. From 1 April 2022 onwards, the Borrowers have, in their business plans, not budgeted for receiving further housing grant. However, if at some stage in the future a Borrower becomes reliant on the receipt of housing grant as part of its business plan, the increased competition, the increased need for bidders to provide evidence regarding timescale compliance and the possible future reduction in grants beyond 31 March 2021 could result in any future award of housing grant beyond 31 March 2021 allocated to that Borrower being reduced in size. Accordingly, the Group may seek to increase commercial risk to subsidise affordable housing and/or the Group may have to increase net debt, each of which may have a corresponding effect on the ability of each Borrower to make payments in respect of the Loan Agreement.

Risks related to Credit Ratings, Treasury Risks and Pensions

Risks related to Capital Resources

The ability of the Group to operate its businesses depends in part on it being able to raise funds. An increase in the cost, or lack of availability, of finance (whether for macroeconomic reasons, such as a lack of liquidity in the debt markets or the inability of a financing counterparty to honour pre-existing lending arrangements, or reasons specific to the Group) could impact the Group's ability to progress its business objects, deliver the expected rates of return on investments and the day-to-day financing (or refinancing) requirements of the Group's business over the longer term. The impact of any future rate rises are provided for in the Group's business plan and are extensively stress tested. Any material increase in the cost of financing or any decrease in the availability of financing on reasonable terms could have a material adverse effect on the Group's business, operations, financial condition and/or prospects, the ability of the Borrowers to meet their payment obligations in respect of the Loan Agreement and, in turn, the Issuer's ability to meet its payment obligations under the Bonds on a timely basis. As at 31 December, 2017, the Group had £610.9 million of agreed loan facilities (total bank loans and overdrafts, debenture loans but excluding net issue premium and loan fair value adjustments), of which £52.7 million represented undrawn revolving credit facilities and £22.8 million represented undrawn term facilities. As at 31 December, 2017, the Group held net debt (excluding any fair value of derivatives) of £535.5 million and available liquidity (being committed and available undrawn loan facilities and available cash and cash equivalents) of £88.3 million.

In addition, the Group is subject to the risk that they will be unable to generate sufficient cash flows, or be unable to obtain sufficient funding, to satisfy its obligations to service and/or refinance its indebtedness. Further, any covenants contained in the Group's borrowing arrangements, including the Bonds and the Loan Agreement, may limit or prohibit the Group's operational and financial flexibility. Any event of default, cross default, breach of a covenant or the inability to vary or waive any covenants could generally have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects, the ability of the Borrowers to meet their payment obligations in respect of the Loan Agreement and, in turn, the Issuer's ability to meet its payment obligations under the Bonds on a timely basis.

To manage liquidity risk and augment its capital reserves, the Group's treasury strategy ensures that a significant liquidity buffer in the form of cash and undrawn but committed revolving credit facilities is available, funding is procured in advance of need and sufficient headroom against covenants is maintained. Further, the Group seeks to ensure that leverage is maintained at a level within the Group's risk appetite as measured by its ability to service debt and maintain strong investment grade credit ratings (see "*Risks related to Credit Ratings* below").

Risks related to Availability of Unsecured Assets

With the exception of a £0.5 million overdraft facility, the Group's borrowings (as detailed in "*Risks related to Capital Resources*" above) are secured against the Borrowers' property assets. All such property assets will have been valued by a qualified valuer to meet the lenders' requirements and the Borrowers also maintain asset cover registers to record what properties are charged and to which entity.

Although the Borrowers will be required to ensure that the Asset Cover Test is satisfied in respect of the Loan Agreement, which in turn will require the Borrowers to maintain a certain level of Underlying Security, if the Borrowers were in breach of the Asset Cover Test then the value of the proceeds of enforcement of the Underlying Security may be insufficient to enable the Issuer to pay its obligations under the Bonds in full. In such scenario, the Issuer may be entitled to enforce the Guarantee and Indemnity (as contained in the Loan Agreement) against the Borrowers. Whether such Guarantee and Indemnity would provide the Issuer with sufficient recovery would depend on the availability of the Borrowers' unsecured assets. As at the date of this Prospectus, the value of the Borrowers' properties which are not secured for such borrowings had a value of approximately £150 million, representing around 15 per cent. of the value of the Borrowers' properties. If there were insufficient unsecured assets this could leave the Issuer unable to pay its obligations under the Bonds in full.

Risks related to Credit Ratings

The on-going perceived credit worthiness of the Group, the Borrowers and hence the Issuer will depend on many factors, including the link to national government, economic factors, the on-going level of financial performance, the continuing strength of its management and governance structure and its on-going liquidity. Actual deterioration or a perceived deterioration in any of these factors or a combination of these factors could result in a downgrade in the Group's perceived credit worthiness as indicated by the Group's issued credit ratings that could, in turn, cause the trading price of the Bonds to decline and, consequently, may result in a loss of all or part of an investment in the Bonds. In addition, the Conditions of the Bonds permit the Issuer to undertake Permitted Reorganisations. In such circumstances, the resulting entity's credit risk may change. The Group had its existing credit rating confirmed by Moody's at "A3" on 3 January, 2018. The Group aims to maintain a business strategy, risk appetite, operational and governance structure and a capital structure which is consistent with its credit rating.

The aforementioned ratings may not reflect the potential impact of all risks related to the Group, the market and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the assigning rating agency at any time.

Moody's is established in the European Union and is registered under the CRA Regulation (and, as such, is included in the list of credit rating agencies published by the European Securities Market Authority on its website in accordance with the CRA Regulation).

Risks Related to Interest Rates

The Group is subject to adverse interest rate movements that could lead to an increase in the cost of borrowing. The Group's interest rate risk arises from the risk of fluctuations in interest charged on its variable rate borrowings. The Group and certain of the Borrowers have entered into interest rate swaps to manage the interest rate volatility and uncertainty arising from the Group's operations and financing. The Group is therefore potentially exposed to movements in the negative mark-to-market position under these contracts through margin calls for cash and/or property to be posted as collateral beyond that which is already in place (the Group has negotiated unsecured threshold limits within these swap agreements and has pledged security to cover any potential cash margin calls that could arise). This could have a material adverse effect on the Group's financial condition and, in turn, the Issuer's ability to meet its payment obligations on a timely basis under the Bonds.

Risks Related to Pensions

The Group participates in a number of pension schemes, as shown below, via the members of the Group, not all of which can be broken down to the relevant Group member's individual assets and obligations.

- The Social Housing Pension Scheme (the "SHPS") is an industry wide multi-employer scheme with a number of different benefit structures. The Group participates in the final salary section, which is closed to new entrants, and a career average revalue earnings section, which is open to new entrants. The SHPS is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December, 2005. This, together with a document issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pensions schemes in the UK.
- The SHPS is classified as a "last man standing arrangement". The Group is therefore potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the SHPS. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the SHPS.
- The SHPS is administered by The Pensions Trust who are not able to identify an individual employer's liabilities. It is not therefore possible, in the normal course of events, to readily identify the share of the underlying assets and liabilities attributable to each individual employer participating in this arrangement. As at 31 March, 2017 there were 246 active members of the scheme employed by the Group. The Group has estimated a liability based on discounted future contributions required to fund the deficit. As at 31 March, 2017, this totalled £12.231 million

(being 1.7% of the Group's net liabilities in that financial year) and as at 1 April, 2016, this totalled £13.18 million (being 1.3% of the Group's net liabilities in that financial year). This position does not include Axiom, which joined the Group as a subsidiary of LG on 7 July, 2017 (see "*Risks Related to Business Mergers and Acquisitions*" below) and so is not included in the Group's pension scheme for such year. For Axiom the liability was estimated at £2.642m as at 31 March, 2017 and £2.868m as at 1 April, 2016. The Group has assessed its deficit funding payments for future years based on actuarial valuations, but the Issuer does not consider these amounts to be material in the context of its ability to meet its payment obligations in relation to the Bonds. The last formal valuation of the SHPS on a buy out basis was conducted as at 30 September, 2014 and the next valuation was due to be conducted as at 30 September, 2017 (as at the date of this Prospectus, that valuation has not been published).

- The Group defined benefit scheme (the "**LGDB**"), which is a SHPS scheme (as set out above), remains open to new entrants.
- The Local Government Pension Scheme is administered by Northamptonshire County Council ("**NCC**"), Leicestershire County Council ("**LCC**") & West Midlands Metropolitan Authorities ("**WMMA**") (each a "**LGPS**").
- The LGPS Funds are also multi-employer arrangements but, unlike the SHPS, it is possible to identify the share of the LGPS Fund's underlying assets and liabilities attributable to the Group. As at 31 March, 2017, the fair market value of the assets held in LGPS Funds attributable to the Group amounted to £8.71 million. As at that date, the corresponding pension liabilities amounted to £12.22 million. The pension contributions payable by the Borrowers (other than Axiom, which as noted above joined the Group as a subsidiary of LG on 7 July, 2017 (see "*Risks Related to Business Mergers and Acquisitions*" below) and therefore is not included in the Group's annual consolidated financial statements for such year) during the accounting period ending on 31 March, 2017 were 19.4 per cent. (NCC), 19.37 per cent. (LCC) and 25.3 per cent. (WMMA) of pensionable salary, respectively.

If the market value of any of the above pension schemes' assets declines in relation to the assessed liabilities, which depends on, among other things, the real returns that can be obtained from the assets, the longevity of its members, the rate of increase or salaries, discount rate assumptions and inflation, or if the trustees or the regulator of pensions determines that the relevant Borrower's liabilities require a different approach to contributions and deficit reduction, the Borrowers may be required to increase their contributions which could have an adverse impact on their financial condition and, in turn, their ability to meet their payment obligations on a timely basis under the Loan Agreement.

Risks related to Operations, Legal Risks and Compliance Risks

Legal and Compliance Risks

Each Borrower knows the significance to its operations of, and is focused on, adhering to all legal and compliance requirements. The Borrowers are not currently aware of any material failure to adhere to applicable health and safety or environmental laws, or breach of other regulations, or failure to comply with corporate, employee or taxation laws. If any such failures were to occur in the future, this could have an adverse impact on each Borrower's results of operations and, in turn, its ability to meet its payment obligations under the Loan Agreement on a timely basis and, ultimately, the ability of the Issuer to meet its payment obligations under the Bonds on a timely basis.

Given that each Borrower owns housing units of all tenures, including general needs and affordable use, each Borrower is aware of the need for all of its units to comply with health and safety legislation to ensure the safety of all occupying tenants. Accordingly, each Borrower is continually reviewing and updating its policies and procedures to ensure that the condition and safety of each unit is compliant with prevailing legal and regulatory requirements. Each Borrower also carries out health and safety checks of its properties on an on-going basis, including, but not limited to gas safety checks and fire risk assessments. Following the tragic events at Grenfell Tower in the Royal Borough of Kensington and Chelsea, the Group completed additional comprehensive checks including in relation to cladding and fire safety management and housekeeping arrangements. The Borrowers own only one block of flats which is over 18 metres in height, and this block of flats is only six storeys high. None of the Group's properties have the Aluminium Composite Material cladding panels which were on Grenfell Tower. The long-term

effects of the fire at Grenfell Tower is an evolving situation, and advice and guidance is changing constantly as more is learnt about what caused the spread of this fire. The Group is closely monitoring: (a) any proposed changes in building regulations prompted by the Grenfell Tower tragedy including (but not limited to) changes to The Regulatory Reform (Fire Safety) Order 2005 and the Building Regulations 2010 considering (i) the recommendations made by the independent public inquiry announced by the Government on 22 June, 2017 and (ii) the recommendations made by the independent review of building regulations and fire safety led by former Health and Safety Executive Chair Dame Judith Hackitt and commissioned by the Secretary of State for Communities and Local Government on 28 July, 2017; (b) the destructive inspection of the common parts of a building referred to as "type 4" fire risk assessments; and (c) the potential for renovation, maintenance and modernisation programmes, including any other remedial works that are necessary. If the Group were faced with material unforeseen renovation, maintenance or modernisation costs in excess of the specific allocation made, this could impact upon the Group's cash flow, which could impact on the ability of the Borrowers to meet their payment obligations under the Loan Agreement and in turn affect the Issuer's ability to meet its payment obligations on a timely basis under the Bonds.

Each Borrower has the benefit of insurance for, among others, employer's liability, public liability and directors' and officers' liability at levels which the management of each Borrower considers to be prudent for the type of business in which the Borrowers are engaged and commensurate with registered providers of social housing of a similar size.

Litigation Risk

There can be no assurance that the Borrowers will not, in the future, be subject to a claim which may have a material impact upon their revenue or business. To date, none of the Borrowers is aware of any claims being brought against it that have had a material impact on its revenue or business.

Risks Related to Business Mergers and Acquisitions

The Group has, in the past, merged (most recently on 7 July, 2017, when LG acquired Axiom as a subsidiary), and may, in the future, merge, with other businesses (or make business acquisitions) that could impact on the performance and risk profile of the Group and, in particular, the Borrowers.

Mergers and acquisitions can involve a number of risks, such as the underlying business performing less well than expected after a merger or an acquisition, the possibility of the integration diverting management's attention, the possible loss of key personnel within the merged or acquired business and other risks inherent in the systems of the merged or acquired business and associated with unanticipated events or liabilities. In addition, the members of the Group may incur significant merger or acquisition, administrative and other costs in connection with any such transactions, including costs related to the integration of merged or acquired business. These costs may include unanticipated costs or expenses, legal, regulatory, lender consent and contractual costs, and expenses associated with eliminating duplicate facilities. All of the factors above could have a material adverse effect on the business, results of operations, financial condition or prospects of such merger or acquisition. In turn, this could have a material adverse effect on the ability of the Borrowers to repay to the Issuer the amounts outstanding under the Loan Agreement and, ultimately, the ability of the Issuer to meet its payment obligations under the Bonds on a timely basis.

However, with respect to the acquisition of Axiom, the Group has considered these risks and has mitigated them by: (a) implementing a group vision of one culture that sets commonly agreed principles relating to the Group's mission, vision, values and strategic objectives; (b) adopting a governance framework that establishes the principle of an integrated group board and executive group at Group level that is responsible for delivery of strategic objectives; and (c) establishing and implementing an operational and infrastructure integration plan (including, without limitation, the implementation of information technology systems).

Permitted Reorganisation

The Loan Agreement permits the Borrowers to undertake Permitted Reorganisations. In such circumstances, the resulting entity's credit risk may change (see "*Risks related to Credit Ratings*" above).

Dependency on Third-Party Suppliers

The Borrowers' maintenance of their properties (including, but not limited to, the Charged Properties) is dependent on the timely performance of third party maintenance contractors performing their obligations under their maintenance contracts with the Borrowers. The Borrowers work closely with their maintenance contractors to avoid property maintenance-related problems, but there can be no assurances that the Borrowers will not experience problems in the future. The Borrowers' day to day and void maintenance contract changed on 1 April, 2018 and is now provided through one contract with Wates (Wates Living Space). This contract will deliver day to day repairs and void maintenance works across the whole of the Borrowers' stock to a consistent landlord standard. The performance of this (and other) contracts by third party contractors with the Borrowers may be subject to disruption for a variety of reasons, including, but not limited to, work stoppages, labour relations and breakdown in machinery. Any such failure by maintenance contractors to fulfil their contractual obligations or any such disruption could, if significant, interrupt the Borrowers' ability to provide social housing and this could negatively impact the Borrowers' rental income stream, which could, in turn, adversely affect their payments under the Loan Agreement and, ultimately, the Issuer's ability to meet its payment obligations on the Bonds.

Risks Related to Care and Support

In view of the public sector budgetary constraints, annual increases in fees from care and support services have been limited and are likely to continue to be limited. There is a risk that costs could increase above revenue increases thus reducing surplus in this business, and potentially creating a reputational risk were several services are withdrawn in light of funding cuts. Any such reduction in revenue or withdrawal of services could, if significant, have a material adverse effect on the ability of the Borrowers to repay to the Issuer the amounts outstanding under the Loan Agreement.

In October 2017, the Government released the "*Government Response to the Communities and Local Government and Work and Pensions Committees Joint Report: the Future of Supported Housing*", which announced that it will not be applying Local Housing Rates to tenants in supported housing or the wider social rented sector and that for sheltered and extra care housing, the Government will introduce a "Sheltered Rent", which will see housing costs fully paid for by the tenants' Housing Benefit or Universal Credit. However, it was further announced that there will be a cap on the amount paid to social landlords providing this type of housing. The new proposals make it clear that the level of "sheltered rent" will be regulated by the Regulator. Overall funding for the sector will therefore be partly determined by the level at which that "sheltered rent" is capped.

As a result of this uncertainty surrounding the level of future funding for supported care and supported housing, the Group has adjusted its strategy in relation to the provision of care services. A Care and Support business development strategy has been developed to robustly price tender opportunities to ensure viability, and one Local Authority has agreed to increase contract prices to enable improved rates of pay. Furthermore, new and renegotiated tenders are now being made in line with the National Living Wage. There will, in future, be more focus on the provision of services to customers in their own homes rather than on purpose built care provision where services and assets can be adapted as the market dictates.

Risks related to Withdrawal of the UK from the European Union

On 23 June, 2016 the UK held a referendum to decide on the UK's membership of the European Union. The UK vote was to leave the European Union and the UK Government invoked article 50 of the Lisbon Treaty relating to withdrawal on 29 March, 2017. Under article 50, the Treaty on the European Union and the Treaty on the Functioning of the European Union cease to apply in the relevant state from the date of entry into force of a withdrawal agreement, or, failing that, two years after the notification of intention to withdraw, although this period may be extended in certain circumstances. There are a number of uncertainties in connection with the future of the UK and its relationship with the European Union. The negotiation of the UK's exit terms is likely to take a number of years. Until the terms and timing of the UK's exit from the European Union are clearer, it is not possible to determine the impact that the UK's departure from the European Union and/or any related matters may have on the business of the Borrowers. As such, no assurance can be given that such matters would not adversely affect the ability of the Issuer to satisfy its obligations under the Bonds and/or the market value and/or the liquidity of the Bonds in the secondary market.

As outlined in “*Market and Development Risk*” above, the UK's departure from the European Union and/or any related matters may increase various of the market and development risks that residential property is subject to. This increase, in turn, has the potential to impact on the Group, in particular the value of the Group's assets, expenses incurred by the Group with respect to existing residential properties, the rental income produced by these properties, the ability to develop land acquired (including, without limitation, the availability of a labour workforce for construction), the ability to sell properties and the ability to acquire additional sites. This, in turn, could impact on each Borrower's cash flow and the ability of each Borrower to satisfy any covenants which it is required to maintain pursuant to the terms of existing and any future financing arrangements, including its obligations under the Loan Agreement.

Factors which are material for the purpose of assessing the market risks associated with the Bonds

Liability under the Bonds: The Bonds are obligations of the Issuer only and do not establish any liability or other obligation of any other person mentioned in this Prospectus. The Bonds will constitute direct, general, secured obligations of the Issuer and will rank equally among themselves.

Interest rate risks: The Bonds bear interest at a fixed rate and therefore involve the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds. For example, if market interest rates subsequently increase above the rate of interest on the Bonds, the Bonds may be a less attractive investment to a future purchaser than other investments in the market, and this may result in a decrease in the value of the Bonds.

Redemption prior to maturity: In the event that the Bonds become repayable prior to maturity either following the Loans becoming repayable as a result of a Borrower Default (which includes, *inter alia*, failure by a Borrower to make payments of interest under the Loan Agreement) or an Event of Default (as defined in Condition 12 (*Events of Default and Enforcement*)) or due to taxation pursuant to Condition 9.3 (*Early Redemption for Tax Reasons*), the Bonds will be redeemed in full at their principal amount, plus accrued interest. In such circumstances it may not be possible for an investor to reinvest the redemption proceeds at an effective rate of interest as high as the interest rate on the Bonds. Furthermore, the optional redemption feature of the Bonds is likely to limit their market value as the market value generally will not rise substantially above the price at which they can be redeemed.

Modification, waivers and substitution: The Terms and Conditions of the Bonds and the Bond Trust Deed contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders, including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Bonds and the Bond Trust Deed also provide that the Bond Trustee may, without the consent of Bondholders (i) agree to any modification (except as stated in the Bond Trust Deed) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Bonds or any Transaction Document (to which it is a party) or (ii) determine without the consent of the Bondholders that any Potential Event of Default or Event of Default shall not be treated as such or (iii) agree to the substitution of another company, registered society or other entity as principal debtor under the Bonds in place of the Issuer, in the circumstances described in the Terms and Conditions, provided, in each case, that the Bond Trustee is of the opinion that to do so would not be materially prejudicial to the interest of Bondholders.

Denominations involve integral multiples: definitive Bonds: The Bonds have denominations consisting of a minimum of £100,000 plus one or more higher integral multiples of £1,000. It is possible that the Bonds may be traded in amounts that are not integral multiples of £100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than £100,000 in his account with the relevant clearing system at the relevant time may not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that its holding amounts to £100,000.

If definitive Bonds are issued, holders should be aware that definitive Bonds which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

Change in Law: The structure of the issue of the Bonds is based on English law, regulatory and administrative practice in effect as at the date of this Prospectus, and has due regard to the expected tax

treatment of all relevant entities under United Kingdom tax law and the published practice of HM Revenue & Customs ("HMRC") in force or applied in the United Kingdom as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law, regulatory or administrative practice in the United Kingdom, or to United Kingdom tax law, or the interpretation or administration thereof, or to the published practice of HMRC as applied in the United Kingdom after the date of this Prospectus.

Potential conflicts of interest: Each of the Transaction Parties (other than the Issuer) and their affiliates in the course of each of their respective businesses may provide services to other Transaction Parties and to third parties and in the course of the provision of such services it is possible that conflicts of interest may arise between such Transaction Parties and their affiliates or between such Transaction Parties and their affiliates and such third parties. Each of the Transaction Parties (other than the Issuer) and their affiliates may provide such services and enter into arrangements with any person without regard to or constraint as a result of any such conflicts of interest arising as a result of it being a Transaction Party.

Taxation: Under the Terms and Conditions of the Bonds (see Condition 10 (*Taxation*) below), the Issuer may, but will not be obliged to, gross up payments in respect of the Bonds if any deduction or withholding on account of tax is imposed. In the event that any deduction or withholding on account of tax is imposed and the Issuer does not opt to gross up payments in respect of the Bonds (or, if having previously opted to gross up notifies the Bond Trustee and the Bondholders of its intention to cease grossing up payments in respect of the Bonds), the Bonds will be redeemed in accordance with Condition 9.3 (*Early Redemption for Tax Reasons*). In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Bonds. In addition, any amounts in respect of accrued interest which fall due on any such redemption of the Bonds (and, where the redemption follows the next following Interest Payment Date, such Interest Payment Date) shall be paid subject to the required withholding or deduction and the Issuer shall not be obliged to pay any additional amounts in respect thereof. The Bondholders will therefore bear the risk of any such withholding or deduction in respect of the period from the previous Interest Payment Date to the date of redemption.

The Loan Agreement requires that if any withholding or deduction is required by law to be made by any Borrower thereunder, the amount of the payment due from such Borrower shall be increased to an amount which (after making the tax deduction) leaves an amount equal to the payment which would have been due if no tax deduction had been required.

For a description of the current United Kingdom law and practice relating to withholding tax treatment of the Bonds, see below in "*Taxation*".

Exchange rate risks and exchange controls: The Issuer will pay principal and interest on the Bonds in Sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of Sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Sterling would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Bonds and (3) the Investor's Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Legal investment considerations may restrict certain investments: The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Bonds are legal investments for it, (2) the Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

Risks Relating to the Security of the Bonds

Considerations relating to the Issuer Security and the Underlying Security: The Bonds will be secured by the Issuer Security granted in favour of the Bond Trustee for the benefit of itself, the Bondholders and the other Secured Parties. Such Issuer Security will include security over the Loan Agreement, the Security Trust Deeds and the Legal Mortgages. The Underlying Security created pursuant to the Security Trust Deeds and the Legal Mortgages includes first legal mortgages and first fixed charges and assignments over the property and rights set out in the relevant Legal Mortgage given by the Borrowers and, in case of Spire only, a first floating charge over the whole of Spire's undertaking and all of its property and assets given by Spire, in favour of the Security Trustee for the benefit of itself and, *inter alios*, the Issuer.

The validity of any security given by a Borrower in connection with additions and substitutions of Charged Properties may depend on the solvency of such Borrower at the time of the grant.

Environmental considerations: Under relevant UK environmental legislation, liability for environmental matters can be imposed on the "owner" or "person in control" of land. The term "owner" is not specifically defined and could include anyone with a proprietary interest in a property, which could include a representative of a trustee as a mortgagee in possession (in respect of which see the risk factor entitled "*Mortgagee in Possession Liability*" below). Environmental laws may impose liability on the owner for clean-up costs if a property is or becomes contaminated. A Borrower may therefore be liable for the entire amount of the clean-up and redemption costs for a contaminated site regardless of whether the contamination was caused by it or not. These costs may be significant and this could also affect the ability of such Borrower to meet its payment obligations under the Loan Agreement.

In addition, the presence of hazardous or toxic substances, or the failure to adequately remedy adverse environmental conditions at a Charged Property, may adversely affect the market value of the Charged Property, as well as the relevant Borrower's ability to sell, lease or refinance the Charged Property. Any environmental liability imposed on a Borrower could also affect the ability of such Borrower to meet its payment obligations under the Loan Agreement.

Sufficiency of insurance: Although each Charged Property is required to be insured at appropriate levels and against customary risks, there can be no assurance that any loss incurred will be of a type covered by such insurance, nor can there be any assurance that the loss will not exceed the limits of such insurance. Any reduction in income or any loss or damage caused to a Charged Property not adequately covered by insurance could result in a shortfall in funds available to meet the relevant Borrower's payment obligations under the Loan Agreement.

Investment of Retained Proceeds in Permitted Investments: For so long as any part of the net proceeds of the issue of the Bonds remains undrawn pursuant to the Loan Agreement, the Issuer may invest such amounts in Permitted Investments in accordance with the Custody Agreement. Although Permitted Investments are limited to highly rated securities which satisfy certain specified criteria, the Issuer may be required to liquidate such Permitted Investments (a) prior to the enforcement of the Issuer Security, to fund advances to the Borrowers pursuant to the Loan Agreement or to fund redemptions of the Bonds in accordance with the Conditions or (b) following the enforcement of the Issuer Security, to make payments in accordance with the Post-enforcement Priority of Payment, in either case at a time when the disposal proceeds of such Permitted Investments is less than the price paid by the Issuer upon the acquisition thereof. Prior to the enforcement of the Issuer Security, any losses realised by the Issuer in respect of a sale of Permitted Investments are passed on to the Borrowers pursuant to the terms of the Loan Agreement as a result of (i) the Issuer's obligation to fund a principal amount of an advance being such that it may be satisfied by funding such advance at a discount in proportion to any such losses and (ii) each Borrower's obligation to make further payments to the Issuer in respect of any prepayment of the Loans in full to enable the Issuer to fund any shortfall on a redemption of the Bonds. However, following the enforcement of the Issuer Security, any losses in respect of the Permitted Investments will reduce the amounts available to the Issuer in the Initial Cash Security Account to satisfy its payment obligations in respect of the Bonds. In addition, both the Retained Proceeds and the Charged Disposal Proceeds may also be invested in Permitted Investments. For the purpose of calculating the Borrowers' compliance with the Asset Cover Test, the value of such Permitted Investments will be the purchase price thereof and the Borrowers shall not be required to monitor the market value of such Permitted Investments. Consequently, the value attributed to the Permitted Investments for this purpose may be more than the realisable value from time to time.

In the event that the enforcement of the Issuer Security takes place prior to the Initial Properties and the Additional Properties being charged, with an aggregate Minimum Value equal to the principal amount of the Bonds, and/or at a time when the Permitted Investments have been acquired with the Disposal Proceeds, the value of the proceeds of enforcement of the Underlying Security may be insufficient to enable the Issuer to pay its obligations under the Bonds in full.

The Issuer's ability to meet its obligations under the Bonds after enforcement under the Loans:

Following default by a Borrower, the Security Trustee shall be entitled to call for payments of any unpaid sums by such Borrower to be made by one or more of the other Borrowers (if any) under and in accordance with the guarantee given by such other Borrowers pursuant to the Loan Agreement (subject to the limitations of each guarantee). If there are no other Borrowers at such time or the other Borrowers do not make payment (or are not required to make payment as a result of the limitation of the relevant guarantee) of such amounts to the Issuer pursuant to the Loan Agreement, the Security Trustee may enforce the Underlying Security and appoint a Receiver pursuant to its powers under the relevant Security Trust Deed.

The Issuer's ability to continue to pay principal and interest on the Bonds following default by a Borrower under the Loans is dependent upon the ability of the Issuer to receive from the Security Trustee pursuant to the collection of rental income or a disposal of the Underlying Security, sufficient funds to make such payment.

Fixed charges may take effect under English law as floating charges: Pursuant to the Bond Security Deed, the Issuer has purported to grant fixed charges over, amongst other things, all rights and benefits under the Transaction Account, the Disposal Proceeds Account and the Initial Cash Security Account. The law of England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer (other than assignment of security) may take effect under English law as floating charges only if, for example, it is determined that the Bond Trustee does not exert sufficient control over the charged assets for the security to be said to "fix" over those assets. If the charges take effect as floating charges instead of fixed charges, then the claims of the Bond Trustee will be subject to claims which are given priority over a floating charge by law, including, amongst other things, prior charges, certain subsequent charges, the expenses of any winding-up or administration and the claims of preferential creditors.

Claims of Creditors of the Issuer other than Secured Parties: Under English law, any creditor (who has not entered into non-petition clauses) would (save where an administrator has been appointed) be able to commence insolvency or winding-up proceedings against the Issuer in respect of any unpaid debt with a value of £750 or more.

Mortgagee in Possession Liability: There is a risk that the Security Trustee may be deemed to be a mortgagee in possession if it physically enters into possession of a Charged Property or performs an act of control or influence which may amount to possession, such as submitting a demand direct to tenants requiring them to pay rents to the Security Trustee. The consequence of being a mortgagee in possession would be that the Security Trustee may be obliged to account to the relevant Borrower for the income obtained from the Charged Property, be liable for any damage to the Charged Property, have a limited liability to repair the Charged Property and, in certain circumstances, may be obliged to make improvements or incur financial liabilities in respect of the Charged Property. A mortgagee in possession may also be liable to a tenant for any mis-management of the relevant property and may incur liabilities to third parties in nuisance and negligence and, under certain statutes (including environmental legislation), the liabilities of a property owner. Pursuant to each Security Trust Deed, the Issuer and each Borrower, respectively, are required to indemnify the Security Trustee against all liabilities and expenses suffered or incurred by it. The Borrowers are required to jointly and severally indemnify the Issuer and the Security Trustee on demand against any loss or liability incurred in connection with the Loan Agreement. The obligation to indemnify the Security Trustee may mean that there is a shortfall in funds available to pay all amounts due and owing under the Bonds and/or the Loan Agreement.

Assignment of rents: The assignment of rents derived from the Charged Properties will, without notice being given to the tenants of the Charged Properties, take effect as an equitable assignment but will nevertheless be binding on any liquidator or other creditor of the relevant Borrower subject to certain equities. The failure to give notice to the tenants means that tenants will discharge those payment obligations under their tenancy agreements by making payments direct to the relevant Borrower until such time as notice is given to the tenants of the assignment of such rents.

In the event that a receiver is appointed in respect of a Borrower, a notice will be sent to the tenants of such Borrower instructing them to make rental payments to the receiver. However, there can be no guarantee that the tenants will receive the notice, or that they will act on the notice, even though they are legally required to do so. If the tenants continue to make payments to such Borrower, rather than to the receiver, the income received by the Bond Trustee for application in accordance with the Bond Security Deed may be adversely affected, which in turn may adversely affect the repayment of the Bonds. However, given the 28 working-day moratorium procedure referred to below, it may be unlikely that such action will take place.

Moratorium: In order to protect the interest of tenants and to preserve the housing stock of a Registered Provider of Social Housing within the social housing sector and within the regulatory regime, a 28 working day moratorium on the disposal of land (including the enforcement of any security) by an insolvent non-profit Registered Provider of Social Housing will apply, upon certain steps being taken in relation to that provider such as presenting a winding-up petition or appointing an administrator. The Regulator of Social Housing will then seek to agree proposals about the future ownership and management of the provider's land with its secured creditors. The moratorium procedure may adversely affect the Issuer's ability to enforce its security over the Charged Properties, as the procedure stipulates actions that must be taken by a secured creditor prior to that secured creditor being able to enforce its security and gives powers to the Regulator of Social Housing in respect of certain secured assets. This, in turn, could affect the Bond Trustee's ability to enforce its security against the Issuer under the Bond Security Deed.

In addition, a new special administration regime for registered providers of social housing in England is expected to come into force within the next 12 months and will be available in addition to the current moratorium regime. It is expected that an interim moratorium will run from the date of issue of an application for a housing administration order until the application is either dismissed or a housing administration order takes effect and, upon the making of a housing administration order, a Registered Provider of Social Housing shall become subject to a moratorium for so long as such Registered Provider of Social Housing is subject to a housing administration order, that prevents creditors from enforcing claims against it. However, secondary regulations are required to bring provisions of the new regime into force and, although draft regulations have been laid before Parliament, a commencement date has not yet been confirmed.

Under the new regime, no steps may be taken by any person other than the Secretary of State for Housing, Communities and Local Government for the winding up, entry into administration by or enforcement of security of a Registered Provider of Social Housing, unless 28 days' notice of that step has been given to the Regulator of Social Housing and elapsed, or the Regulator of Social Housing has waived the notice requirement. During that 28 day period, the Secretary of State or the Regulator of Social Housing, with the consent of the Secretary of State, may apply for a housing administration order.

The new regime preserves a moratorium on disposals of land described above (though reduces the relevant period from 28 working days to 28 days). However, each housing administration order will last for 12 months (subject to certain exceptions), during which there will be restrictions on the ability of the appointed administrator to dispose of social housing assets.

The new housing administration regime may delay the disposal of social housing assets by any insolvent Registered Provider of Social Housing. It would also adversely affect the Security Trustee's and the Bond Trustee's ability to enforce the Underlying Security for so long as any administration order is in place and, ultimately, may result in a delay to the period in which a Bondholder would be repaid in the event of the Issuer defaulting in respect of its obligations in respect of the Bonds.

There may also be a moratorium on enforcement against the Issuer pursuant to the relevant provisions of the Insolvency Act 1986, if an administrator were to be appointed to the Issuer. This may limit or delay the Bond Trustee's ability to enforce security against the Issuer under the Bond Security Deed (and therefore, in turn, to direct the Issuer to enforce the security granted by the Borrowers over the Charged Properties), for so long as the Issuer remains subject to administration.

Risks Relating to the Market Generally

Potential Limited Liquidity: The Bonds may not have an established market when issued. There can be no assurance of a secondary market for the Bonds or the continued liquidity of such market if one

develops. The development or continued liquidity of any secondary market for the Bonds will be affected by a number of factors such as the state of credit markets in general and the creditworthiness of the Group, as well as other factors such as the time remaining to the maturity of the Bonds. Investors may not be able to sell the Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Bonds.

Credit ratings may not reflect all risks: It is expected that the Bonds will be rated "A3" by Moody's. This rating may not reflect the potential impact of all risks related to the structure, market and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the assigning rating agency at any time.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the European Union but is endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation or (2) the rating is provided by a credit rating agency not established in the European Union which is certified under the CRA Regulation. As of the date of this Prospectus, Moody's is established in the European Union and is registered under the CRA Regulation.

Past Issuance Reporting: under the terms of the Loan Agreement, the Borrowers are required to certify to the Security Trustee on an annual basis whether they are in compliance with the Asset Cover Test and the Interest Cover Test. These determinations will not be independently verified and the Security Trustee and the Issuer are not obliged to provide details of these calculations to Bondholders.

FORM OF THE BONDS AND SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

Form of the Bonds

Form, Exchange and Payments

The Bonds will be in bearer form and will be initially issued in the form of a temporary global bond (a "**Temporary Global Bond**") which will be delivered on or prior to the issue date of the Bonds to a common depository for Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking, S.A. ("**Clearstream, Luxembourg**").

Whilst the Bonds are represented by the Temporary Global Bond, payments of principal, interest (if any) and any other amount payable in respect of the Bonds due prior to the Exchange Date (as defined below) will be made only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the Temporary Global Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the "**Exchange Date**") which is 40 days after the Temporary Global Bond is issued, interests in the Temporary Global Bond will be exchangeable (free of charge) upon a request as described therein for interests recorded in the records of Euroclear or Clearstream, Luxembourg, as the case may be, in a permanent global bond (the "**Permanent Global Bond**" and, together with the Temporary Global Bond, the "**Global Bonds**"), against certification of beneficial ownership as described above unless such certification has already been given. The holder of the Temporary Global Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Bond for an interest in the Permanent Global Bond is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on the Permanent Global Bond will be made through Euroclear and/or Clearstream, Luxembourg without any requirement for certification.

On each occasion of a payment in respect of a Global Bond the Principal Paying Agent shall instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such payment.

The Permanent Global Bond will be exchangeable (free of charge), in whole but not in part, for definitive Bonds with interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in Condition 12 (*Events of Default and Enforcement*)) has occurred and is continuing, or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Bond Trustee is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bonds represented by the Permanent Global Bond in definitive form. The Issuer will promptly give notice to Bondholders in accordance with Condition 15 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Bond) may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

Legend concerning United States persons

The following legend will appear on all of the Bonds and on all interest coupons relating to the Bonds:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

Summary of Provisions relating to the Bonds while in Global Form

Notices

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders (which includes, for this purpose, any Compliance Certificate or annual reports required to be made available pursuant to a request by any of the Bondholders pursuant to Condition 6.2 (*Information Covenants*)) may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders (as defined below) rather than by publication as required by Condition 15 (*Notices*). Any such notice shall be deemed to have been given to the holders of the Bonds on the day on which such notice was delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to be given by any Bondholder may be given to the Principal Paying Agent through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

Accountholders

For so long as any of the Bonds is represented by a Global Bond held on behalf of Euroclear and/or Clearstream, Luxembourg, the bearer of the relevant Global Bond shall be treated as the holder of such principal amount of such Bonds in accordance with and subject to the terms of the relevant Global Bond and the expressions "**Bondholder**" and "**holder of Bonds**" and related expressions shall be construed accordingly.

Bonds which are represented by a Global Bond will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. In determining whether a particular person is entitled to a particular principal amount of Bonds as aforesaid, the Bond Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Prescription

Claims against the Issuer in respect of principal and interest on the Bonds represented by a Global Bond will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 11 (*Prescription*)).

Cancellation

Cancellation of any Bond represented by a Global Bond and required by the Conditions of the Bonds to be cancelled following its redemption or purchase will be effected by entry in the records of Euroclear or Clearstream, Luxembourg, as the case may be.

Exercise of Put Option

In order to exercise the option contained in Condition 9.7 (*Investor Put Option*) the bearer of the Permanent Global Bond must, within the period specified in the Conditions for the deposit of the relevant Bond and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Bonds in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

TERMS AND CONDITIONS OF THE BONDS

The following are the Terms and Conditions of the Bonds which will be endorsed on each Bond in definitive form (if issued).

The £250,000,000 3.250 per cent. Secured Bonds due 2043 (the "**Bonds**") of Libra (Longhurst Group) Treasury No 2 Plc (the "**Issuer**") are constituted by a Bond Trust Deed (such Bond Trust Deed as modified and/or supplemented and/or restated from time to time, the "**Bond Trust Deed**") and a Bond Security Deed (such Bond Security Deed as modified and/or supplemented and/or restated from time to time, the "**Bond Security Deed**") dated 15 May, 2018 made between the Issuer and Prudential Trustee Company Limited (as trustee pursuant to the Bond Trust Deed, the "**Bond Trustee**", which expression shall include all persons for the time being appointed trustee or trustees of the Bond Trust Deed) as trustee for the holders of the Bonds (the "**Bondholders**") and the holders of the interest coupons appertaining to the Bonds (the "**Couponholders**" and the "**Coupons**" respectively, which expressions shall, unless the context otherwise requires, include the talons for further interest coupons (the "**Talons**") and the holders of the Talons).

The Bonds have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") dated 15 May, 2018 and made between the Issuer, the Bond Trustee, The Bank of New York Mellon, London Branch as principal paying agent (the "**Principal Paying Agent**", which expression shall include any successor agent) and the other paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents).

Copies of the Bond Trust Deed, the Bond Security Deed, the Agency Agreement, the Loan Agreement, the Legal Mortgages and the Security Trust Deeds are available for inspection during normal business hours at the registered office for the time being of the Bond Trustee being at the date of the issue of the Bonds at Laurence Pountney Hill, London EC2R 0HH and at the specified office of each of the Paying Agents. The Bondholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Bond Trust Deed, the Bond Security Deed and the Agency Agreement. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Bond Trust Deed, which includes the form of the Bonds, and the Bond Security Deed.

1. DEFINITIONS

Words and expressions defined in the Bond Trust Deed, the Bond Security Deed or the Agency Agreement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated.

In these Conditions:

"**Account Agreement**" means the Account Agreement dated 15 May, 2018 and made between the Issuer, the Bond Trustee and the Account Bank, as amended and/or supplemented and/or restated from time to time;

"**Account Bank**" means The Bank of New York Mellon, London Branch as account bank pursuant to the Account Agreement or any successor account bank appointed thereunder;

"**Accounting Profit**" has the meaning given to it in the Loan Agreement;

"**Appointee**" means any attorney, manager, agent, delegate, nominee, custodian, receiver, co-trustee or other person appointed by the Bond Trustee under, or pursuant to, these Conditions, the Bond Trust Deed or the Bond Security Deed;

"**Bondholder Specific Withholding**" means any withholding or deduction of Taxes which is required in respect of any payment in respect of any Bond or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Bond or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Bond or Coupon; or

- (b) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Day (as defined in Condition 8.5 (*Payment Day*)).

"Borrower" means each of Axiom Housing Association Limited, Friendship Care and Housing Limited, Longhurst & Havelok Homes Limited and Spire Homes (LG) Limited, as borrower under the Loan Agreement, together the **"Borrowers"**;

"Borrower Default" has the meaning given to it in the Loan Agreement;

"Cancelled Retained Proceeds" has the meaning given to it in the Loan Agreement;

"Charged Disposal Proceeds" means, at any time, the aggregate of all amounts (whether representing proceeds of disposal or other moneys) standing to the credit of the Disposal Proceeds Account and, to the extent invested in Permitted Investments in accordance with the Custody Agreement, such Permitted Investments and any income received by the Issuer in respect of such Permitted Investments, **provided however that**, for the purpose of determining the Borrowers' compliance with the Asset Cover Test (as defined in the Loan Agreement), the value to be attributed to such Permitted Investments shall be the purchase price thereof;

"Compliance Certificate" has the meaning given to it in the Loan Agreement;

"Custodian" means The Bank of New York Mellon, London Branch as custodian pursuant to the Custody Agreement or any successor custodian appointed thereunder;

"Custody Account" means the account of the Issuer set up with the Custodian in respect of the Permitted Investments in accordance with the Custody Agreement;

"Custody Agreement" means the Custody Agreement dated 15 May, 2018 and made between the Issuer, the Bond Trustee and the Custodian, as amended and/or supplemented and/or restated from time to time;

"Disposal Proceeds Account" means the account of the Issuer set up with the Account Bank in respect of the Charged Disposal Proceeds in accordance with the Account Agreement;

"Group" means the Borrowers and any other present or future, direct or indirect, subsidiaries of Longhurst Group Limited (which includes, for the avoidance of doubt, any entity with which a Borrower may merge or be consolidated with at any time including as a result of a Permitted Reorganisation);

"Initial Cash Security Account" means the account of the Issuer set up with the Account Bank in respect of the Retained Proceeds in accordance with the Account Agreement;

"Interest Cover Test" has the meaning given to it in the Loan Agreement;

"Investor Put Amount" has the meaning given to it in Condition 9.7 (*Investor Put Option*);

"Investor Put Option" has the meaning given to it in Condition 9.7 (*Investor Put Option*);

"Issue Date" means 15 May, 2018;

"Issuer Charged Property" has the meaning given to it in Condition 4 (*Security*);

"Issuer Security" has the meaning given to it in Condition 4 (*Security*);

"Legal Mortgages" means each legal mortgage made between Axiom Housing Association Limited and the Security Trustee, each legal mortgage made between Friendship Care and Housing Limited and the Security Trustee, each legal mortgage made between Longhurst & Havelok Homes Limited and the Security Trustee and each legal mortgage made between Spire Homes (LG) Limited and the Security Trustee, pursuant to which the relevant Borrower provides security in respect of its obligations and the obligations of the other Borrowers under the Loan

Agreement and any additional legal mortgage entered into between a Borrower and the Security Trustee substantially in the form set out in the relevant Security Trust Deed pursuant to which such Borrower provides security in respect of its obligations under the Loan Agreement;

"**Loans**" means the loans made by the Issuer to the Borrowers pursuant to the terms of the Loan Agreement;

"**Loan Agreement**" means the bond loan agreement dated on or about the date of issue of the Bonds between the Issuer, the Borrowers and the Security Trustee;

"**Loan Payment Day**" means a day on which principal or interest in respect of the Loans is due and payable by any of the Borrowers to the Issuer in accordance with the terms of the Loan Agreement;

"**Permitted Investments**" has the meaning given to it in the Loan Agreement;

"**Permitted Investment Profit**" means, in respect of any sale of Permitted Investments, the amount by which the sale price of such Permitted Investments exceeds the original purchase price of such Permitted Investments (if any);

"**Permitted Reorganisation**" has the meaning given to it in the Loan Agreement;

"**Potential Event of Default**" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the forming of an opinion and/or the fulfilment of any similar condition, would constitute an Event of Default;

"**Put Option Date**" has the meaning given to it in Condition 9.7 (*Investor Put Option*);

"**Registered Provider of Social Housing**" has the meaning given to it in the Loan Agreement;

"**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Bond Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Bondholders by the Issuer in accordance with Condition 15 (*Notices*);

"**Relevant Jurisdiction**" means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Bonds or Coupons;

"**Retained Bonds**" means £100,000,000 in principal amount of the Bonds to be subscribed by the Issuer on the Issue Date;

"**Retained Bond Custodian**" means The Bank of New York Mellon, London Branch as retained bond custodian pursuant to the Retained Bond Custody Agreement or any successor custodian appointed thereunder;

"**Retained Bond Custody Agreement**" means the retained bond custody agreement dated 15 May, 2018 and made between the Issuer and the Retained Bond Custodian;

"**Retained Bond Premium Amount**" means, in respect of any sale by the Issuer of Retained Bonds, the amount by which the net sale price of such Retained Bonds exceeds the principal amount of such Retained Bonds (if any);

"**Retained Bond Profit**" has the meaning given to it in the Loan Agreement;

"**Retained Proceeds**" means, at any time, (a) an amount of the net issue proceeds of the Bonds (other than the Retained Bonds) which have not been advanced to the Borrowers pursuant to the Loan Agreement at such time (if any) plus (b) an amount of the net sale proceeds of the Retained Bonds (less any Retained Bond Premium Amount) which are not advanced to the Borrowers

pursuant to the Loan Agreement immediately following receipt thereof by the Issuer and have not subsequently been advanced to the Borrowers (if any);

"**Secured Parties**" means the Bond Trustee (for itself and on behalf of the Bondholders and the Couponholders), the Principal Paying Agent, the other Paying Agents, the Account Bank, the Custodian and the Retained Bond Custodian;

"**Security Trust Deeds**" means the security trust deed dated 7 July, 2017 between, *inter alios*, Axiom Housing Association Limited and the Security Trustee (as amended from time to time) (the "**Axiom Security Trust Deed**"), the security trust deed dated 8 July, 2011 between, *inter alios*, Friendship Care and Housing Limited and the Security Trustee (as amended from time to time) (the "**Friendship Security Trust Deed**"), the security trust deed dated 2 August, 2012 between, *inter alios*, Longhurst & Havelok Homes Limited and the Security Trustee (as amended from time to time) (the "**L&H Security Trust Deed**") and the security trust deed dated 2 August, 2012 between, *inter alios*, Spire Homes (LG) Limited and the Security Trustee (as amended from time to time) (the "**Spire Security Trust Deed**"), and references to "**Security Trust Deed**" mean any of them;

"**Security Trustee**" means Prudential Trustee Company Limited as security trustee under the Security Trust Deeds for, *inter alios*, the Issuer and which expression shall include all persons for the time being security trustee or security trustees appointed under the Security Trust Deed;

"**Taxes**" has the meaning given to it in Condition 10.1 (*Payments without withholding*);

"**Transaction Account**" means the account of the Issuer set up with the Account Bank in respect of the Bonds in accordance with the Account Agreement;

"**Transaction Documents**" means the Loan Agreement, the Bond Trust Deed, the Bond Security Deed, the Security Trust Deeds, the Agency Agreement, the Account Agreement, the Custody Agreement and the Retained Bond Custody Agreement;

"**Transaction Parties**" means any person who is party to a Transaction Document; and

"**UK Government Gilt**" means Sterling denominated gilts or stock issued by or on behalf of Her Majesty's Treasury.

2. **FORM, DENOMINATION, TITLE AND RETAINED BONDS**

- (a) The Bonds are in bearer form, serially numbered, in the denomination of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, with Coupons and Talons attached on issue. No Bonds will be issued with a denomination above £199,000.
- (b) Title to the Bonds and Coupons will pass by delivery. The Issuer, any Paying Agent and the Bond Trustee will (except as otherwise required by law) deem and treat the bearer of any Bond or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes.
- (c) £100,000,000 in principal amount of the Bonds issued on the Issue Date initially constitute Retained Bonds ("**Retained Bonds**"). Such Retained Bonds (including related Coupons, Receipts and Talons) have been subscribed by the Issuer on the Issue Date and will be held by or for the account of the Issuer by The Bank of New York Mellon, London Branch pursuant to the Retained Bond Custody Agreement and shall cease to be Retained Bonds upon sale by the Issuer to a third party.
- (d) Retained Bonds shall carry the same rights and be subject in all respects to the same Conditions as other Bonds, except that the Retained Bonds, pending sale or cancellation by the Issuer, will not be treated as outstanding (as defined in the Bond Trust Deed) for purposes of determining a quorum or voting at meetings of Bondholders and for various other purposes, save as otherwise provided in the Bond Trust Deed. Bonds which have

ceased to be Retained Bonds shall carry the same rights and be subject in all respects to the same Conditions as other Bonds.

3. **STATUS**

The Bonds and Coupons are direct obligations of the Issuer, secured in the manner set out in Condition 4 (*Security*), and rank *pari passu* without preference or priority amongst themselves.

4. **SECURITY**

The Issuer's obligations in respect of the Bonds are secured (subject as provided in these Conditions and the Bond Security Deed) pursuant to the Bond Security Deed in favour of the Bond Trustee for the benefit of itself and the Bondholders and the other Secured Parties as follows:

- (a) by an assignment by way of security of the Issuer's rights, title and interest arising under the Loan Agreement, the Security Trust Deeds, the Legal Mortgages, the Agency Agreement, the Custody Agreement and the Account Agreement; and
- (b) by a charge by way of first fixed charge over all moneys and/or securities from time to time standing to the credit of the Transaction Account, the Disposal Proceeds Account, the Initial Cash Security Account and the Custody Account and all debts represented thereby,

The property charged and assigned pursuant to the Bond Security Deed listed in (a) to (b) above, together with any other property or assets held by and/or assigned to the Bond Trustee and/or any deed or document supplemental thereto, is referred to herein as the "**Issuer Charged Property**" and the security created thereby, the "**Issuer Security**".

The Issuer Security shall become enforceable:

- (i) upon the delivery of an Acceleration Notice in accordance with Condition 12 (*Events of Default and Enforcement*); or
- (ii) if a person who is entitled to do so presents an application to the court for the appointment of an administrator of the Issuer, gives notice of intention to appoint an administrator of the Issuer or files such notice with the court.

5. **ORDER OF PAYMENTS**

5.1 **Pre-enforcement**

Prior to the enforcement of the Issuer Security, the Issuer shall apply the monies standing to the credit of the Transaction Account on each Interest Payment Date and such other dates on which a payment is due in respect of the Bonds in the following order of priority (the "**Pre-enforcement Priority of Payment**"):

- (a) *first*, in payment of any taxes due and owing by the Issuer to any taxing authority (insofar as they relate to the Bonds);
- (b) *second*, in payment of any unpaid fees, costs, charges, expenses, indemnity payments and all other liabilities incurred by the Bond Trustee (including remuneration payable to it and any Appointee) in carrying out its functions under the Bond Trust Deed or the Bond Security Deed;
- (c) *third*, in payment of any unpaid fees and expenses and all other liabilities of the Issuer owing to the Paying Agents under the Agency Agreement, the Account Bank under the Account Agreement, the Custodian under the Custody Agreement and the Retained Bond Custodian under the Retained Bond Custody Agreement on a *pro rata* and *pari passu* basis;

- (d) *fourth*, in payment of any other unpaid fees, expenses and liabilities of the Issuer (in so far as they relate to the Bonds) on a *pro rata* and *pari passu* basis;
- (e) *fifth*, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any interest due and payable in respect of the Bonds;
- (f) *sixth*, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any principal due and payable in respect of the Bonds;
- (g) *seventh*, in payment, on a *pro rata* and *pari passu* basis, to the Borrowers of any amount due and payable under the terms of the Loan Agreement; and
- (h) *eighth*, in payment of any Permitted Investment Profit, Accounting Profit, Retained Bond Profit or Retained Bond Premium Amount, as the case may be, to any Charitable Group Member.

5.2 **Post-enforcement**

Following the enforcement of the Issuer Security, all monies standing to the credit of the Transaction Account, the Disposal Proceeds Account, the Initial Cash Security Account and the Custody Account and the net proceeds of enforcement of the Issuer Security shall be applied in the following order of priority (the "**Post-enforcement Priority of Payment**"):

- (a) *first*, in payment or satisfaction of the fees, costs, charges, expenses, indemnity payments and all other liabilities incurred by the Bond Trustee, any Appointee or any receiver in preparing and executing the trusts under the Bond Trust Deed or the Bond Security Deed (including the costs of realising any Issuer Security and the Bond Trustee's and such receiver's remuneration);
- (b) *second*, in payment of all amounts owing to the Paying Agents under the Agency Agreement, the Account Bank under the Account Agreement, the Custodian under the Custody Agreement and the Retained Bond Custodian under the Retained Bond Custody Agreement on a *pro rata* and *pari passu* basis;
- (c) *third*, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any interest due and payable in respect of the Bonds;
- (d) *fourth*, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any principal due and payable in respect of the Bonds;
- (e) *fifth*, in payment of any other unpaid fees and expenses of the Issuer (in each case insofar as they relate to the Bonds) on a *pro rata* and *pari passu* basis;
- (f) *sixth*, in payment, on a *pro rata* and *pari passu* basis, to the Borrowers of any amount due and payable under the terms of the Loan Agreement; and
- (g) *seventh*, in payment of any Permitted Investment Profit, Accounting Profit, Retained Bond Profit or Retained Bond Premium Amount, as the case may be, to any Charitable Group Member.

6. **COVENANTS**

6.1 **General Covenants**

In addition to the covenants of the Issuer set out in the Bond Trust Deed and the Bond Security Deed, for so long as any of the Bonds remains outstanding, the Issuer covenants that it will not without the consent in writing of the Bond Trustee engage in any activity, or do anything other than:

- (a) carry out the business of a company which has as its purpose raising finance and on lending such finance for the benefit of the Group (including, without limitation, as envisaged by the Transaction Documents);

- (b) acting as treasury manager for the Group; and
- (c) perform any act incidental to or necessary in connection with the above.

The Issuer also covenants, for so long as any of the Bonds remain outstanding, not to create or permit to subsist, over any of the Issuer Security, any mortgage or charge or any other security interest ranking in priority to, or *pari passu* with, the Issuer Security, save as expressly permitted by the Bond Security Deed.

6.2 Information Covenants

For so long as any of the Bonds remain outstanding, the Issuer shall:

- (a) send to the Bond Trustee and, upon request by any Bondholder to the Issuer, make available to such Bondholder at the Issuer's registered office during normal business hours, a copy of the Compliance Certificate promptly upon receipt of the same from each Borrower pursuant to the terms of the Loan Agreement;
- (b) send to the Bond Trustee and, upon request by any Bondholder to the Issuer, make available to such Bondholder at the Issuer's registered office during normal business hours, a copy of the annual reports of each Borrower (if any) promptly upon publication of the same by such Borrower; and
- (c) at the request of Bondholders holding not less than 33 per cent. in principal amount of the Bonds for the time being outstanding, convene a meeting of the Bondholders to discuss the financial position of the Issuer and the Group, **provided, however, that** the Issuer shall not be required to convene any such meeting pursuant to this Condition 6.2(c) more than once in any calendar year. Upon the request of Bondholders to convene any such meeting, as aforesaid, the Issuer shall notify all Bondholders of the date (which such date shall be no more than 21 days following such request), time and place of the meeting in accordance with Condition 15 (*Notices*). The Issuer shall act in good faith in addressing any questions regarding the financial position of itself or any other member of the Group raised at any such meeting, **provided, however, that** the Issuer shall not be obliged to disclose any information which it, in its absolute discretion, considers to be of a confidential nature. For the avoidance of doubt, the provisions of this Condition 6.2(c) are in addition to the meetings provisions set out in Condition 17 (*Meetings of Bondholders, Modification and Waiver*).

6.3 Loan Agreement, Legal Mortgages and Security Trust Deeds Consents Covenant

For so long as any of the Bonds remains outstanding, the Issuer covenants that it shall not consent to any waiver, amendment or modification of, or take any action or direct the Security Trustee to take any action pursuant to, the Loan Agreement, the Legal Mortgages or the Security Trust Deeds except with the prior consent of the Bond Trustee. The Bond Trustee may seek the consent of the Bondholders in accordance with the Bond Trust Deed prior to giving any such consent.

7. INTEREST

7.1 Interest Rate and Interest Payment Dates

The Bonds bear interest on their outstanding principal amount from (and including) 15 May, 2018 at the rate of 3.250 per cent. per annum, payable semi-annually in arrear in equal instalments on 15 November and 15 May in each year (each, an "**Interest Payment Date**").

7.2 Interest Accrual

Each Bond will cease to bear interest from (and including) its due date for redemption unless, upon due presentation, payment of the principal in respect of the Bond is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in the Bond Trust Deed.

7.3 **Calculation of Broken Interest**

When interest is required to be calculated in respect of a period of less than a full half year, it shall be calculated on the basis of (a) the actual number of days in the period from (and including) the date from which interest begins to accrue (the "**Accrual Date**") to (but excluding) the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to (but excluding) the next following Interest Payment Date multiplied by 2, and multiplying this by the rate of interest specified in Condition 7.1 (*Interest Rate and Interest Payment Dates*) and the relevant principal amount of the Bonds.

8. **PAYMENTS**

8.1 **Payments in respect of Bonds and Coupons**

Payments of principal and interest in respect of each Bond will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Bond, except that payments of interest on an Interest Payment Date will be made against presentation and surrender (or in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

8.2 **Method of Payment**

Payments will be made by credit or transfer to an account in Sterling maintained by the payee with, or, at the option of the payee, by a cheque in Sterling drawn on, a bank in London.

8.3 **Missing Unmatured Coupons**

Each Bond should be presented for payment together with all relative unmatured Coupons (which expression shall, for the avoidance of doubt, include Coupons falling to be issued on exchange of matured Talons), failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date in respect of the relevant Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 11 (*Prescription*)) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

8.4 **Payments subject to Applicable Laws**

Payments in respect of principal and interest on the Bonds are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 10 (*Taxation*)) any law implementing an intergovernmental approach thereto.

8.5 **Payment Day**

If the date for payment of any amount in respect of any Bond or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay.

For these purposes, "**Payment Day**" means any day which (subject to Condition 11 (*Prescription*)):

- (a) is, or falls after, the relevant due date;
- (b) is, or falls at least one Business Day after, the corresponding Loan Payment Day;
- (c) is a Business Day in the place of the specified office of the Paying Agent at which the Bond or Coupon is presented for payment; and
- (d) in the case of payment by a credit or transfer to a Sterling account in London as referred to above, is a Business Day in London.

In this Condition, "**Business Day**" means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

8.6 **Initial Paying Agents**

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Bond Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents **provided that**:

- (a) there will at all times be a Principal Paying Agent; and
- (b) there will at all times be at least one Paying Agent (which may be the Principal Paying Agent) having its specified office in a European city which so long as the Bonds are admitted to official listing on the London Stock Exchange shall be London or such other place as the UK Listing Authority may approve.

Notice of any termination or appointment and of any changes in specified offices will be given to the Bondholders promptly by the Issuer in accordance with Condition 15 (*Notices*).

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Bond Trustee and do not assume any obligation to, or relationship of agency or trust with, any Bondholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

8.7 **Interpretation of principal and interest**

Any reference in these Conditions to principal in respect of the Bonds shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 10 (*Taxation*); and
- (b) any specific redemption price referred to in Condition 9 (*Redemption and Purchase*) which may be payable by the Issuer under or in respect of the Bonds.

Any reference in these Conditions to interest in respect of the Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 10 (*Taxation*).

9. **REDEMPTION AND PURCHASE**

9.1 **Redemption at Maturity**

Unless previously redeemed or purchased and cancelled as specified in these Conditions, the Bonds will be redeemed by the Issuer at their principal amount on 15 May, 2043 ("**Maturity Date**").

9.2 Early Redemption

Subject to Condition 9.4 (*Mandatory Early Redemption*) below, if in accordance with the Loan Agreement, a Borrower elects to prepay the Loans in whole or in part prior to the repayment date specified in the Loan Agreement or the Loans otherwise become prepayable in whole or in part prior to the repayment date specified in the Loan Agreement (other than as a result of the Bonds becoming due and repayable), then the Issuer shall redeem the Bonds in whole or, in respect of a prepayment in part, in an aggregate principal amount equal to the nominal amount of the Loans to be repaid on the date which is two Business Days after that on which payment is made by the relevant Borrower under the Loan Agreement (the "**Loan Prepayment Date**").

Redemption of the Bonds pursuant to this Condition 9.2 shall be made at the higher of the following:

- (a) par; and
- (b) the amount (as calculated by a financial adviser nominated by the Issuer and approved by the Bond Trustee (the "**Nominated Financial Adviser**") and reported in writing to the Issuer and the Bond Trustee) which is equal to the principal amount of the Bonds to be redeemed multiplied by the price (expressed as a percentage and calculated by the Nominated Financial Adviser) (rounded to three decimal places (0.0005 being rounded upwards)) at which the Gross Redemption Yield on the Bonds (if the Bonds were to remain outstanding until their original maturity) on the Determination Date would be equal to the sum of (i) the Gross Redemption Yield at 3:00 pm (London time) on the Determination Date of the Benchmark Gilt and (ii) 0.25 per cent.,

together with any interest accrued up to (but excluding) the Loan Prepayment Date.

For the purposes of this Condition:

"**Benchmark Gilt**" means the 4.50 per cent. Treasury Stock 2042 or such other conventional (i.e. not index-linked) UK Government Gilt as the Issuer (with the advice of the Nominated Financial Adviser) may determine (failing such determination, as determined by the Bond Trustee with such advice) to be the most appropriate benchmark conventional UK Government Gilt;

"**Determination Date**" means three Business Days prior to the Loan Prepayment Date; and

"**Gross Redemption Yield**" means a yield calculated by the Nominated Financial Adviser on the basis set out by the United Kingdom Debt Management Office in the paper "*Formulae for Calculating Gilt Prices from Yields*" page 5, Section One: Price/Yield Formulae (Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date) (published on 8 June, 1998 and updated on 15 January, 2002 and 16 March, 2005) (as amended or supplemented from time to time).

9.3 Early Redemption for Tax Reasons

If as a result of any actual or proposed changes in tax law, the Issuer certifies to the Bond Trustee, that it would, on the next following Interest Payment Date, be required to make a withholding or deduction in respect of payments to be made on such Interest Payment Date (other than in respect of a Bondholder Specific Withholding) and the Issuer does not opt to pay additional amounts pursuant to Condition 10 (*Taxation*) or, having so opted, notifies the Bond Trustee and the Bondholders, in accordance with Condition 15 (*Notices*) of its intention to cease paying such additional amounts, the Issuer shall redeem the Bonds in whole, but not in part, at their principal amount, plus accrued interest to (but excluding) the date of redemption, as soon as reasonably practicable prior to the next following Interest Payment Date or, if it is not reasonably practicable for the Issuer to redeem the Bonds prior to the next following Interest Payment Date, within three Business Days thereafter. For the avoidance of doubt, any amounts in respect of accrued interest which fall due on any such redemption of the Bonds (and, where the redemption follows the next following Interest Payment Date, such Interest Payment Date) shall be paid subject to the required withholding or deduction and the Issuer shall not be obliged to pay any additional amounts in respect thereof.

9.4 **Mandatory Early Redemption**

If the Loans become repayable:

- (a) as a result of a Borrower Default; or
- (b) following a Borrower ceasing to be a Registered Provider of Social Housing (other than if such Borrower regains its status as a Registered Provider of Social Housing within 180 days of such cessation),

then (unless the Issuer has agreed with another Borrower to increase its Commitment by the relevant amount of the Loan to be prepaid not later than the date on which the relevant amount of the Bonds would otherwise be redeemed) the Issuer shall redeem the Bonds in an aggregate principal amount equal to the principal amount of the relevant Loan at their principal amount, plus accrued interest to (but excluding) the date on which the Loan is repaid (the "**Loan Repayment Date**"), on the date which is two Business Days after the Loan Repayment Date.

9.5 **Notice of Early Redemption**

Notice of any early redemption in accordance with Condition 9.2 (*Early Redemption*), Condition 9.3 (*Early Redemption for Tax Reasons*) or Condition 9.4 (*Mandatory Early Redemption*) above shall be given by the Issuer to the Bond Trustee, the Paying Agents and the Bondholders, in accordance with Condition 15 (*Notices*), as promptly as practicable.

9.6 **Partial Redemption**

In the case of a partial redemption of Bonds, Bonds to be redeemed will be selected by drawing lots in such place as the Bond Trustee may approve and in such manner and at such time as the Bond Trustee may deem appropriate, subject to compliance with applicable law and the rules of each listing authority or stock exchange (if any) on which the Bonds have been admitted to listing and/or trading. Notice of any such selection will be given by the Issuer to the Bondholders as promptly as practicable. Each notice will specify the date fixed for redemption, the early redemption amount and the aggregate principal amount of the Bonds to be redeemed, the serial numbers of the Bonds called for redemption, the serial numbers of Bonds previously called for redemption and not presented for payment and the aggregate principal amount of the Bonds which will be outstanding after the partial redemption.

9.7 **Investor Put Option**

- (a) Within 30 days of the Issuer becoming aware of any failure of the Borrowers to comply with the Interest Cover Test, the Issuer shall convene a meeting of Bondholders to consider, by Extraordinary Resolution and in accordance with Condition 17 (Meetings of Bondholders, Modification and Waiver), whether or not to approve the ability of Bondholders to exercise the investor put option described in paragraph (b) below (the "**Investor Put Option**").
- (b) If the Bondholders approve such Extraordinary Resolution, then any Bondholder may, within 30 days of such approval, give an irrevocable notice to the Issuer of such Bondholder's decision to require the Issuer to redeem some or all of the Bonds owned by such Bondholder on the day falling 45 days after the date on which the Extraordinary Resolution was so approved (the "**Put Option Date**"), together with any interest accrued up to (but excluding) the Put Option Date.
- (c) On the Put Option Date, the Issuer shall redeem, in whole (but not in part), all of the Bonds in respect of which the relevant Bondholders have exercised the Investor Put Option, at their aggregate principal amount together with any interest accrued up to (but excluding) the Put Option Date (the aggregate amount of principal and interest in respect of such redemption, the "**Investor Put Amount**").

9.8 **Calculations**

Each calculation, by or on behalf of the Issuer, for the purposes of this Condition 9 shall, in the absence of manifest error, be final and binding on all persons. If the Issuer does not at any time for any reason calculate amounts referred to in this Condition 9, such amounts may be calculated by the Bond Trustee, or an agent appointed (at the expense of the Issuer) by the Bond Trustee for this purpose, (without any liability accruing to the Bond Trustee as a result) based on information supplied to it by the Issuer and each such calculation shall be deemed to have been made by the Issuer.

9.9 **Purchase of Bonds by the Borrowers or members of the Group**

The Borrowers and any other member of the Group (other than the Issuer) may at any time purchase Bonds in the open market or otherwise at any price. Following any such purchase, the Borrowers or such member of the Group, as the case may be, may (but is not obliged to) surrender the Bonds to the Issuer for cancellation, but such Bonds may not be reissued or resold. An amount equal to the principal amount of the Bonds being surrendered shall be deemed to be prepaid under the relevant Loan (but, for the avoidance of doubt, without triggering a redemption under Condition 9.2 (*Early Redemption*)) or, to the extent that no Loan is then outstanding, an amount of the Undrawn Commitment equal to the Outstanding Balance of the Bonds surrendered shall be deemed to be cancelled for the purposes of the Loan Agreement and an amount of Retained Proceeds equal to the Cancelled Retained Proceeds shall be paid by the Issuer to the relevant Borrower or such member of the Group, as the case may be.

9.10 **Purchase of Bonds by the Issuer**

The Issuer may not at any time purchase Bonds other than the Retained Bonds.

9.11 **Cancellation of purchased or redeemed Bonds**

All Bonds redeemed by the Issuer pursuant to Condition 9.2 (*Early Redemption*), Condition 9.3 (*Early Redemption for Tax Reasons*) or Condition 9.4 (*Mandatory Early Redemption*) or surrendered to the Issuer for cancellation pursuant to Condition 9.9 (*Purchase of Bonds by the Borrowers or members of the Group*) shall be cancelled and may not be issued or resold.

The Issuer (a) may cancel any Retained Bonds held by it or on its behalf following a request by the Borrowers, pursuant to the Loan Agreement, to cancel a corresponding amount of the Undrawn Commitment and (b) shall cancel all Retained Bonds held by or on behalf of the Issuer (i) immediately prior to such Retained Bonds being redeemed in accordance with Condition 9.1 (*Redemption at Maturity*), and (ii) forthwith upon notice that the Bonds are to be redeemed (and, in any event, prior to such redemption) in accordance with Condition 9.3 (*Early Redemption for Tax Reasons*), Condition 9.4 (*Mandatory Early Redemption*) or Condition 12 (*Events of Default and Enforcement*), and (iii) on the date falling five years after the Issue Date in the event that such Retained Bonds have not been sold by the Issuer to a third party.

10. **TAXATION**

10.1 **Payments without withholding**

All payments of principal and interest in respect of the Bonds and Coupons by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Relevant Jurisdiction, unless such withholding or deduction is required by law in which case the relevant payment will be made subject to such withholding or deduction.

10.2 **No obligation to pay additional amounts**

Subject as follows, neither the Issuer, the Bond Trustee nor any Paying Agent shall be obliged to pay any additional amounts to the Bondholders or Couponholders as a result of any withholding or deduction made in accordance with Condition 10.1 (*Payments without withholding*).

Notwithstanding the foregoing, in the event that the Issuer would, on the next Interest Payment Date, be required to make a withholding or deduction in respect of tax (other than in respect of a Bondholder Specific Withholding), the Issuer may, **provided that** it has given notice to the Bond Trustee and the Bondholders, in accordance with Condition 15 (*Notices*), of its intention to do so prior to such Interest Payment Date, pay to Bondholders such additional amounts as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction will equal the amounts of principal and interest which would have been received in respect of the Bonds in the absence of such withholding or deduction. If at any time the Issuer intends to cease paying such additional amounts, it may do so by giving notice to the Bondholders and the Bond Trustee of its intention to do so with effect from the next Interest Payment Date.

11. **PRESCRIPTION**

The Bonds and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 8 (*Payments*) or any Talon which would be void pursuant to Condition 8 (*Payments*).

12. **EVENTS OF DEFAULT AND ENFORCEMENT**

12.1 **Events of Default**

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least one-fourth in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being secured and/or indemnified and/or prefunded to its satisfaction), (but in the case of the happening of any of the events described in paragraph 12.1(b) and (i) below, only if the Bond Trustee shall have certified in writing to the Issuer (an "**Acceleration Notice**") that such event is, in its opinion, materially prejudicial to the interests of the Bondholders), give notice in writing to the Issuer that the Bonds are, and the Bonds shall thereupon immediately become, due and repayable at their principal amount together with accrued interest as provided in the Bond Trust Deed if any of the following events (each, an "**Event of Default**") shall occur:

- (a) if default is made in the payment of any principal or interest due in respect of the Bonds or any of them and the default continues for a period of seven days in the case of principal and fourteen days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under, or in respect of, the Conditions, the Bond Trust Deed or the Bond Security Deed or if any representation given by the Issuer to the Bond Trustee in the Bond Trust Deed or the Bond Security Deed is found to be untrue, incorrect or misleading as at the time it was given and (except in any case where, in the opinion of the Bond Trustee, the failure or inaccuracy is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure or inaccuracy continues for the period of 30 days next following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) (A) any other present or future indebtedness of the Issuer for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (C) the Issuer fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised **provided that** the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds £10,000,000 or its equivalent in other currencies (as determined by the Bond Trustee); or

- (d) if any order is made by any competent court or resolution passed for the winding-up or dissolution of the Issuer save for the purposes of reorganisation on terms previously approved in writing by the Bond Trustee or by an Extraordinary Resolution; or
- (e) if the Issuer ceases or threatens to cease to carry on the whole or, in the opinion of the Bond Trustee, a substantial part of its business, save for the purposes of reorganisation on terms previously approved in writing by the Bond Trustee or by an Extraordinary Resolution; or
- (f) if the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (g) if (A) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, liquidator, manager, administrator or other similar official, or an administrative or other receiver, liquidator, manager, administrator or other similar official is appointed, in relation to the Issuer or, as the case may be, in relation to all or substantially all of the Issuer's undertaking or assets, or an encumbrancer takes possession of all or substantially all of the Issuer's undertaking or assets, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against all or substantially all of the Issuer's undertaking or assets and (B) in any case (other than the appointment of an administrator) is not discharged within 60 days, save for the purposes of a reorganisation on terms previously approved in writing by the Bond Trustee or by an Extraordinary Resolution; or
- (h) if the Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium); or
- (i) if the Issuer makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors), save for the purposes of a reorganisation on terms previously approved in writing by the Bond Trustee or by an Extraordinary Resolution; or
- (j) if it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Bonds, the Bond Trust Deed, the Bond Security Deed or the Loan Agreement.

12.2 **Enforcement**

The Bond Trustee may at any time, at its discretion and without notice, take such proceedings and/or other steps or action (including lodging an appeal in any proceedings) against or in relation to the Issuer as it may think fit to enforce the provisions of the Bond Trust Deed, the Bond Security Deed, the Bonds, the Coupons and/or any of the other Transaction Documents or otherwise, but it shall not be bound to take any such proceedings or other steps or action in relation to the Bond Trust Deed, the Bond Security Deed, the Bonds, the Coupons or any of the other Transaction Documents or otherwise unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-fourth in principal amount of the Bonds then outstanding and (ii) it shall have been secured and/or indemnified and/or prefunded to its satisfaction.

No Bondholder, Couponholder or any Secured Party (other than the Bond Trustee) shall be entitled to (i) take any steps or action against the Issuer to enforce the performance of any of the provisions of the Bond Trust Deed, the Bond Security Deed, the Bonds, the Coupons or any of the other Transaction Documents or (ii) take any other action (including lodging an appeal in any proceedings) in respect of or concerning the Issuer, in each case unless the Bond Trustee, having

become bound so to take any such steps, actions or proceedings, fails so to do within a reasonable period and the failure shall be continuing.

13. **REPLACEMENT OF BONDS, COUPONS AND TALONS**

Should any Bond, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (subject to all applicable laws and the requirements of the UK Listing Authority or the London Stock Exchange) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds, Coupons or Talons must be surrendered before replacements will be issued.

14. **EXCHANGE OF TALONS**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Bond to which it appertains) a further Talon, subject to the provisions of Condition 11 (*Prescription*).

15. **NOTICES**

All notices regarding the Bonds will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bonds are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If, in the opinion of the Bond Trustee, publication as provided above is not practicable, a notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe.

Notices to be given by any Bondholder shall be in writing and given by lodging the same, together with the relative Bond or Bonds, with the Principal Paying Agent.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of the Bonds in accordance with this Condition 15 (*Notices*).

16. **SUBSTITUTION**

The Bond Trust Deed contains provisions permitting the Bond Trustee to, subject to any required amendment of the Bond Trust Deed, without the consent of the Bondholders or the Couponholders or any Secured Party, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds, the Coupons and the Bond Trust Deed of another company, registered society or other entity subject to:

- (a) the Bond Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution; and
- (b) certain other conditions set out in the Bond Trust Deed and the Bond Security Deed being complied with.

Any such substitution shall be notified to the Bondholders in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

17. **MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER**

17.1 **Meetings of Bondholders**

The Bond Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds, the Coupons or any of the provisions of the Bond Trust Deed or the Bond Security Deed. Such a meeting may be convened by the Issuer or the Bond Trustee and shall be convened by the Issuer if required in writing by Bondholders holding not less than ten per cent. in principal amount of the Bonds for the time being remaining outstanding (other than in respect of a meeting requested by Bondholders to discuss the financial position of the Issuer and the Group, which shall be requested in accordance with, and shall be subject to, Condition 6.2(c) (*Information Covenants*)). The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing in aggregate more than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Bonds or the Coupons, the Bond Trust Deed or the Bond Security Deed (namely modifying the date of maturity of the Bonds or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Bonds or altering the currency of payment of the Bonds or the Coupons, each a "**Reserved Matter**"), the quorum shall be one or more persons holding or representing in aggregate not less than 75 per cent. in principal amount of the Bonds for the time being outstanding, or at any such adjourned meeting one or more persons holding or representing in aggregate not less than 25 per cent. in principal amount of the Bonds for the time being outstanding. The Bond Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Bond Trust Deed by a majority consisting of not less than 75 per cent. of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Bond Trustee) by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Bondholders. An Extraordinary Resolution passed by the Bondholders shall be binding on all the Bondholders, whether or not (in the case of Extraordinary Resolutions passed at any meeting) they are present at any meeting and whether or not they voted on the resolution, and on all Couponholders.

17.2 **Modification, Waiver, Authorisation and Determination**

The Bond Trustee may agree, without the consent of the Bondholders, Couponholders or any Secured Party, to any modification (except as stated in the Bond Trust Deed) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Bonds, the Bond Trust Deed, the Bond Security Deed, any Legal Mortgage or any other Transaction Document, or determine, without any such consent as aforesaid, that any Potential Event of Default or Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of the Bondholders so to do or may agree, without any such consent as aforesaid, to any modification which, in the opinion of the Bond Trustee, is of a formal, minor or technical nature or to correct a manifest error. Any such modification, waiver, authorisation or determination shall be binding on the Bondholders, the Couponholders and the Secured Parties and (unless the Bond Trustee otherwise agrees) shall be notified to the Bondholders in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

17.3 **Bond Trustee to have regard to interests of Bondholders as a class**

In connection with the exercise by it of any of its rights, trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Bond Trustee shall: (i) have regard to the general interests of the Bondholders (excluding the Issuer, for so long as it holds any Bonds) as a class (but shall not have regard to any interests arising from circumstances particular to individual Bondholders or Couponholders whatever their number) and, in particular but without limitation, shall not have

regard to the consequences of any such exercise for individual Bondholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Bond Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, the Bond Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders or Couponholders and (ii) shall not be required to have regard to the interests of any other Secured Parties.

18. **INDEMNIFICATION OF THE BOND TRUSTEE AND BOND TRUSTEE CONTRACTING WITH THE ISSUER**

The Bond Trust Deed and the Bond Security Deed contain provisions for the indemnification of the Bond Trustee and for its relief from responsibility, including provisions relieving it from taking action unless secured and/or indemnified and/or prefunded to its satisfaction. The Bond Trustee is exempted from any liability in respect of any loss, diminution in value or theft of all or any part of the Issuer Charged Property, from any obligation to insure all or any part of the Issuer Charged Property (including, in either such case, any documents evidencing, constituting or representing the same or transferring any rights, benefits and/or obligations thereunder), or to procure the same to be insured.

The Bond Trust Deed also contains provisions pursuant to which the Bond Trustee is entitled, *inter alia*, (a) to enter into or be interested in any contract or financial or other transaction or arrangement with the Issuer and/or any other Transaction Party or any person or body corporate associated with the Issuer and/or any other Transaction Party and (b) to accept or hold the trusteeship of any other trust deed constituting or securing any other securities issued by or relating to the Issuer and/or any other Transaction Party or any such person or body corporate so associated or any other office of profit under the Issuer and/or any other Transaction Party or any such person or body corporate so associated.

The Bond Trustee shall not be bound to take any step or action in connection with the Bond Trust Deed, the Bond Security Deed or the Bonds or obligations arising pursuant thereto or pursuant to the other Transaction Documents, where it is not satisfied that it is indemnified and/or secured and/or prefunded against all its liabilities and costs incurred in connection with such step or action and may demand, prior to taking any such step or action, that there be paid to it in advance such sums as it considers (without prejudice to any further demand) shall be sufficient so as to indemnify it.

The Bond Trustee shall have no responsibility for the validity, sufficiency or enforceability of the Issuer Security. The Bond Trustee shall not be responsible for monitoring the compliance by any of the other Transaction Parties with their obligations under the Transaction Documents, neither shall the Bond Trustee be responsible for monitoring the compliance by any Borrower or any of the other parties to the Legal Mortgages and the Security Trust Deeds of their obligations under the Legal Mortgages, the Security Trust Deeds or any other document.

19. **FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Bondholders or the Couponholders to create and issue further bonds, in order to fund one or more further drawdowns under the Loan Agreement, having terms and conditions (and backed by the same assets) the same as the Bonds or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single series with the outstanding Bonds. Any further bonds so created and issued shall be constituted by a trust deed supplemental to the Bond Trust Deed.

20. **CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of this Bond under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21. **GOVERNING LAW**

The Bond Trust Deed, the Bond Security Deed, the Loan Agreement, the Agency Agreement, the Account Agreement, the Bonds and the Coupons and any non-contractual obligations or matters arising from or in connection with them are governed by English law.

USE OF PROCEEDS

Subject as set out below, the net proceeds from the issue of the Bonds or, in the case of the Retained Bonds, the net proceeds of the sale of the Retained Bonds to a third party (after deduction of expenses payable by the Issuer) will be advanced by the Issuer to the Borrowers pursuant to the Loan Agreement to be applied in the achievement of each Borrower's charitable objects (including, for the avoidance of doubt, the repayment of any existing indebtedness of the relevant Borrower and any other amounts due and payable thereunder) as permitted by that Borrower's constitutional documents.

For so long as insufficient security has been granted by the Borrowers in favour of the Security Trustee to permit the drawing of the Original Commitment in full, the Retained Proceeds shall (subject, in the case of any portion of the Original Commitment which is to be funded by a sale of Retained Bonds, to receipt by the Issuer of the net sale proceeds thereof) be retained in the Initial Cash Security Account in accordance with the terms of the Account Agreement and the Custody Agreement (and may be invested in Permitted Investments). For the avoidance of doubt, in the event that the Borrowers have not drawn any part of the Original Commitment on the Issue Date, the Retained Proceeds at that date shall be the entire amount of the Original Commitment (less any amount which is to be funded by a sale of Retained Bonds). Any Retained Proceeds (and any net sale proceeds from a sale by the Issuer of Retained Bonds (less any Retained Bond Premium Amount)) shall be advanced to the Borrowers at a later date pursuant to the Loan Agreement to the extent that Properties of a corresponding value have been charged in favour of the Issuer. In addition, in the event that any losses are made in respect of any Retained Proceeds which have been invested in Permitted Investments, each loan to be made by the Issuer to the Borrowers pursuant to the Loan Agreement shall be advanced at a discount in an amount equal to the Actual Advance Amount (as defined in the Loan Agreement).

DESCRIPTION OF THE LOAN AGREEMENT

The following description of the Loan Agreement consists of a summary of certain provisions of the Loan Agreement and is qualified by reference to the detailed provisions thereof. The Loan Agreement is not, however, incorporated by reference into, and therefore does not form part of, this Prospectus.

Definitions used in this section but not otherwise defined in this Prospectus have the meanings given to them in the Loan Agreement.

Facilities

Subject to the provisions of the loan agreement (the "**Loan Agreement**") dated on or around the Issue Date between the Issuer, the Borrowers and the Security Trustee, the Issuer shall commit to make one or more loans to the Borrowers in the principal amount of £250,000,000 (the "**Original Commitment**" and, together with any further commitments, the "**Commitment**"). The "**Axiom Loan**" is the principal amount of the Commitment that has been advanced to or novated to Axiom or the outstanding balance thereof. The "**Friendship Loan**" is the principal amount of the Commitment that has been advanced to or novated to Friendship or the outstanding balance thereof. The "**L&H Loan**" is the principal amount of the Commitment that has been advanced to or novated to L&H or the outstanding balance thereof. The "**Spire Loan**" is the principal amount of the Commitment that has been advanced to or novated to Spire or the outstanding balance thereof. The "**Loans**" means the Axiom Loan, the Friendship Loan, the L&H Loan and the Spire Loan.

The Original Commitment may be drawn by any Borrower in one or more drawings and the maximum principal amount of each drawing shall be an amount which corresponds to the Minimum Value of the Initial Properties and any Additional Properties which have, on or before the date of such drawing, been charged in favour of the Security Trustee, for the benefit of the Issuer, less such amount of the Original Commitment which has previously been drawn. The initial drawing of the Original Commitment shall be advanced at a discount in an amount equal to the principal amount of such drawing multiplied by the Issue Price of the Bonds (and, for the avoidance of doubt, the difference between the principal amount of such drawing and the actual advance amount thereof shall be ignored in determining the amount of the Loans and, *inter alia*, the calculation of interest, principal and premium payments payable in respect thereon). The Original Commitment may not be drawn until the Borrowers have satisfied the conditions set out in the Loan Agreement in connection with the Initial Properties in respect of the first drawing and in connection with any Additional Properties in respect of any subsequent drawings of amounts of the Original Commitment which exceed the Minimum Value of the Initial Properties. In addition, each of the Issuer and the Borrowers have acknowledged that any drawing of the Original Commitment shall be subject to the Security Trustee confirming that the relevant amount of Properties as may be required to satisfy the Asset Cover Test (based solely on the relevant Valuation Report provided to it, which the Security Trustee shall be entitled to rely upon without further enquiry or investigation in respect thereof) have been charged in favour of the Security Trustee, for the benefit of the Issuer, to its satisfaction and, in respect of any part of the Original Commitment which is to be funded by the Issuer by a sale of Retained Bonds, to receipt by the Issuer of the net sale proceeds thereof.

For so long as insufficient security has been granted by the Borrowers in favour of the Security Trustee to permit the drawing of the Original Commitment in full or the Borrowers have not otherwise drawn any part of the Original Commitment, the amount of the Original Commitment that remains undrawn shall (subject, in the case of any portion of the Original Commitment which is to be funded by a sale of Retained Bonds, to receipt by the Issuer of the net sale proceeds thereof) be retained in the Initial Cash Security Account of the Issuer in accordance with the terms of the Account Agreement (and may be invested in Permitted Investments) (the "**Retained Proceeds**"). For the avoidance of doubt, in the event that the Borrowers have not drawn any part of the Original Commitment on the Issue Date, the Retained Proceeds at that date shall be the entire amount of the Original Commitment (less any amount which is to be funded by a sale of Retained Bonds). Any Retained Proceeds (and any net sale proceeds from a sale by the Issuer of Retained Bonds (less any Retained Bond Premium Amount)) shall be advanced to any of the Borrowers at a later date pursuant to the Loan Agreement to the extent that Properties of a corresponding value have been charged in favour of the Issuer and, if applicable, subject to the sale by the Issuer of Retained Bonds.

Each Borrower has acknowledged that the Issuer may invest all or any part of the Retained Proceeds in Permitted Investments in accordance with the Custody Agreement and that, as a result of (i) any losses

made by the Issuer in respect of such Permitted Investments and/or (ii) any issue or sale of Bonds by the Issuer made at a discount to the principal amount of such Bonds, the amount of Retained Proceeds held by the Issuer, at the time of any drawdown request, may be less than the Undrawn Commitment (as defined in the Loan Agreement) which is to be funded from such Retained Proceeds. In such circumstances, each drawing to be funded from the Retained Proceeds shall be advanced at a discount in an amount equal to the Actual Advance Amount.

For this purpose, "**Actual Advance Amount**" means, in respect of each drawing funded from Retained Proceeds, the principal amount of such drawing multiplied by the result of dividing (i) the amount of Retained Proceeds held by the Issuer at the time of the drawdown request (for the avoidance of doubt, excluding any Permitted Investment Profit) by (ii) the Undrawn Commitment which is to be funded from such Retained Proceeds.

For the avoidance of doubt:

- (a) the Borrowers shall not be required to monitor the market value of any such Permitted Investments;
- (b) any difference between the principal amount of a drawing and the relevant Actual Advance Amount shall be ignored in determining the amount of the Loans and, *inter alia*, the calculation of interest, principal and premium payments payable in respect thereon; and
- (c) any income received by the Issuer in respect of such Permitted Investments shall not be credited to the Initial Cash Security Account but shall instead be credited to the Transaction Account in accordance with the Account Agreement.

The Issuer and the Borrowers have agreed that:

- (a) where the Issuer is required to sell any Permitted Investments to fund a drawing under the Loan Agreement and such sale results in a Permitted Investment Profit, the Issuer shall make a gift aid payment to a Charitable Group Member in an amount equal to the Permitted Investment Profit and, for the avoidance of doubt, such drawing shall be advanced at the principal amount requested; and
- (b) immediately prior to the end of each accounting period, to the extent that the Issuer would otherwise be required to recognise a profit for tax purposes in respect of its Permitted Investments and/or Retained Bonds as a result of the movement in the fair value recognised in its accounts of such Permitted Investments and/or Retained Bonds for that accounting period, the Issuer shall sell Permitted Investments in an aggregate amount equal to the Accounting Profit and shall, in the same accounting period, make a gift aid payment to a Charitable Group Member in an amount equal to the Accounting Profit.

The Issuer and the Borrowers have also agreed that, upon a sale (if any) of the Retained Bonds by the Issuer:

- (a) in the event that such sale produces a Retained Bond Premium Amount, the Issuer shall make a gift aid payment to a Charitable Group Member in an amount equal to the Retained Bond Premium Amount and, for the avoidance of doubt, where the Issuer is required to sell such Retained Bonds to directly fund a drawing under the Loan Agreement, such drawing shall be advanced at the principal amount requested; and
- (b) where the Issuer is required to sell any Retained Bonds to directly fund a drawing under the Loan Agreement and such sale is made at a discount to the principal amount of such Retained Bonds, such drawing shall be advanced at a discount in an amount equal to the Retained Bond Actual Advance Amount.

For this purpose, "**Retained Bond Actual Advance Amount**" means, in relation to each drawing under the Loan Agreement which is funded directly by a sale of Retained Bonds, the principal amount of such drawing multiplied by the result of dividing (i) the net proceeds of sale of such Retained Bonds by (ii) the principal amount of such Retained Bonds.

For the avoidance of doubt:

- (a) the Borrowers shall not be required to monitor the market value of any Retained Bonds; and
- (b) any difference between the principal amount of a drawing and the relevant Retained Bond Actual Advance Amount shall be ignored in determining the amount of the Loans and, *inter alia*, the calculation of interest, principal and premium payments payable in respect thereon.

The Borrowers have agreed that, where the Issuer is required to sell any Retained Bonds in order to fund a drawdown request, the Issuer's obligations to fund such drawdown will be subject to the ability of the Issuer to sell such Retained Bonds to a third party.

For so long as any Retained Bonds are held by or on behalf of the Issuer, the Borrowers may request that an amount of the Original Commitment be cancelled (**provided that** such amount does not exceed the principal amount of Retained Bonds held by or on behalf of the Issuer at that time). As soon as practicable following any such request, the Issuer shall cancel Retained Bonds in a corresponding amount. Such cancellation of the Original Commitment shall take effect upon the cancellation of such Retained Bonds.

Each of the Issuer and the Borrowers have also agreed that, immediately prior to the end of each accounting period, the Issuer shall make a gift aid payment to a Charitable Group Member in an amount equal to the Retained Bonds Profit.

Subject to the conditions precedent set out in the Loan Agreement, the Issuer may make further commitment to the Borrowers, each in an amount to be agreed between the Issuer, each Borrower and the Security Trustee, following the issuance of further bonds pursuant to Condition 19 (*Further Issues*).

Purpose

The proceeds of the Loans may only be used by the Borrowers in accordance with each Borrower's charitable objects, as permitted by its constitutional documents.

Interest

Rate of Interest

Following its advance, each Loan will carry interest from (and including) 15 May, 2018 at the rate of 3.250 per cent. per annum, payable in arrear by equal half yearly instalments on each loan payment date (being four Business Days prior to each Interest Payment Date) (each a "**Loan Payment Date**").

Interest Periods

Notwithstanding the fact that interest is payable on each Loan Payment Date, interest will accrue on each Loan from (and including) an Interest Payment Date (or, in the case of the first interest period of the Loan, 15 May, 2018) to (but excluding) the immediately following Interest Payment Date (each, a "**Loan Interest Period**").

Commitment Fee

The Borrowers shall pay to the Issuer (on a joint and several basis) a commitment fee in respect of the Undrawn Commitment on each Loan Payment Date in an amount equal to the aggregate of the interest payable by the Issuer under the Bonds on the following Interest Payment Date less (a) the interest received from the Borrowers under the Loan Agreement on such Loan Payment Date and (b) any interest otherwise received by the Issuer in respect of the Retained Proceeds in the relevant Loan Interest Period (including, but not limited to, any income received by the Issuer in respect of any Permitted Investments in which any Retained Proceeds are, for the time being, invested) and (c) to the extent not applied as a gift aid payment pursuant to the Loan Agreement, any income received by the Issuer in respect of the Retained Bonds during that period (but excluding, for the avoidance of doubt, any income to be received by the Issuer on the Interest Payment Date immediately following the Loan Payment Date on which such commitment fee is due). The commitment fee shall accrue on a daily basis.

Repayment, Purchase and Prepayment

Repayment

Each Borrower must repay its Loan in full four Business Days prior to the Interest Payment Date in May 2043 (the "**Loan Maturity Date**"). Each of the Borrowers may at any time (provided no Loan Event of Default has occurred and is continuing) agree with another Borrower to transfer all or part of its respective repayment obligations in respect of its Loan to that other Borrower, and the relevant Borrower shall give at least 5 Business Days' notice thereof in writing to the Issuer and the Security Trustee. The Issuer and the Security Trustee shall be deemed to consent automatically to any such novation and the outstanding principal amount of the relevant Loans shall be adjusted accordingly. Any such novation shall not constitute a repayment or prepayment of the relevant Loan and shall not require any corresponding repayment or prepayment of the Bonds.

Bond Purchase Option

The Borrowers or any other member of the Group (other than the Issuer) may at any time purchase Bonds on the London Stock Exchange, by tender or by private treaty at any price. Following any such purchase, the relevant Borrower or the relevant member of the Group, as the case may be, may (but is not obliged to) surrender the Bonds to the Issuer to be cancelled, but such Bonds may not be reissued or resold. An amount of the outstanding balance of the relevant Loan equal to the outstanding balance of the Bonds surrendered shall be deemed to be prepaid (or, to the extent that no Loan is then outstanding, then an amount of the Undrawn Commitment equal to the outstanding balance of the Bonds surrendered shall be deemed to be cancelled for the purposes of the Loan Agreement and a corresponding portion of the Retained Proceeds shall be paid by the Issuer to the relevant Borrower or the relevant member of the Group, as the case may be).

The Borrowers have acknowledged that the terms of the Bond Trust Deed provide that any Bonds which are for the time being held by or on behalf of, *inter alios*, a Borrower or any other member of the Group as beneficial owner shall be deemed not to remain outstanding for the purpose of, *inter alia*, the right to attend and vote at any meeting of the Bondholders.

Optional Prepayment

Pursuant to the Loan Agreement, a Borrower may, at any time before the Loan Maturity Date, by giving not less than 45 nor more than 60 days' notice in writing to the Issuer and the Security Trustee, prepay the whole or (as the case may be) any part of the outstanding balance of the relevant Loan, together with any interest accrued up to and including the date of prepayment and the relevant Prepayment Premium (being, for so long as any Bonds are outstanding, an amount equal to the excess of the amount notified to the relevant Borrower by the Issuer as being the price determined under the Bond Trust Deed for the redemption of a corresponding principal amount of the Bonds over par).

Mandatory Prepayment – Redemption of Bonds

If the Bonds become redeemable prior to the Loan Maturity Date, other than as a result of a prepayment or termination of the Loan Agreement or a breach of the Interest Cover Test, each Borrower shall prepay, at least one Business Day prior to the relevant date of redemption of the Bonds, the outstanding balance of the relevant Loan together with accrued interest and accrued commitment fee thereon up to and including the date of redemption.

If the Interest Cover Test is breached and the Bondholders approve and exercise the Investor Put Option in accordance with Condition 9.7 (*Investor Put Option*) the relevant Borrower shall, at least one Business Day prior to the Put Option Date, repay the Loan in an aggregate amount equal to the Investor Put Amount.

Mandatory Prepayment – Cancellation of Status

Pursuant to the Loan Agreement, a Borrower shall promptly notify the Issuer and the Security Trustee if it ceases to be a Registered Provider of Social Housing. Within 180 days of such cessation, the relevant Borrower shall prepay the whole of the outstanding balance of the relevant Loan, together with any interest and commitment fee accrued up to and including the date of prepayment, **provided, however, that** if the relevant Borrower regains its status as a Registered Provider of Social Housing within such

period of 180 days, such Borrower shall no longer be required to prepay the relevant Loan in accordance with the Loan Agreement.

A "**Registered Provider of Social Housing**" is defined for the purpose of the Loan Agreement as meaning a person listed in the register of providers of social housing established under Chapter 3 of Part 2 of the Housing and Regeneration Act 2008 (as amended from time to time) or any substantially equivalent status under any replacement or successor legislation thereto.

Redemption of Bonds – Further Payment in Respect of Retained Proceeds Par Amount

In the event that a Borrower elects to, or is otherwise required to, prepay the whole of the outstanding balance of the Axiom Loan, the Friendship Loan, the L&H Loan or the Spire Loan, as the case may be, and the Issuer is required to notify such Borrower of the price determined under the Conditions for the redemption of a corresponding principal amount of the Bonds, then the Issuer shall be entitled to also take account of the redemption of such principal amount of the Bonds that shall correspond to the Retained Proceeds Par Amount (being an amount equal to the Retained Proceeds including, where any Retained Proceeds are invested in Permitted Investments, the purchase price of the relevant Permitted Investments and ignoring, for these purposes, any increase or decrease in such Retained Proceeds as a result of gains or losses in respect of such Permitted Investments and/or any discount on a sale of Retained Bonds by the Issuer), and the redemption price notified to such Borrower shall be increased accordingly.

Warranties and Covenants

Each Borrower will make various warranties and covenants pursuant to the Loan Agreement. These warranties and covenants include, *inter alia*, the following:

Information Covenants

Each Borrower must supply to the Issuer and the Security Trustee not later than 180 days after the end of each relevant financial year (i) copies of the audited financial statements of the relevant Borrower for such financial year; and (ii) a certificate setting out, among other things, calculations in respect of the asset cover ratio and the interest cover ratio substantially in the form set out in the Loan Agreement (the "**Compliance Certificate**") signed by two Authorised Signatories of the relevant Borrower.

Each Borrower must, following receipt of a notice from the Issuer stating that it intends to sell any Retained Bonds, supply to the Issuer not later than three Business Days prior to the date of such sale, a certificate setting out, among other things, calculations in respect of the asset cover ratio substantially in the form set out in the Loan Agreement (the "**Retained Bond Compliance Certificate**") signed by two Authorised Signatories of the relevant Borrower confirming that, immediately following such sale, the relevant Borrower will be in compliance with the Asset Cover Test.

Negative Pledge

No Borrower shall create or allow to exist any Security Interest on any of its assets which are Charged Assets, except as set out in the Loan Agreement which includes the Security Interests created pursuant to, *inter alia*, the Security Trust Deeds and the Legal Mortgages and any Security Interests created with the prior written consent of the Issuer or by operation of law.

Charged Properties

Each Borrower shall obtain any authorisation or licence required in order to enable the Security Trustee pursuant to the powers of enforcement conferred on it by the Security Documents to sell vacant Charged Properties and maintain insurances on and in relation to its Charged Properties.

Guarantee and Indemnity

Pursuant to the terms of the Loan Agreement, each Borrower has (or will have) irrevocably and unconditionally:

- (a) guaranteed to the Issuer the punctual performance by each other Borrower of all such Borrowers' obligations under, *inter alia*, the Loan Agreement, the relevant Security Trust Deed and their respective Legal Mortgages, other than each other Borrowers' obligations to repay principal and

any prepayment premium thereon pursuant to the Loan Agreement (such amounts being, the "**Guaranteed Interest and Fee Amounts**");

- (b) undertaken with the Issuer that, whenever any other Borrower does not pay any Guaranteed Interest and Fee Amounts when due under the Loan Agreement, the relevant Security Trust Deed or its respective Legal Mortgages, it must, immediately on demand by the Security Trustee and/or the Issuer, pay such Guaranteed Interest and Fee Amounts as if it were the principal obligor;
- (c) undertaken with the Issuer that, to the extent that the proceeds of the enforcement of the Underlying Security are insufficient to satisfy the other Borrowers' obligations under the Loan Agreements in full (the shortfall being, the "**Guaranteed Principal Amount**"), it must, immediately on demand by the Security Trustee and/or the Issuer, pay the Guaranteed Principal Amount as if it were the principal obligor; and
- (d) agreed to indemnify the Issuer immediately on demand against any loss or liability suffered by the Issuer if any obligation guaranteed by it in the Loan Agreement is or becomes illegal or invalid.

Covenants

Each Borrower shall (unless the Security Trustee otherwise agrees in writing) comply with any covenants or restrictive covenants relating to a Charged Property which are binding on it.

Asset Cover Ratio

Pursuant to the Loan Agreement, the Borrowers shall procure that at all times the sum of:

- (a) the Minimum Value of the Charged Properties forming part of the Issuer's Designated Security;
- (b) the Retained Proceeds Par Amount; and
- (c) the Charged Disposal Proceeds,

will not be less than the aggregate amount of the Outstanding Commitment, **provided however, that** from and including the Final Charging Date, the Retained Proceeds Par Amount shall be deemed to be zero for the purpose of determining the Borrowers' compliance with the Asset Cover Test.

Interpretation

For these purposes:

"**Additional Properties**" means any Properties (other than the Initial Properties) which have been charged in favour of the Security Trustee, for the benefit of the Issuer, for the purpose of providing underlying security for the Bonds;

"**EUV-SH**" means (**provided that** the Valuer determines that such basis is an appropriate basis for the valuation of those Charged Properties) the value of the Charged Properties determined on the basis of the existing use value for social housing (EUV-SH) as defined in UKVS 1.12 and in accordance with the guidelines set out in the RICS Valuation Standards (as amended from time to time);

"**Final Charging Date**" means six months after the Issue Date;

"**Initial Properties**" means the Properties which as at the Issue Date will have been charged in favour of the Security Trustee, for the benefit of the Issuer, and are set out in Schedule 9 (*Initial Properties in Respect of The Original Commitment*) to the Loan Agreement;

"**Minimum Value**" means:

$$\frac{A}{105} + \frac{B}{115} \times 100$$

where:

A = the Value of the residential EUV-SH Charged Properties determined on the basis of EUV-SH; and

B = the Value of the residential MV-ST Charged Properties determined on the basis of MV-ST.

The Properties forming part of the Issuer's Designated Security shall each be treated as EUV-SH Charged Properties for the purpose of determining the Minimum Value unless and until a Value, determined on the basis of MV-ST, is given by a Valuer in respect of any such Property and the Valuer has confirmed that it has reviewed a Certificate of Title in respect of such Property certifying that it may be disposed of by the relevant Borrower on an unfettered basis (meaning subject only to any existing tenancies disclosed in the Certificate of Title but not subject to any security interest, option or other encumbrance or to any restriction preventing or restricting its sale to, or use by, any person for residential use);

"**MV-ST**" means (provided the Valuer determines that such basis is an appropriate basis for the valuation of those Charged Properties) the value of the Charged Properties valued on the basis of Market Value as defined in VPS 4.4 and in accordance with the guidelines set out in the RICS Valuation Standards (as amended from time to time) with an assumption that the properties would be subject to any secured or assured tenancies that may prevail, together with any other conditions or restrictions to which the property may be subject;

"**Outstanding Commitment**" means the aggregate principal amount of the Bonds, not including the aggregate principal amount of the Retained Bonds;

"**Property**" means all estates or interests of the Borrowers in any freehold, heritable or leasehold property situated in England and Wales now or in future belonging to them and all buildings, fixtures, fittings (other than tenants fixtures and fittings) and fixed plant and machinery from time to time thereon (and "**Properties**" shall be construed accordingly);

"**Retained Proceeds Par Amount**" means an amount equal to the Retained Proceeds at the time of calculation and, for this purpose, (a) where any Retained Proceeds are at that time invested in Permitted Investments, the amount of such Retained Proceeds shall be taken as the purchase price of the relevant Permitted Investments ignoring any gains or losses in respect of those Permitted Investments since the date of purchase, and (b) where the source of any Retained Proceeds is the net sale proceeds of any Retained Bonds which were sold at a discount, the amount of such Retained Proceeds shall be taken as the principal amount of such Retained Bonds; and

"**Value**" means, at any time and in relation to the Charged Properties, the value of those properties as shown in the then latest Valuation Report or Desk Top Valuation on the basis of EUV-SH or, as the case may be, MV-ST (**provided that** if any Charged Property or part thereof is sold pursuant to a Right to Buy, the Value of the relevant Charged Property shall, for the purposes of this definition and with effect from the date of the relevant sale or release, be zero (if the entire relevant Charged Property has been sold) or (if only part of the relevant Charged Property has been sold) shall be the proportion of the value of the Charged Property which has not been sold pursuant to the relevant Right to Buy).

Interest Cover Test

Pursuant to the Loan Agreement the Borrowers shall procure that:

- (a) the Operating Surplus for each financial year of LG (determined by reference to LG's most recent audited financial statements) divided by LG's Total Finance Costs in relation to the same financial year (expressed as a percentage) shall not be less than 120 per cent.; and
- (b) the aggregate Operating Surplus for each successive period of three financial years of LG (determined by reference to LG's three most recent audited financial statements) divided by the aggregate of LG's Total Finance Costs during the corresponding period (expressed as a percentage) shall not be less than 130 per cent.,

together, the "**Interest Cover Test**".

For the avoidance of doubt, a breach by the Borrowers of the Interest Cover Test will not constitute a Borrower Default. However, it may result in a requirement on the Issuer to redeem some or all of the Bonds in the event that the Bondholders approve the exercise of the Investor Put Option.

The Interest Cover Test will be determined by reference to LG's most recent audited financial statements (which shows the consolidated position of the Group) and the Issuer therefore believes that the inclusion of LG's most recent audited financial statements is necessary to enable investors to make an informed assessment of the Borrowers' ability to comply with the Interest Cover Test, and of the rights attaching to the Bonds. It should, however, be noted that the Issuer will only have recourse to those entities which are, from time to time, Borrowers and will not have any recourse to LG itself or to other members of the Group which are not Borrowers.

Interpretation

For these purposes:

“Interest Payable” means, in relation to the Group in respect of any financial year, the aggregate amount of the interest (including the interest element of leasing and hire purchase payments), commission and other financial payments payable by the Group in respect of that financial year LESS capitalised interest, all as determined by reference to the Group’s most recent financial statements for that financial year after adjusting interest payable to exclude the following:

- (a) any items recorded as an expense arising from unwinding discounts on balances recorded at fair value or present value;
- (b) any items recorded as an expense as a result of changes to the level of discount on balances recorded at present value or fair value;
- (c) any items recorded as an expense arising from the re-measurement or de-recognition of financial instruments; and
- (d) in relation to any scheme accounted for as a defined benefit pension scheme, any amounts recognised as an expense in interest payable;

“Interest Receivable” means, in relation to the Group in respect of any financial year, the interest receivable by the Group for such financial year, as determined by reference to the Group’s most recent financial statements for that financial year after adjusting interest receivable to exclude the following:

- (a) any items recorded as a gain arising from unwinding discounts on balances recorded at fair value or present value;
- (b) any items recorded as a gain as a result of changes to the level of discount on balances recorded at present value or fair value;
- (c) any items recorded as a credit arising from the re-measurement or de-recognition of financial instruments; and
- (d) in relation to any scheme accounted for as a defined benefit pension scheme, any amounts recognised as a credit in interest receivable;

"Operating Surplus" means, in relation to the Group in respect of any financial year, the operating surplus or deficit as shown in the statement of comprehensive income in the financial statements, after adjusting for the following:

- (a) adding back any depreciation and impairment (which shall include any expense arising from the early replacement of housing property components);
- (b) deducting any amounts recorded as income in relation to amortisation or write-off of grant;
- (c) adding any surplus and deducting any deficit from the sale of fixed assets (to the extent any surplus or sale have not already been recognised in operating surplus);

- (d) deducting any amounts recognised as an income and adding back any amount recognised as an expense as a result of a fair value increase or decrease in the carrying value of financial instruments; and
- (e) deducting any amounts recognised as an income and adding back any amount recognised as an expense in the statement of comprehensive income in the period as a result of a fair value increase or decrease in the carrying value of investment property, to the extent that the fair value increase or decrease is reflected in the operating surplus reported in the financial statements for that period,

all as determined by reference to the Group's most recent financial statements for that financial year; and

"Total Finance Costs" means, in respect of the Group in respect of any financial year, Interest Payable less Interest Receivable but excluding any fair value movements (both positive and negative) arising on interest rate swaps or other financial instruments, all as determined from the Group's most recent financial statements for that financial year.

Accounting Policies

Pursuant to the Loan Agreement, the Borrowers have covenanted to procure that LG will prepare all information to be given to the Issuer for the purposes of showing compliance with the Interest Cover Test in accordance with applicable law, regulations and the most recent edition of the Statement of Recommended Practice Accounting by Registered Social Housing Providers (SORP) and will ensure that it fairly represents LG's financial condition.

The Borrowers and the Issuer shall negotiate in good faith with a view to agreeing such adjustments and/or amendments to the Interest Cover Test which may be necessary or desirable in the event of any change in the accounting principles or policies applied by LG consequent upon any change in any SORP or generally accepted accounting principles in England so that they have substantially the same effect as prior to the change.

In the event that the Borrowers and the Issuer cannot agree what adjustment and/or amendment is appropriate on a date not later than the earlier of 180 days after the end of the relevant accounting period and one week after the date of the auditors' report on the accounts in respect of such period (or such longer period as the Borrowers and the Issuer shall agree), there shall be no change to the basis on which the financial covenants are calculated.

The Issuer shall not consent to any such adjustment or amendment without the prior written consent of the Bond Trustee. For the purposes of giving its consent, the Bond Trustee shall be entitled to rely without further enquiry upon a certificate from LG's auditors certifying, in form and substance satisfactory to the Bond Trustee, that in the opinion of such auditors the ratios contained in the Interest Cover Test after such adjustment and/or amendment will have substantially the same effect as the ratios prior to such adjustment and/or amendment and prior to such change in accounting principles or policies.

Substitution and Release of Charged Properties and Statutory Disposals

Substitution

At the request and expense of any Borrower, the Security Trustee shall (subject to receiving an amended Designated Properties Schedule or Designation Certificate (as applicable) from the relevant Borrower and the Issuer in accordance with the applicable Security Trust Deed) release from the Security (or reallocate, if applicable) such of the Properties forming part of the Issuer's Designated Security and substitute such of the Properties (each, a "**Substitute Property**") as may be selected by the relevant Borrower, **provided that** the relevant Borrower satisfies the conditions precedent specified in the Loan Agreement in relation to the Substitute Properties. Such conditions precedent include, *inter alia*, a completed Substitute Property Certificate certifying, *inter alia*, that the relevant Substitute Property is a residential property of a type and nature that is usually owned by registered providers of social housing and that, immediately following such release (or reallocation, if applicable), the Asset Cover Test will not be breached as a result of the substitution of the relevant Charged Properties, Valuation Reports in respect of each Substitute Property and a Certificate of Title in respect of the Substitute Properties.

Additional Properties

Pursuant to each Security Trust Deed (see "*Additional Security*" below), on or prior to creating a Legal Mortgage in respect of any Property for the benefit of the Issuer, the relevant Borrower must, in respect of such security, provide the conditions precedent documents specified in the relevant Security Trust Deed. In addition, pursuant to the Loan Agreement, the relevant Borrower must provide a completed Additional Property Certificate confirming that, *inter alia*, the proposed Additional Properties are residential properties of a type and nature that are usually owned by registered providers of social housing, Valuation Reports in respect of each Additional Property and a Certificate of Title in respect of each tranche of Additional Properties charged.

Disposal Proceeds

Pending the acquisition of any proposed Substitute Property by a Borrower, that Borrower may deposit the proceeds of disposal of the relevant Charged Properties which are released from charge under the relevant Security Trust Deed into the Disposal Proceeds Account for the purpose of maintaining the Asset Cover Test (for the avoidance of doubt, no Borrower shall be required to monitor the market value of any Permitted Investments). The Charged Disposal Proceeds may be withdrawn from the Disposal Proceeds Account (a) to be applied by any Borrower (provided, for the avoidance of doubt, that the relevant Borrower continues, at such time, to be a Registered Provider of Social Housing) in the acquisition of a Substitute Property or (b) to the extent that such withdrawal would not cause a breach of the Asset Cover Test.

Notwithstanding the above, each Borrower may, at any time, deposit, or arrange for the deposit of, any other money into the Disposal Proceeds Account for the purposes of satisfying the Asset Cover Test. Each Borrower has acknowledged that the money standing to the credit of the Disposal Proceeds Account shall be charged in favour of the Bond Trustee pursuant to the terms of the Bond Security Deed.

Each Borrower has also acknowledged that the Issuer may invest all or any part of the Charged Disposal Proceeds in Permitted Investments in accordance with the Custody Agreement and that, as a result of any gains or losses made by the Issuer in respect of such Permitted Investments and any income received thereon (which shall, for the avoidance of doubt, be credited to the Disposal Proceeds Account), the amount of such Charged Disposal Proceeds may be greater or less than the amount deposited in the Disposal Proceeds Account by the relevant Borrower. Each Borrower has acknowledged that it shall not have any recourse to the Issuer in respect of any losses realised by the Issuer in respect of the Charged Disposal Proceeds as a result of investment in any Permitted Investments.

Following the redemption in full of the Bonds, the Issuer shall return any amount standing to the credit of the Disposal Proceeds Account to the relevant Borrowers, to the extent that such balance has not otherwise been applied in accordance with the terms of the Bond Security Deed.

Release and reallocation

At the request and expense of any Borrower, the Security Trustee shall release (subject to receiving an amended Designated Properties Schedule or Designation Certificate (as applicable) from each Borrower and the Issuer in accordance with the applicable Security Trust Deed) from the Security and (or reallocate, if applicable) such of the Charged Properties as may be selected by the relevant Borrower **provided that** the relevant Borrower delivers to the Issuer and the Security Trustee a completed Property Release Certificate, certifying that, immediately following such release (or reallocation, if applicable), the Asset Cover Test will not be breached as a result of the release (or reallocation, if applicable) of such part of the security. For the avoidance of doubt, any excess security immediately following the Issue Date of the Bonds may be withdrawn immediately.

Statutory Disposals

The Borrowers shall have the right to withdraw Property from the Issuer's Designated Security pursuant to any Statutory Disposal and the relevant Borrower shall deliver to the Issuer and the Security Trustee, as soon as reasonably practicable after it has received notice of such Statutory Disposal, a completed Statutory Disposal Certificate, certifying that the relevant withdrawal relates to a Statutory Disposal, and that immediately following such release, the Asset Cover Test will not be breached as a result of the release.

Valuations

Full Valuations

The Borrowers shall deliver a Valuation Report to the Issuer and the Security Trustee within 60 days of 15 May, 2018 and thereafter within 60 days of each consecutive fifth anniversary of such date in accordance with the Loan Agreement.

Desk Top Valuations

The Borrowers shall deliver to the Issuer and the Security Trustee a Desk Top Valuation (being a valuation prepared by a Valuer on a "Desk Top" basis) in the period between 31 March and the date falling 120 days thereafter in each year other than a year in respect of which a Valuation Report is required to be delivered under the Loan Agreement.

Loan Events of Default and Enforcement

Borrower Default

Each of the following (set out in more detail in the Loan Agreement) is a "**Borrower Default**":

- (a) *Non-payment*: Any Borrower does not pay on the due date any amount payable by it under the Finance Documents (as defined in the Loan Agreement) in the manner required under the Finance Documents, unless the non-payment continues for a period of not more than seven days in the case of principal and not more than 14 days in the case of interest.
- (b) *Breach of other obligations*: Any Borrower fails to perform or observe any of its obligations under the Finance Documents (other than as referred to in (a) above and (j) below) and (except in any case where, in the opinion of the Security Trustee, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by the Security Trustee on the relevant Borrower of notice requiring the same to be remedied.
- (c) *Other non-payment*: (A) Any other present or future indebtedness of any of the Borrowers or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual default, event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (C) any of the Borrowers fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised **provided that** the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned in (A), (B) or (C) above in this paragraph (c) have occurred equals or exceeds £10,000,000 or its equivalent in other currencies (as reasonably determined by the Security Trustee) (and provided further, for the avoidance of doubt, that the amounts mentioned in this paragraph (c) shall exclude the amount of any Public Sector Subsidy except for any Public Sector Subsidy which is or becomes due and payable to the relevant grant making body or organisation).
- (d) *Enforcement Event*: An Enforcement Event occurs under a Finance Document.
- (e) *Winding-up*: Any order is made by any competent court or resolution passed for the winding-up or dissolution of any of the Borrowers save for the purposes of a Permitted Reorganisation or a reorganisation on terms previously approved in writing by the Security Trustee.
- (f) *Cessation of Business*: Any of the Borrowers ceases or threatens to cease to carry on the whole or, as determined by the Security Trustee, a substantial part of its business, save for the purposes of a Permitted Reorganisation or a reorganisation on terms previously approved in writing by the Security Trustee.
- (g) *Failure or inability to pay debts*: Any of the Borrowers stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent.

- (h) *Insolvency*: Any of the insolvency related events occurs or proceedings are taken as referred to in the Loan Agreement (which exclude any Permitted Reorganisation or reorganisation on terms previously approved in writing by the Security Trustee).
- (i) *Unlawfulness*: It is or becomes unlawful for any of the Borrowers to perform any of its obligations under the Finance Documents.
- (j) *Breach of Asset Cover Test*: Any of the Borrowers fails to perform its obligation to maintain the Asset Cover Ratio or to provide a Valuation Report or Desk Top Valuation in accordance with the Loan Agreement and (except in any case where, in the opinion of the Security Trustee, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 60 days next following the service by the Security Trustee on the Borrowers of notice requiring the same to be remedied.

For these purposes "**Permitted Reorganisation**" means: any amalgamation, merger, consolidation or transfer of engagements (whether entering into or acceptance thereof and including, for the avoidance of doubt, any statutory procedure as provided for under the Co-operative and Community Benefit Societies Act 2014 (if applicable)) of the whole of the relevant Borrower's property **provided that** (i) any such transferee is a Registered Provider of Social Housing or any new amalgamated entity to be created as a result thereof will be a Registered Provider of Social Housing; (ii) following any such amalgamation, merger, consolidation or transfer of engagements in respect of which the property of Party A (including, for the avoidance of doubt, any liabilities) shall become vested in Party B or a new amalgamated entity, Party B or such new amalgamated entity will thereafter be responsible for all the liabilities of Party A; and (iii) a legal opinion confirming the above is provided to the Security Trustee.

Obligation to Notify the Issuer and the Security Trustee

Each Borrower shall notify the Issuer and the Security Trustee of any Borrower Default (and the steps, if any, being taken to remedy it) or potential Borrower Default promptly upon becoming aware of the same. The Issuer shall also notify the Security Trustee of any Borrower Default or potential Borrower Default promptly upon becoming aware of the same (unless the Issuer is aware that a notification has already been provided by the relevant Borrower) including, but not limited to, the non-payment by the relevant Borrower of any amounts owing to the Issuer under the Loan Agreement on the due date for payment thereof.

Borrower Default Notice

Following the occurrence of a Borrower Default (but in the case of the happening of any of the events described in paragraph (b) (*Breach of other obligations*) above, only if the Security Trustee shall have certified in writing to the Borrowers that such event is, in its opinion, materially prejudicial to the interests of the Issuer), the Issuer may declare by notice to the Borrowers either:

- (a) that the security for the Loans has become, whereupon the security for the Loans shall become, immediately enforceable (and the Issuer shall notify the Security Trustee of the same in accordance with the Security Trust Deeds); and/or
- (b) (irrespective of whether a notice to the effect set out in (a) shall have already been given) that any of the Loans have become due and repayable, whereupon the relevant Loan(s) shall become immediately due and repayable at the outstanding balance thereof together with accrued interest, premium (if any) and any other amounts and the security therefor shall become immediately enforceable.

Enforcement

If the security constituted under any Security Documents for the benefit of the Issuer becomes enforceable as a result of the service of a notice pursuant to the Loan Agreement, then the Security Trustee or any Receiver (where appropriate) shall hold the monies arising from any sale, calling in, collection or conversion under, or otherwise arising from the exercise of, the powers of conversion contained in the Security Documents after the security has become enforceable upon trust to apply the same:

- (a) *first*, in payment or retention of all costs, charges, expenses and liabilities incurred in or about the exercise of such powers or otherwise in accordance with the Security Documents and payments made by the Security Trustee, any Appointee or any Receiver in accordance with the Security Documents and of all remuneration payable to the Security Trustee, any Appointee or any Receiver in accordance with the Security Documents with interest thereon as provided in the Security Documents;
- (b) *second*, in or towards payment to the Issuer of all interest then due and remaining unpaid on the Loans and all commitment fees then due and remaining unpaid;
- (c) *third*, in or towards payment to the Issuer of all principal and premium (if any) then due and remaining unpaid in respect of the Loans; and
- (d) *fourth*, in or towards payment to the Issuer of all other amounts then due and remaining unpaid under the Loan Agreement.

Taxes

Each Borrower must make all payments to be made by it to the Issuer under, *inter alia*, the Loan Agreement, the Legal Mortgages and the Security Trust Deeds, without any deduction or withholding for or on account of tax, unless a deduction or withholding is required by law.

If a deduction or withholding from any such payment is required by law to be made by a Borrower, the amount of the payment due from that Borrower shall be increased to an amount which (after making such deduction or withholding) leaves an amount equal to the payment which would have been due if no deduction or withholding had been required.

If, as a result of any actual or proposed change in tax law, the Issuer determines (in its reasonable commercial judgement) that it would on the next following Interest Payment Date be required to make a withholding or deduction in respect of payments to be made by the Issuer to the Bondholders pursuant to the Conditions (other than in respect of a Bondholder Specific Withholding), it shall notify each Borrower of the same. The Borrowers may (but, for the avoidance of doubt, shall not be obliged to), in their sole discretion, pay to the Issuer such additional amounts as will enable the Issuer (after such withholding or deduction) to pay to the Bondholders the amounts of principal and interest which they would have received in respect of the Bonds in the absence of such withholding or deduction. The Borrowers shall continue to pay such additional amounts to the Issuer unless and until the Borrowers deliver to the Issuer a notice stating that they shall cease to make such additional payments with effect from the next following Interest Payment Date.

Governing Law

The Loan Agreement and any non-contractual obligations or matters arising from or connected with it are governed by English law.

DESCRIPTION OF THE LEGAL MORTGAGES AND THE SECURITY TRUST DEEDS

The Issuer's obligations in respect of the Bonds are secured pursuant to the Bond Security Deed in favour of the Bond Trustee for the benefit of itself and the Bondholders and the other Secured Parties by the Issuer Security, which includes an assignment by way of security of the Issuer's rights, title and interest arising under the Loan Agreement, the Legal Mortgages and the Security Trust Deeds.

The following description of the Legal Mortgage and the Security Trust Deeds consists of a summary of certain provisions of the Legal Mortgages and the Security Trust Deeds and is qualified by reference to the detailed provisions thereof. The Legal Mortgages and the Security Trust Deeds are not, however, incorporated by reference into, and therefore do not form part of, this Prospectus.

Definitions used in this section but not otherwise defined in this Prospectus have the meanings given to them in the Legal Mortgages and/or the Security Trust Deeds.

LEGAL MORTGAGES

The Borrowers have, in relation to the Axiom Initial Properties, the Friendship Initial Properties, the L&H Initial Properties or the Spire Initial Properties, as the case may be, entered into certain Legal Mortgages dated the Issue Date; 8 July, 2011; 19 March, 2009; and 19 February, 2001, each as supplemented and/or amended, and shall, in relation to any additional properties to be charged as underlying security for the Bonds, enter into further Legal Mortgages substantially in the form set out in the applicable Security Trust Deed.

Fixed Legal Mortgage and Charge

Pursuant to the Legal Mortgages, each Borrower, as security for the payment of all Secured Obligations, has charged, or will charge, in favour of the Security Trustee for the benefit of itself and, *inter alios*, the Issuer:

- (a) by way of a first fixed legal mortgage all the property specified therein together with all buildings and Fixtures, erections and structures thereon or in the course of construction thereon, the proceeds of sale of all or any part thereof and (so far as the same are capable of being mortgaged) the benefit of any covenants for title given or entered into by any predecessor in title of such Borrower and any moneys paid or payable in respect of such covenants; and
- (b) by way of first fixed charge:
 - (i) all plant and machinery now or in the future owned by such Borrower and its interest in any plant and machinery in its possession which form part of or are operated by such Borrower on the Real Property or Mortgaged Property (as the case may be);
 - (ii) all benefits in respect of the Insurances and all claims and returns of premiums in respect thereof;
 - (iii) the benefit of all present and future licences, consents and authorisations (statutory or otherwise) held in connection with the Real Properties and the use of any of the Security Assets specified in (a) and (b)(i) above and the right to recover and receive all compensation which may at any time become payable to it in respect thereof; and
 - (iv) if and in so far as the legal mortgage set forth in (a) above or the assignments set forth in the section entitled "*Assignment*" below shall for any reason be ineffective as legal mortgages or assignments, the assets referred to therein.

Assignment

Pursuant to the Legal Mortgages, each Borrower has covenanted or will covenant, as security for payment of the Secured Obligations, that on the request of the Security Trustee it shall, following an Enforcement Event which has occurred and is continuing unremedied or unwaived and is not remedied within any applicable grace period, with full title guarantee assign to the Security Trustee for the benefit of itself and, *inter alios*, the Issuer all of its rights, title and interest in and to:

- (a) the personal agreements and covenants by the tenants, lessees, licensees or other parties under the Letting Documents and by all guarantors and all security held by such Borrower from time to time, whether present or future, in respect of the obligations of the tenants, lessees, licensees or other parties under the Letting Documents (including, without limiting the generality of the foregoing, all moneys due and owing to such Borrower or which may become due and owing to such Borrower at any time in the future in connection therewith);
- (b) all agreements now or from time to time entered into or to be entered into to enable the charging of the relevant Security Assets and for the sale, letting or other disposal or realisation of the whole or any part of the relevant Security Assets (including, without limiting the generality of the foregoing, all moneys due and owing to such Borrower or which may become due and owing to such Borrower at any time in the future in connection therewith);
- (c) all agreements, contracts, deeds, licences, undertakings, guarantees, covenants, warranties, representations and other documents (including all documents entered into now or in the future so as to enable such Borrower to perfect its rights under the Legal Mortgage or any such agreement, contract, deed, licence, undertaking, guarantee, covenant, warranty, representation or other documents) now or hereafter entered into by or given to such Borrower in respect of the Real Properties and all claims, remedies, awards or judgements paid or payable to such Borrower (including, without limitation, all liquidated and ascertained damages payable to such Borrower under the above) in each case relating to the Real Properties;
- (d) all licences held now or in the future in connection with the relevant Real Property or Mortgaged Property (as the case may be) and also the right to recover and receive all compensation which may at any time become payable to such Borrower in relation to the relevant Real Property or Mortgaged Property (as the case may be);
- (e) all rights and claims to which such Borrower is now or may hereafter become entitled in relation to any development, construction project, redevelopment, refurbishment, repair or improvement of or on the relevant Real Property or Mortgaged Property (as the case may be);
- (f) all guarantees, warranties, bonds and representations given or made now or hereafter by, and any rights or remedies against, all or any of the designers, builders, contractors, surveyors, valuers, professional advisers, sub-contractors, manufacturers, suppliers and installers of any Fixtures in respect of the relevant Real Property or Mortgaged Property (as the case may be); and
- (g) all rental income and disposal proceeds in each case relating to the relevant Real Property or Mortgaged Property (as the case may be) which has not been assigned as set forth in (a), (b) or (c) above and the right to make demand for and receive the same.

Representations, Warranties and Undertakings

Each Borrower makes various representations in respect of the Real Property or Mortgaged Property (as the case may be) including as to ownership, planning permission, covenants and security interests. In addition, each Borrower undertakes to, *inter alia*, repair, insure, pay or procure the payment of taxes in respect of and comply with all leases in respect of, the Real Property or Mortgaged Property (as the case may be).

Enforcement of Security

Each Legal Mortgage provides, or will provide, that at any time after an Enforcement Event has occurred and is continuing and has not been remedied within any applicable grace period, the security created by or pursuant to such Legal Mortgage will be immediately enforceable and the Security Trustee may enforce all or any part of such security.

The Legal Mortgages further entitle the Security Trustee and, *inter alios*, the Issuer to be indemnified out of the Security Assets in respect of, *inter alia*, all liabilities and expenses properly incurred by them in the execution or purported execution of any of the powers, authorities or discretions vested in them pursuant to the Legal Mortgages.

Any moneys received by the Security Trustee pursuant to the enforcement of the Legal Mortgages shall be applied by the Security Trustee in the following order of priority:

- (a) *first*, in or towards payment of all Relevant Trustee Costs;
- (b) *second*, in or towards satisfaction of all monies, liabilities and obligations whatsoever (present or future, actual or contingent) payable, owing, due or incurred by the Borrowers to the Issuer (other than Relevant Trustee Costs) in accordance with the Loan Agreement and to the other Beneficiaries named in the relevant Security Trust Deed in accordance with their respective interests;
- (c) *third*, to the extent not recovered under (a) above, in or towards payment of all Trustee Costs; and
- (d) *fourth*, the balance, if any, to the relevant Borrower.

Governing Law

The Legal Mortgages and any non-contractual obligations arising out of or in connection with them are, or will be, governed by English law.

SECURITY TRUST DEEDS

The benefit of the security created by the relevant Borrower pursuant to the Legal Mortgages shall be held by the Security Trustee on trust for the benefit of itself and, *inter alios*, the Issuer on the terms of the relevant Security Trust Deed and for the other Beneficiaries named in the relevant Security Trust Deed.

The Security

Apportionment of Security Assets

Each Security Trust Deed provides that the relevant Borrower and, in the case of the Loan Agreement, the Issuer shall schedule and agree the allocation of properties which shall comprise the Issuer's Designated Security in respect of the Loan Agreement. Pursuant to the terms of the relevant Security Trust Deed, the properties described in the Valuation Report and any plant and machinery forming part of such property together with related Insurances, consents, licences and authorisations, have been designated as security for the relevant Borrower's obligations under the Loan Agreement only and not for any other liabilities of such Borrower to any other Beneficiary. All properties which are not part of the Issuer's Designated Security shall either be allocated to other Beneficiaries under the relevant Security Trust Deed, are charged separately to other beneficiaries or shall form the Undesignated Security.

Additional Security

Pursuant to the Loan Agreement, on or prior to the relevant Borrower creating a Legal Mortgage in respect of any Property for the benefit of the Issuer, that Borrower must deliver to the Security Trustee the documentation relating thereto as set out therein. Such documents must be in the form and substance satisfactory to the Security Trustee and the Issuer.

Release and Reallocation of Security

Pursuant to the terms of each Security Trust Deed, the relevant Borrower and the Issuer may agree to amend the Issuer's Designated Security by either removing Designated Security or by designating any Undesignated Security as the Issuer's Designated Security by, *inter alia*, delivering an amended Designated Properties Schedule or Designation Certificate (as applicable) signed by that Borrower and the Issuer to the Security Trustee.

At any time prior to the Security Trustee taking any steps to enforce the Undesignated Security, upon receiving instructions from the relevant Borrower, the Security Trustee shall release the benefit of any encumbrance, rights or obligations held by it over the Undesignated Security as security for all or any of the Secured Obligations **provided that** the relevant Borrower shall have paid to the Security Trustee, or provided for to the satisfaction of the Security Trustee, all Trustee Costs which relate to that Undesignated Security.

Any such release or reallocation will be subject to the requirements (if any) set out in the Loan Agreement (see "*Description of the Loan Agreement*" above).

Application of Proceeds

Upon the enforcement of, *inter alia*, all rights vested in the Security Trustee by virtue of, or pursuant to, its holding the interests conferred on it by the Security Documents, and after satisfying claims which at law rank in priority to sums owing under or in respect of any of the Relevant Documents, the Security Trustee shall apply all Proceeds and all money derived therefrom:

- (a) in respect of Designated Security in the following order:
 - (i) *first*, in or towards payment of all Relevant Trustee Costs;
 - (ii) *second*, in or towards satisfaction of all monies, liabilities and obligations whatsoever (present or future, actual or contingent) payable, owing, due or incurred by the Borrowers to the Issuer (other than Relevant Trustee Costs) in accordance with the Loan Agreement and to the other Beneficiaries named in the Security Trust Deed in accordance with their respective interests;
 - (iii) *third*, to the extent not recovered under (a) above, in or towards payment of all Trustee Costs; and
 - (iv) *fourth*, the balance, if any, to the relevant Borrower.
- (b) in respect of Undesignated Security in the following order:
 - (i) *first*, to the extent not recovered under paragraphs (a)(i), (ii) or (iii) above, in or towards payment of all Trustee Costs; and
 - (ii) *second*, to the relevant Borrower.

Enforcement of Security

Pursuant to each Security Trust Deed, the Security Trustee shall only be required to take action to enforce or protect the security in respect of the Loan Agreement if so instructed by the Issuer (and then only if it has been indemnified and/or secured to its satisfaction).

In respect of instructions given by the Issuer, the Issuer has assigned its rights under, *inter alia*, the Security Trust Deeds and the Legal Mortgages to the Bond Trustee and, pursuant to Condition 6.3 (*Loan Agreement, Legal Mortgages and Security Trust Deeds Consents Covenant*), has covenanted not to take any action or direct the Security Trustee to take any action pursuant thereto except with the prior consent of the Bond Trustee. The Bond Trustee may, but is not obliged to, seek the consent of the Bondholders in accordance with the Bond Trust Deed prior to giving any such consent.

In enforcing the Issuer Security (including the Issuer's rights, title and interests in the Security Trust Deeds and the Legal Mortgages insofar as they relate to the Bonds) the Bond Trustee may act in its discretion. It is, however, required to take action, pursuant to Condition 12.2 (*Enforcement*), where so directed by the requisite majority of the Bondholders **provided, however, that** it is secured and/or indemnified to its satisfaction.

Governing Law

Each Security Trust Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

DESCRIPTION OF THE ACCOUNT AGREEMENT, THE CUSTODY AGREEMENT AND THE RETAINED BOND CUSTODY AGREEMENT

The Issuer has appointed The Bank of New York Mellon, London Branch as Account Bank, Custodian and Retained Bond Custodian pursuant to the Account Agreement, the Custody Agreement and the Retained Bond Custody Agreement, respectively, in relation to the issue of the Bonds.

The following description of the Account Agreement, the Custody Agreement and the Retained Bond Custody Agreement consists of a summary of certain provisions of the Account Agreement, the Custody Agreement and the Retained Bond Custody Agreement and is qualified by reference to the detailed provisions thereof. The Account Agreement, the Custody Agreement and the Retained Bond Custody Agreement are not, however, incorporated by reference into, and therefore do not form part of, this Prospectus.

Definitions used in this section but not otherwise defined in this Prospectus have the meanings given to them in the Account Agreement, the Custody Agreement and the Retained Bond Custody Agreement.

ACCOUNT AGREEMENT

Accounts

The Account Bank shall maintain three accounts for the Issuer in respect of the Bonds: the Transaction Account, the Initial Cash Security Account and the Disposal Proceeds Account.

Initial Deposits

Pursuant to the Account Agreement, the Issuer shall on the issue date of the Bonds:

- (a) credit the Initial Cash Security Account with the Retained Proceeds; and
- (b) credit the Transaction Account with the net issue proceeds of the Bonds less the Retained Proceeds to the extent that such amount is not paid directly to the Borrowers pursuant to, and in accordance with, the Loan Agreement.

The Issuer shall, upon receipt, credit to the Disposal Proceeds Account all amounts received from the Borrowers pursuant to the Loan Agreement as a result of the disposal of any Properties.

Retained Bond Deposits

Pursuant to the Account Agreement, the Issuer shall, upon the sale of any Retained Bonds:

- (a) credit the Initial Cash Security Account with the net sale proceeds of such Retained Bonds (less any Retained Bond Premium Amount), to the extent that such amount is not paid directly to the Borrowers pursuant to, and in accordance with, the Loan Agreement; and
- (b) credit the Transaction Account with the Retained Bond Premium Amount (if any), pending application in accordance with the Conditions.

Upon the receipt by the Issuer of any interest in respect of the Retained Bonds held by it or on its behalf, the Issuer shall credit such interest to the Transaction Account pending application in accordance with the Conditions.

Future Deposits and Withdrawals

The Issuer has covenanted, pursuant to the Bond Security Deed that:

- (a) prior to the enforcement of the Issuer Security, payments from the Initial Cash Security Account shall only be made to fund:
 - (i) the Original Commitment (as defined in the Loan Agreement) pursuant to, and in accordance with the terms of, the Loan Agreement;

- (ii) payment to the Borrowers or any other member of the Group in respect of any Bonds surrendered for cancellation in accordance with the Loan Agreement;
 - (iii) the purchase of Permitted Investments pursuant to the Custody Agreement; or
 - (iv) redemptions of the Bonds in accordance with the Conditions;
- (b) prior to the enforcement of the Issuer Security, payments from the Disposal Proceeds Account shall only be made to the Borrowers pursuant to, and in accordance with the terms of, the Loan Agreement or to purchase Permitted Investments pursuant to the Custody Agreement; and
- (c) no payments from the Transaction Account will be made other than in accordance with the Conditions and the Issuer has undertaken to procure that amounts are paid into and out of the Transaction Account only in accordance with the Conditions, the Account Agreement and the Agency Agreement.

The Account Bank is under no obligation to monitor compliance with the above covenants.

Interest

Any monies standing to the credit of the Transaction Account, the Initial Cash Security Account and/or the Disposal Proceeds Account will earn interest at the rate(s) agreed from time to time between the Account Bank and the Issuer.

Pursuant to the Account Agreement, interest accrued on the Transaction Account and the Initial Cash Security Account shall be credited to the Transaction Account and interest accrued on the Disposal Proceeds Account shall be credited to the Disposal Proceeds Account.

Change of Account Bank

The appointment of the Account Bank may, with the prior written approval of the Bond Trustee, be terminated upon 45 days' written notice (subject to the appointment of a replacement Account Bank) or forthwith at any time the Account Bank is adjudged bankrupt or insolvent. The appointment of the Account Bank may also be terminated in the event that the short-term senior, unsecured and unguaranteed indebtedness rating of the Account Bank as assigned by Moody's falls below "P 1" or is withdrawn and there are amounts standing to the credit of the Initial Cash Security Account or the Disposal Proceeds Account (subject to the appointment of a replacement Account Bank).

The Account Bank may resign its appointment upon giving at least 60 days' written notice (subject to the appointment of a replacement Account Bank).

Pursuant to the Account Agreement, the appointment of any replacement Account Bank shall be subject to the prior written approval of the Bond Trustee, be on substantially the same terms as the Account Agreement and be subject to the condition that it must have a short-term senior, unsecured and unguaranteed indebtedness rating from Moody's of no less than "P 1".

CUSTODY AGREEMENT

Custody Account

Pursuant to the Custody Agreement, the Custodian shall, subject to receipt of such documents as it may require, open, in the name of the Issuer, the Disposal Proceeds Custody Sub-Account and the Initial Cash Security Custody Sub-Account (the "**Custody Sub-Accounts**") and the Disposal Proceeds Cash Sub-Account and the Initial Cash Security Cash Sub-Account (the "**Cash Sub-Accounts**" and, together with the Custody Sub-Accounts, the "**Custody Account**").

Payments and Delivery

The Issuer has authorised the Custodian to make payments and delivery out of the Custody Account only for the purpose of any acquisition or sale of Permitted Investments or as provided below.

Pursuant to the Custody Agreement, unless otherwise instructed pursuant to Instructions to make a payment out of the proceeds of any Distributions in respect of Permitted Investments held by the Issuer in

the settlement of an acquisition of other Permitted Investments on or prior to the date of receipt of such Permitted Investments (subject as provided below), the Issuer has authorised and instructed the Custodian, forthwith upon receipt:

- (a) to transfer all Distributions credited to the Disposal Proceeds Cash Sub-Account to the Disposal Proceeds Account;
- (b) to transfer all Distributions (including any amount representing Permitted Investment Profit (if any)) credited to the Initial Cash Security Cash Sub-Account (other than Distributions which represent redemption and/or sale proceeds less any Permitted Investment Profit (if any)) to the Transaction Account; and
- (c) to transfer all Distributions credited to the Initial Cash Security Cash Sub-Account (other than those to be credited to the Transaction Account pursuant to (b) above) to the Initial Cash Security Account,

subject, in each case, to any deductions in respect of any taxes or levies required by any revenue or governmental authority.

The Issuer has agreed that it shall not instruct the Custodian pursuant to Instructions to make a payment out of the proceeds of any Distributions standing to the credit of the Initial Cash Security Cash Sub-Account other than Distributions which represent redemption and/or sale proceeds (but excluding any amount representing Permitted Investment Profit (if any)) and that such amounts shall forthwith upon receipt be transferred to the Transaction Account in accordance with (b) above.

Interest

Notwithstanding the above, any monies standing to the credit of the Disposal Proceeds Cash Sub-Account and the Initial Cash Security Cash Sub-Account will earn interest at the rate(s) agreed between the Issuer and the Account Bank pursuant to the Account Agreement in respect of the Disposal Proceeds Account and the Initial Cash Security Account respectively.

Change of Custodian

The appointment of the Custodian may, with the prior written approval of the Bond Trustee, be terminated upon 45 days' written notice (subject to the appointment of a replacement Custodian) or forthwith at any time the Custodian is adjudged bankrupt or insolvent. The appointment of the Custodian may also be terminated in the event that the short-term senior, unsecured and unguaranteed indebtedness rating of the Custodian as assigned by Moody's falls below "P 1" or is withdrawn and there are Permitted Investments standing to the credit of the Custody Account (subject to the appointment of a replacement Custodian).

The Custodian may resign its appointment upon giving at least 60 days' written notice (subject to the appointment of a replacement Custodian).

Pursuant to the Custody Agreement, the appointment of any replacement Custodian shall be subject to the prior written approval of the Bond Trustee, be on substantially the same terms as the Custody Agreement and be subject to the condition that it must have a short-term senior, unsecured and unguaranteed indebtedness rating from Moody's of no less than "P 1".

RETAINED BOND CUSTODY AGREEMENT

Retained Bond Custody Account

Pursuant to the Retained Bond Custody Agreement, the Retained Bond Custodian shall, subject to receipt of such documents as it may require, open, in the name of the Issuer, the Retained Bond Custody Sub-Account and the Retained Bond Cash Sub-Account (together with the Retained Bond Custody Sub-Account, the "**Retained Bond Custody Account**").

Payments and Delivery

The Issuer has authorised the Retained Bond Custodian to make payments and delivery out of the Retained Bond Custody Account only as provided below.

Pursuant to the Retained Bond Custody Agreement, the Retained Bond Custodian shall not effect a transfer of any Retained Bonds except following receipt from the Bond Trustee of a Retained Bond Confirmation Letter which has been countersigned on behalf of the Bond Trustee.

Pursuant to the Retained Bond Custody Agreement, unless otherwise instructed to make a payment out of any proceeds of sale of any Retained Bonds (other than any Retained Bond Premium Amount) to the Borrowers in satisfaction of the Issuer's obligation to make an advance pursuant to the Loan Agreement, the Issuer shall give instructions to the Retained Bond Custodian, forthwith upon receipt by the Retained Bond Custodian of any sale proceeds to transfer:

- (a) all sale proceeds (other than any Retained Bond Premium Amount) to the Initial Cash Security Account, and
- (b) all Retained Bond Premium Amounts to the Transaction Account,

in each case, subject to any withholding as required by applicable tax laws.

Payment Waiver

Notwithstanding any other provision of the Retained Bond Custody Agreement to the contrary and subject to the following paragraph, the Issuer has, pursuant to the Retained Bond Custody Agreement, unconditionally and irrevocably:

- (a) waived its rights to receive payments of interest, principal or otherwise in respect of the Retained Bonds and, for the avoidance of doubt, such waiver by the Issuer of such rights will continue to be effective following the occurrence of an Event of Default or Potential Event of Default (each as defined in the Incorporated Terms Memorandum);
- (b) authorised the Retained Bond Custodian to disclose the waiver referred to in (a) above in respect of the Retained Bonds (and the Retained Bonds position with the Retained Bond Custodian) to the Principal Paying Agent and any applicable international clearing system for the Retained Bonds to ensure that the waiver of the right to receive payments of interest, principal or otherwise in respect of the Retained Bonds is effected; and
- (c) directed the Retained Bond Custodian, in respect of each Retained Bond held by the Retained Bond Custodian on behalf of the Issuer in the Retained Bond Custody Sub-Account in definitive certificated form, to (i) on each Interest Payment Date, surrender the interest coupon for such Retained Bond corresponding to such Interest Payment Date to the Principal Paying Agent for cancellation, and (ii) surrender the definitive certificate representing such Retained Bond to the Principal Paying Agent for cancellation on any date on which the Retained Bonds are to be redeemed.

The Retained Bond Custodian and the Issuer have each acknowledged and agreed that the waiver, authorisation and direction provided by the Issuer as described above are irrevocable.

Interest

Any monies standing to the credit of the Retained Bond Cash Sub-Account will earn interest at the standard rate(s) set by the Retained Bond Custodian in its deposit terms and conditions, as may be issued by it from time to time.

Termination of Retained Bond Custody Agreement

Either of the Issuer or the Retained Bond Custodian may terminate the Retained Bond Custody Agreement by giving at least 90 days' written notice to the other party.

Either of the Issuer or the Retained Bond Custodian may further terminate the Retained Bond Custody Agreement immediately upon notice to the other party upon the dissolution of that other party, or upon the commencement of any action or proceedings seeking liquidation (or equivalent) of that other party.

Pursuant to the Bond Trust Deed, the Issuer has covenanted for the benefit of the Bond Trustee that, in the event that the Retained Bond Custody Agreement is terminated, it shall appoint a successor custodian to hold the Retained Bonds on substantially the same terms as the Retained Bond Custody Agreement, in particular, but without limitation to, the payment waiver and transfer restrictions applicable to the Retained Bonds, as described above.

DESCRIPTION OF THE ISSUER

Incorporation and Status

Libra (Longhurst Group) Treasury No 2 Plc (the "**Issuer**") was incorporated under the Companies Act 2006 on 7 March, 2018 and is a public limited company incorporated in England and Wales with registered number 11240880.

The registered address of the Issuer is Leverett House, Gilbert Drive, Endeavour Park, Boston, Lincolnshire PE21 7TQ. The telephone number of its registered address is 0345 30 90 700. The Issuer has no subsidiaries.

Principal Activities of the Issuer

The Issuer is a special purpose vehicle established for the purpose of issuing securities, including the Bonds described in this Prospectus and incurring other indebtedness (including other secured indebtedness but subject to the covenants set out in Condition 6.1) and lending the proceeds thereof to the members of the Group to be applied in the achievement of such members' objects (it being noted that the Issuer will only be permitted to on-lend the proceeds of the Bonds to the Borrowers). The Issuer will enter into the Loan Agreement (see "*Description of the Loan Agreement*") above, pursuant to which it will on-lend the proceeds of the Bonds to each of the Borrowers, and may also act as treasury manager for the Group.

Directors

The directors of the Issuer and their other principal activities are:

Name	Board/Committee membership	Principal activities outside the Issuer
Robert Griffiths <i>Deputy Chief Executive and Chief Financial Officer</i>	<i>Issuer Board, Libra Board, Keystone Board, Finance & Treasury Committee</i>	<i>Chair of Housing SORP Working Party Board Member and Chair of Audit & Risk Committee at Lincolnshire Housing Partnership Member of Technical Advisory Group at Financial Reporting Council Member of the Employers Committee at the Social Housing Pensions Scheme Finance & Treasury Committee member at Aster Group</i>
Clive Barnett <i>Chair of the Issuer, Chair of Libra, Chair of Finance & Treasury Committee</i>	<i>Issuer Board, Libra Board, Group Board, Finance & Treasury Committee</i>	
Daniel Elkins	<i>Issuer Board, Libra Board, Group Board, Remuneration and Nominations Committee and Finance & Treasury Committee</i>	<i>Runs a consultancy business that specialises in large-scale transformational change, primarily for the NHS</i>
Alan Lewin	<i>Issuer Board, Libra Board, Keystone Board, Finance & Treasury Committee and Development Committee</i>	<i>Board Member at Hundred Houses Society Cambridge Chair of Greater Cambridgeshire and Peterborough Housing Association Partnership</i>
Hilary Lindsay <i>Chair of the Audit & Risk</i>	<i>Issuer Board, Libra Board, Group Board, Remuneration and</i>	<i>Doctoral supervisor and researcher at The Open</i>

Committee

*Nominations Committee, University.
Finance & Treasury Committee
and Audit & Risk Committee*

The business address of each of the directors is Leverett House, Gilbert Drive, Endeavour Park, Boston, Lincolnshire PE21 7TQ.

The Secretary of the Issuer is Robert Griffiths whose business address is Leverett House, Gilbert Drive, Endeavour Park, Boston, Lincolnshire PE21 7TQ.

There are no potential conflicts of interest between the directors' duties to the Issuer and their private interests and/or duties. However, Robert Griffiths is an employee of LG and most of the other directors are board members of LG as set out in more detail above, with Robert Griffiths and Alan Lewin being also board members of Libra (Longhurst Group) Treasury Plc ("**Libra**") and Keystone. A conflict of interest could therefore arise if, for example, these directors are required to approve any transactions between the Issuer and LG or Libra or Keystone. However, the Issuer's articles of association provide that, so long as directors disclose the nature and extent of certain conflicts, they may nevertheless vote on behalf of the Issuer in respect of the relevant transactions. Acting in such capacity, there is an overriding duty to act in the best interests of the Issuer.

The Issuer has no employees but has available to it the treasury and business resources of LG to enable it to administer its business and perform its obligations.

Share Capital and Major Shareholders

As at the date of this Prospectus, the entire issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, all of which are fully paid up.

LG holds all of the shares of the Issuer.

Operations

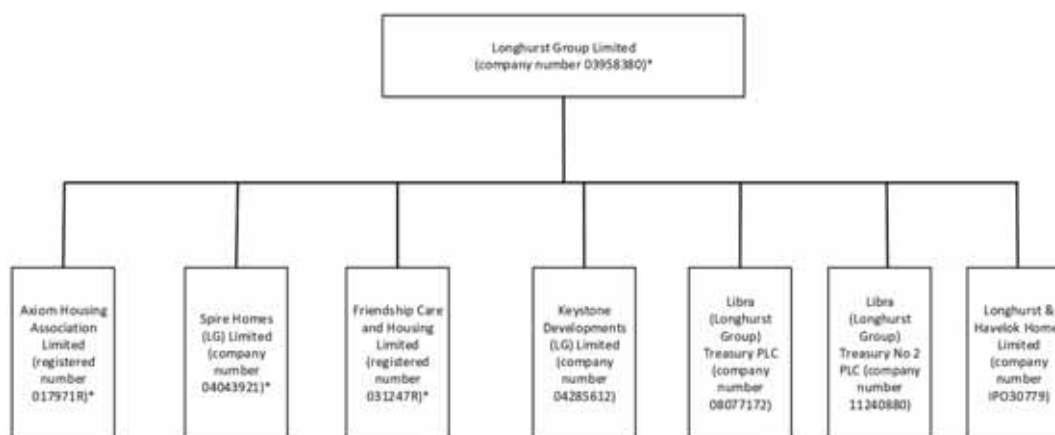
The Issuer was incorporated on 7 March, 2018 and no financial statements have been prepared as at the date of this Prospectus.

DESCRIPTION OF THE GROUP

The Group is a group of registered providers of social housing ("RPs") in the United Kingdom operating across 13 counties in the Midlands and the East of England with approximately 22,500 owned or managed homes. The Group's properties are located across 48 local authority areas, predominately in Nottinghamshire, Birmingham, Cambridgeshire, Derbyshire, Lincolnshire North and North East Lincolnshire, Rutland and East Northamptonshire.

The Group consists of a parent, four subsidiary housing associations, a development company and two treasury vehicles. LG is the parent organisation and is a company limited by guarantee. Other than LG, each entity in the Group is party to loan facilities, which are used to maintain and develop the assets of the Group.

A description of the Group is set out below. As at the date of this Prospectus, the Borrowers in aggregate comprise substantially all of the Group: as at 31 March 2017, the Group's gross assets were £974.375 million, of which 98.17% were the Borrowers' (other than Axiom's) gross assets; the Group's turnover was £110.8 million, of which 96.60% was the Borrowers' (other than Axiom's) turnover; and the Group's profit was £17.026 million, of which 95.45% was the Borrowers' (other than Axiom's) profit (it being noted that Axiom is not included in these figures because it joined the Group as a subsidiary of LG on 7 July, 2017 and so is not included in the Group's annual consolidated financial statements for the year ended 31 March, 2017). It should, however, be noted that the Issuer will only have recourse to those entities which are, from time to time, Borrowers and will not have any recourse to members of the Group which are not Borrowers.



KEY

* = Registered provider of social housing

The Group was formed in 2001 through the creation of a group structure to facilitate the stock transfer of the council stock in East Northamptonshire into the Group into what is now called Spire Homes (LG) Limited ("Spire"). The other stock holding founder member of the Group was Longhurst Housing Association (now Longhurst & Havelok Homes Limited ("L&H")). The organisation has grown over the years through development of new properties, further large scale voluntary transfers of local authority housing and other organisations joining the Group. Axiom Housing Association Limited ("Axiom") joined the Group as a subsidiary of LG on 7 July, 2017.

The Group operates in the UK social housing environment and its principal activity is the management and provision of homes at affordable rents for people who are unable to afford to rent or buy in the open market and to provide assistance to house people and associated facilities, amenities and services for the relief of aged, disabled or chronically sick people. The Group has experience in managing corporate growth and bringing people and organisations together with six major transfers and amalgamations in the past 17 years. It has a skilled and stable workforce which was recognised with a gold accreditation from Investors in People in 2014.

The Group has a track record of operating through partnerships and is currently the lead partner in the Blue Skies Consortium (a development consortium) and a joint partner in POD (Partnerships, Opportunities, Developments; an LLP providing project management services).

Stock Management

The Borrowers actively pursue stock acquisition opportunities where there is a strong fit with their development strategy and core operating areas. Most recently, L&H and Spire extended their stock after completing (i) the transfer of 27 leasehold schemes from Waterloo Housing Association in July 2017, which comprised of over 600 properties to L&H; and (ii) the transfer of 454 freehold properties to Spire and L&H from PA Housing (on 26 March, 2018) and Hyde Housing Association (on 16 April, 2018).

Strategy and Business Objectives

The Group's vision is based on "improving lives". Under the strategic message of 'One Team, One Vision', the Group focuses on its customers and localities and tailors services accordingly, making the most of shared expertise and buying power.

The Group's key objectives are:

1. **To provide more homes**

The Group intends to grow the Group's new homes portfolio and developing homes to meet the demand of affordable housing in key target geographical areas.

2. **To support their communities**

The Group's strategy is to have a strong presence on its estates by working closely with communities to ensure that members of the Group provide quality services such as information, advice on jobs and benefits, employment, training and skills for their tenants, and by promoting apprenticeship and work placement opportunities.

3. **To deliver quality care and support**

The Group will continue to review its services and local strategies and look at ways to improve the financial performance and cost base of services.

4. **To invest in its people**

The Group's 'One Team, One Vision' philosophy is designed to bring teams together and work towards embedding a performance culture by listening to staff and reviewing staff terms and conditions across the Group.

Detailed Service Description

The Group provides the following services across its areas of operation:

- **General Needs rented properties:** A variety of rented properties, including houses and some flats;
- **Supported and Sheltered Housing:** Flats or bungalows designed to assist older or disabled people to lead independent lives. They provide certain facilities that ordinary housing does not include. Most schemes have a communal lounge, kitchen, laundry and guest room. Some schemes have lifts to first floors.
- **Care Homes:** Care homes are residential settings where older people, young adults with physical difficulties and adults with learning difficulties and mental health problems live and receive personal care. The Group is positioned to provide a range of services to people dependent on their required levels of care support. The Group's exposure to Care & Supported Housing activities is being managed to ensure that this represents no more than 20 per cent. of turnover from social housing activities.

- **Leasehold schemes for the elderly:** Retirement schemes are designed to help the over 60s stay independent for longer. Residents own their flat or bungalow, while a scheme manager and 24-hour emergency alarm facility allow tenants and their families to enjoy peace of mind.
- **Shared ownership:** Shared ownership allows people to purchase a percentage of the value of property and pay rent on the remainder. This allows first time buyers who cannot afford to buy a home outright a first step onto the property ladder.
- **Market rented properties:** Market rented properties are properties let on standard tenancy agreements at market rent.
- **Development:** Keystone is the development arm of the Group, its main focus in recent years has been in developing housing for sale, especially for retirement or family homes. Keystone also provides a Design & Build Service to Group members on the delivery of the affordable homes programme. This has generated significant savings for Group members on development costs.

Corporate Rating

The Group was assigned a credit rating of "A3" from Moody's on 26 September, 2017 which was confirmed on 3 January, 2018. None of the individual Group entities hold credit ratings in their own right.

Moody's is established in the European Union and is registered under Regulation (EU No 1060/2009) (as amended) (the "**CRA Regulation**") (and, as such, is included in the list of credit rating agencies published by the European Securities Market Authority on its website in accordance with the CRA Regulation).

Corporate Governance

The Group follows best practice with regard to corporate governance and will, where appropriate, use all reasonable endeavours to comply with the National Housing Federation's Code of Governance for Promoting Board Excellence for Housing Associations 2015.

The focus of LG's Board (the "**Group Board**") is on strategy for the Group, although it also has responsibility for overseeing performance and establishing and maintaining appropriate systems of internal control for all Group members.

The Group Board members are recruited to the Group Board in accordance with a skills and competencies framework, thus ensuring that professional, commercial and local experience is brought onto the Group Board. All Group Board members undertake an annual appraisal of their contribution, which is discussed with the Group Board chair and where necessary an action and training plan is agreed. Group Board members also sit on other Board and Committees across the Group, two members sit on the Homes Board (as defined below), two members on the Keystone Board (as defined below), three members on the Issuer Board, Libra Board (defined below) and Finance & Treasury Committee (as defined below) and two members on the Audit & Risk Committee (as defined below). Specific responsibilities have been delegated to committees of the Group Board, which have their own approved terms of reference. The committees are as follows:

The **Development Committee** is responsible for overseeing the Group's affordable homes Development and Sales programme in line with the approved Business Plan. The Development Committee is also responsible for approving new developments and land banks where they fall outside of the scheme of delegation for officers to approve.

The Development Committee also has responsibility for reviewing the key risks associated with the development and sales programme and for reporting any issues of concern to the Group Board.

The **Remuneration and Nominations Committee** is responsible for reviewing employee pay and rewards, making recommendations to the Group Board on any changes each year. The Committee is also responsible for overseeing the CEO and Board appraisal process and for making recommendations on the appointment of new Board members.

The **Audit & Risk Committee** oversees the formal process of Audit, Risk Management and Business Excellence across all Group companies providing a link on these issues between the Group Board, the Homes Board, the Keystone Board, the Libra Board and the Issuer Board.

The chairperson of the Audit & Risk Committee also sits on the Finance & Treasury Committee and provide a link between both Committees on issues of common interest.

The **Finance & Treasury Committee** focuses on the Group's treasury strategy and monitors compliance with the approved treasury policy. The Committee is also responsible for reviewing financial performance across the Group and for escalating any areas of concern to the Group Board.

The Group's governance structure incorporates a co-terminous Board, known as the "**Homes Board**", which governs the four RPs in the Group, and the members of which are set out in the description of L&H below.

The Group has a group structure arrangement that meets the regulatory requirements of the Regulator. Parental control is exercised by LG through powers contained in the rules or (as the case may be) articles of association of each of its subsidiaries which are RPs and in intra-group agreements ("**IGAs**") which together enable the Group to appoint all or a majority of board members or to remove all or any board members and to approve business, funding, operational and other financial plans of such subsidiaries. The IGAs also provide for dispute resolution between the parties, however none of the Group members can leave the Group without the consent of LG or/notifying the Regulator.

The Group Board and the Homes Board are supported by an experienced executive team to ensure adherence to all relevant law, the interests of taxpayers and the reputation of the sector are protected and the Group operates in accordance with the rules, the IGAs and other governance documentation and complies with relevant regulatory requirements.

Regulatory Judgement

The Group was subject to an in-depth assessment ("**IDA**") by the Regulator of Social Housing during January and February 2017. The Regulator published the outcome of the IDA on 29 March, 2017 which concluded that LG met both the viability and governance standards and graded LG as 'G1' for governance and 'V1' for viability. This judgement was carried out against LG and the other RPs in the Group (other than Axiom, which joined the Group as a subsidiary of LG on 7 July, 2017) were also included under this judgement. This is a routine process of regulation which assesses an organisation's performance as outlined in the Regulator's Governance and Viability Standard. The 'G1' rating means that the Issuer meets the requirements on governance set out in the Governance and Financial Viability Standard. The 'V1' rating means that the Issuer meets the requirements on viability set out in the Governance and Financial Viability Standard and has the capacity to mitigate its exposures effectively. As part of a stability check, on 20 December, 2017, the Regulator issued a regulatory judgement which confirmed LG's ratings as 'G1' for governance and 'V1' for viability.

DESCRIPTION OF GROUP MEMBERS

LONGHURST GROUP LIMITED

Incorporation and Status

LG is a company limited by guarantee, incorporated in England and Wales on 23 March, 2000 (registered number 3958380) and is a not for profit RP registered with the Regulator (registered number L4277).

The registered office of LG is 50 Newhall Hill, Birmingham, England, B1 3JN. The telephone number of its registered address is 0345 30 90 700.

Principal Activities of LG

LG's principal activity is the provision of corporate services and strategy developments for the Group. It should, however, be noted that the Issuer will only have recourse to those entities which are, from time to time, Borrowers and will not have any recourse to LG itself or to other members of the Group which are not Borrowers.

LG Executive Team

LG's executive team includes a Chief Executive, a Deputy Chief Executive and a Chief Financial Officer.

<u>Name</u>	<u>Board/Committee membership</u>	<u>Principal activities outside of LG</u>
Julie Doyle <i>Group Chief Executive</i>	<i>Homes Board, Group Board</i>	<i>Board Member at Hanover Housing Association</i>
Robert Griffiths <i>Deputy Chief Executive and Chief Financial Officer</i>	<i>Issuer Board, Libra Board, Keystone Board, Finance & Treasury Committee</i>	<i>Chair of Housing SORP Working Party</i> <i>Board Member and Chair of Audit & Risk Committee at Lincolnshire Housing Partnership</i> <i>Member of Technical Advisory Group at Financial Reporting Council</i> <i>Member of the Employers Committee at the Social Housing Pensions Scheme</i>
Louise Platt <i>Executive Director of Care and Business Partnerships</i>	<i>None</i>	<i>None</i>
Ian Jackson <i>Executive Director of Portfolio Investment</i>	<i>None</i>	<i>Co-opted to board of Suffolk Housing Society</i> <i>Vice chair of the finance and general purposes committee for Peterborough Regional College</i>
Jonathan Driffill <i>Executive Director of Partnerships</i>	<i>None</i>	<i>Vice Chair of Birmingham Social Housing Partnership</i> <i>Board member of Castle Vale Housing Association</i>
Lynn Stubbs <i>Executive Director of People and Performance</i>	<i>Homes Board</i>	<i>None</i>

Sharon Guest <i>Executive Director of Housing Services</i>	<i>None</i>	<i>None</i>
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Group Board

The LG Board is the Group Board and is made up of nine persons all of whom operate in a non-executive capacity as listed below:

<u>Name</u>	<u>Board/Committee membership</u>	<u>Principal activities outside of LG</u>
Robert Wilson <i>Group Board Chair</i>	<i>Group Board, Keystone Board, Remuneration and Nominations Committee and Development Committee</i>	<i>None</i>
Patricia Stanley	<i>Group Board</i>	<i>Board member of an NHS Foundation Trust, where she also chairs the Audit and Assurance Committee</i>
Clive Barnett <i>Chair of Libra, Chair of the Issuer, Chair of Finance & Treasury Committee</i>	<i>Libra Board, Group Board, Issuer Board, Finance & Treasury Committee</i>	<i>Finance & Treasury Committee member at Aster Group</i>
Daniel Elkins	<i>Libra Board, Group Board, Issuer Board, Remuneration and Nominations Committee, Finance & Treasury Committee</i>	<i>Runs a consultancy business that specialises in large-scale transformational change, primarily for the NHS.</i>
Hilary Lindsay <i>Chair of the Audit & Risk Committee</i>	<i>Libra Board, Group Board, Issuer Board, Remuneration and Nominations Committee, Finance & Treasury Committee, Audit & Risk Committee</i>	<i>Doctoral supervisor and researcher at The Open University</i>
Julie Doyle <i>Group Chief Executive</i>	<i>Group Board, Homes Board</i>	<i>Board member at Hanover Housing Association</i>
Parmjit Dhandra	<i>Group Board, Audit & Risk Committee</i>	<i>Executive Director – Back Heathrow</i>
Patricia Brandum <i>Group Board – Vice Chair</i>	<i>Keystone Board, Group Board and Development Committee</i>	<i>Board member – Paradigm Housing Group.</i>
Stephen Wenham <i>Homes Board Chair</i>	<i>Group Board, Homes Board, Remuneration and Nominations Committee</i>	<i>Stephen has worked within the public, private and voluntary and community sectors across both the East and West Midlands. Key areas of work include SME business development, community engagement, social enterprise and urban regeneration</i>

Recent Developments

There have been no recent events particular to LG or Group members that are, to a material extent, relevant to the evaluation of LG's solvency.

Conflicts of Interest

There are no potential conflicts of interest between any duties to LG of any of the directors listed above and their private interests or other duties.

LONGHURST & HAVELOK HOMES LIMITED

Incorporation and Status

L&H was formed in October 2009 from the amalgamation of two former subsidiaries (Longhurst Homes Limited and Havelok Homes Limited). L&H is a charitable co-operative and community benefit society (FCA registered number 030779R) and registered with the Regulator as a not for profit RP (registered number L4542).

The registered office of L&H is Leverett House, Gilbert Drive, Endeavour Park, Boston, Lincolnshire PE21 7TQ. The telephone number of its registered address is 0800 11 14 013.

Longhurst Homes (now Longhurst & Havelok Homes Limited) was appointed as sole trustee of The Teetotal Homes in May 1998, providing housing management and technical services/advice. The Teetotal Homes is a registered charity which exists to provide housing for retired people in Ruskington, Lincolnshire.

Principal Activities of L&H

L&H's principal activity is owning, managing and developing market, affordable and social rented housing in its core areas of operation. L&H currently owns and manages around 10,040 homes. L&H is also involved in the provision of care and support services and is a specialist provider of retirement leasehold houses.

Share Capital and Major Shareholders

The entire issued share capital of L&H comprises 10 shares of £1.00 each, all of which are fully paid up. The shares are classified as non-equity. Each share carries voting rights but no rights to dividends, distributions on winding up or rights of redemption.

L&H Board

L&H, Spire, Friendship Care and Housing Limited ("FCH") and Axiom are all governed by the Homes Board, which is made up of nine persons, all of whom are as listed below:

Name	Board/Committee membership	Principal activities outside Homes Board
Stephen Wenham <i>Chairperson</i>	<i>Group Board, Homes Board, Remuneration and Nominations Committee</i>	<i>Stephen has worked within the public, private and voluntary and community sectors across both the East and West Midlands. Key areas of work include SME business development, community engagement, social enterprise and urban regeneration</i>
Andrew Bish	<i>Homes Board</i>	<i>Freelance management consultant, specialising in public services and holds a Masters degree in Transformational Government</i>
Angela Morris Manjula Sachdeva	<i>Homes Board</i> <i>Homes Board</i>	<i>None</i> <i>Committee member of EM Lawshare, a legal services consortium for public bodies</i>
Paul Smith	<i>Homes Board</i>	<i>Director of Foundations, which oversees the national network of home improvement agencies</i>

Karen Preece	<i>Homes Board, Audit & Risk Committee</i>	<i>Director of Finance and Administration for Reall (Homeless International)</i>
Peter Oliver	<i>Homes Board, Audit & Risk Committee</i>	<i>Peter is a Director of Savills (UK) Ltd and a Fellow of the Royal Institution of Chartered Surveyors</i>
Julie Doyle <i>Group Chief Executive</i>	<i>Group Board, Homes Board</i>	<i>Board Member of Hanover Housing Association</i>
Lynn Stubbs <i>Executive Director of People and Performance</i>	<i>Homes Board</i>	<i>None</i>

Conflicts of Interest

There are no potential conflicts of interest between any duties to L&H of any of the directors listed above and their private interests or other duties.

SPIRE HOMES (LG) LIMITED

Incorporation and Status

Spire is a company limited by guarantee, incorporated in England and Wales on 20 July, 2000 (with number 4043921) and a registered charity (number 1140935). It is a not for profit RP registered with the Regulator (registered number LH4302).

The registered office of Spire is 1 Crown Court, Crown Way, Rushden, Northamptonshire, NN10 6BS. The telephone number of its registered office is 0300 123 6611.

Spire has no subsidiaries.

Principal Activities of Spire

Spire's principal activity is owning, managing and developing social rented housing in its core areas of operation. Spire currently owns and manages approximately 5,820 homes. The majority of Spire's assets were transferred to Spire pursuant to a stock transfer from East Northamptonshire District Council in February 2001, and a further stock transfer from Rutland County Council in November 2009.

Spire Board

Spire is governed by the Homes Board, which comprises of nine members as listed above.

Conflicts of Interest

There are no potential conflicts of interest between any duties to Spire of any of the directors on the Homes Board above and their private interests or other duties.

FRIENDSHIP CARE AND HOUSING LIMITED

Incorporation and Status

FCH is a charitable co-operative and community benefit society established on 31 January 1956 (FCA registered number 31247R) registered with the Regulator as a not for profit RP (registered number 4645).

The registered office of FCH is 50 Newhall Hill, Birmingham, B1 3JN. The telephone number of its registered office is 0300 123 1745.

FCH has one subsidiary, Beechdale Community Development Limited (a co-operative and community benefit society with FCA registered number 29992R).

Principal Activities of FCH

FCH's principal activity is the management of the social rented housing stock that it owns across its core area of operation. FCH currently owns and manages around 4,381 homes. FCH is also involved in the provision of care and support services.

Share Capital and Major Shareholders

The entire issued share capital of FCH comprises 10 shares of £1.00 each, all of which are fully paid up. The shares are classified as non-equity. Each share carries voting rights but no rights to dividends, distributions on winding up or rights of redemption.

FCH Board

FCH is governed by the Homes Board, which comprises of nine members as listed above.

Conflicts of Interest

There are no potential conflicts of interest between any duties to FCH of any of the directors on the Homes Board above and their private interests or other duties.

AXIOM HOUSING ASSOCIATION LIMITED

Incorporation and Status

Axiom is a charitable co-operative and community benefit society established on 22 May, 1967 (FCA registered number 17971R) registered with the Regulator as a not for profit RP (registered number L0395). The registered office of Axiom is Axiom House, Cottesmore Close, Netherton, Peterborough, Cambridgeshire PE3 9TP. The telephone number of its registered office is 01733 347 135.

Axiom has two subsidiaries Axiom Care Limited (a company limited by guarantee with company number 7837958) and Axiom Homeless Action Limited (a company limited by guarantee with company number 2626686). Axiom intends to shortly consolidate the assets of each of these entities into Axiom and thereafter dissolve each such entity.

Principal Activities of Axiom

Axiom's principal activity is the management of the social rented housing stock that it owns across its core area of operation. Axiom currently owns and manages around 2,165 homes. Axiom is also involved in the provision of care and support services.

Share Capital and Major Shareholders

The entire issued share capital of Axiom comprises 17 shares of £1 each, all of which are fully paid up. The shares are classified as non-equity. Each share carries voting rights but not rights to dividends, distributions on winding up or rights of redemption.

Axiom Board

Axiom is governed by the Homes Board, which comprises of nine members as listed above.

Conflicts of Interest

There are no potential conflicts of interest between any duties to Axiom of any of the directors listed in the Homes Board above and their private interests or other duties

KEYSTONE DEVELOPMENTS (LG) LIMITED

Incorporation and Status

Keystone is a not for profit company limited by guarantee, incorporated in England and Wales (with number 04285612).

The registered office of Keystone is Leverett House, Gilbert Drive Endeavour Park, Boston, Lincolnshire PE21 7TQ. The telephone number of its registered office is 0845 30 90 700.

Keystone has no subsidiaries.

Principal Activities of Keystone

Keystone's principal activity is the development of new housing on behalf of the Group specialising in private housing for sale, particularly retirement properties. Surpluses made from its activities are currently re-invested back into the business as working capital to reduce the borrowing requirement on new development projects. It should, however, be noted that the Issuer will only have recourse to those entities which are, from time to time, Borrowers and will not have any recourse to Keystone itself or to other members of the Group which are not Borrowers.

Directors

The directors of Keystone and their other principal activities are:

<u>Name</u>	<u>Board/Committee membership</u>	<u>Principal activities outside of LG</u>
Patricia Brandum <i>Chairperson</i>	<i>Group Board, Keystone Board</i>	<i>Board member – Paradigm Housing Group</i>
Robert Griffiths <i>Deputy Chief Executive and Chief Financial Officer</i>	<i>Issuer Board, Libra Board, Keystone Board, Finance & Treasury Committee</i>	<i>Chair of Housing SORP Working Party</i> <i>Board Member and Chair of Audit & Risk Committee at Lincolnshire Housing Partnership</i> <i>Member of Technical Advisory Group at Financial Reporting Council</i> <i>Member of the Employers Committee at the Social Housing Pensions Scheme</i>
Alan Lewin	<i>Libra Board, Issuer Board, Keystone Board, Finance & Treasury Committee and Development Committee</i>	<i>Board Member at Hundred Houses Society Cambridge</i> <i>Chair of Greater Cambridgeshire and Peterborough Housing Association Partnership</i>
Robert Wilson <i>Group Board Chair</i>	<i>Group Board, Keystone Board, Remuneration and Nominations Committee and Development Committee</i>	<i>None</i>
Stephen Wenham <i>Homes Board Chair</i>	<i>Group Board, Homes Board, Remuneration and Nominations Committee</i>	<i>Stephen has worked within the public, private and voluntary and community sectors across both the East and West Midlands. Key areas of work include SME business development, community engagement, social enterprise and urban regeneration.</i>

Conflicts of Interest

There is one potential conflict of interest which exists in respect of the Keystone Board and Development Committee in relation to commercial developments which include an element of affordable housing. The members of the Development Committee are the same as the Board members of Keystone and, as such, there is a potential for a conflict where a commercial development includes an element of affordable housing and the value which is attributed. If a conflict of interest were to arise, the Group Board would make a decision on the value for the affordable housing, with reference to the specific circumstances of the relevant development (including, without limitation, the nature of the development and its geographical location), and having taken professional advice.

LIBRA (LONGHURST GROUP) TREASURY PLC

Incorporation and Status

Libra was incorporated under the Companies Act 2006 on 21 May, 2012 and is a public limited company incorporated in England and Wales with registered number 8077172.

The registered address of Libra is Leverett House, Gilbert Drive, Endeavour Park, Boston, Lincolnshire PE21 7TQ. The telephone number of its registered address is 0345 30 90 700.

Libra has no subsidiaries.

Principal Activities of Libra

Libra is a special purpose treasury vehicle established for the purpose of raising finance and on lending such finance for the benefit of the Group, acting as treasury manager for the Group and performing any acts incidental to or necessary in connection with the foregoing. It should, however, be noted that the Issuer will only have recourse to those entities which are, from time to time, Borrowers and will not have any recourse to Libra itself or to other members of the Group which are not Borrowers.

Directors

The directors of Libra and their other principal activities are:

Name	Board/Committee membership	Principal activities outside the Issuer
Robert Griffiths <i>Deputy Chief Executive and Chief Financial Officer</i>	<i>Issuer Board, Libra Board and Keystone Board, Finance & Treasury Committee</i>	<i>Chair of Housing SORP Working Party</i> <i>Board Member and Chair of Audit & Risk Committee at Lincolnshire Housing Partnership</i> <i>Member of Technical Advisory Group at Financial Reporting Council</i> <i>Member of the Employers Committee at the Social Housing Pensions Scheme</i>
Clive Barnett <i>Chair of Libra, Chair of the Issuer, Chair of Finance & Treasury Committee</i>	<i>Libra Board, Group Board, Issuer Board, Finance & Treasury Committee</i>	<i>Finance & Treasury Committee member at Aster Group</i>
Daniel Elkins	<i>Libra Board, Group Board, Issuer Board, Remuneration and Nominations Committee and Finance & Treasury Committee</i>	<i>Runs a consultancy business that specialises in large-scale transformational change, primarily for the NHS</i>

Alan Lewin	<i>Libra Board, Issuer Board, Keystone Board, Finance & Treasury Committee and Development Committee</i>	<i>Board Member at Hundred Houses Society Cambridge Chair of Greater Cambridgeshire and Peterborough Housing Association Partnership</i>
Hilary Lindsay <i>Chair of the Audit & Risk Committee</i>	<i>Libra Board, Issuer Board, Group Board, Remuneration and Nominations Committee, Finance & Treasury Committee, Audit & Risk Committee</i>	<i>Doctoral supervisor and researcher at The Open University</i>

The business address of each of the directors is Leverett House, Gilbert Drive, Endeavour Park, Boston, Lincolnshire PE21 7TQ.

The Secretary of Libra is Robert Griffiths whose business address is Leverett House, Gilbert Drive, Endeavour Park, Boston, Lincolnshire PE21 7TQ.

There are no potential conflicts of interest between the directors' duties to Libra and their private interests and/or duties. However, Robert Griffiths is an employee of LG and most of the other directors are board members of LG as set out in more detail above, with Robert Griffiths and Alan Lewin being also board members of the Issuer and Keystone. A conflict of interest could therefore arise if, for example, these directors are required to approve any transactions between Libra and LG or the Issuer or Keystone. However, Libra's articles of association provide that, so long as directors disclose the nature and extent of certain conflicts, they may nevertheless vote on behalf of Libra in respect of the relevant transactions. Acting in such capacity, there is an overriding duty to act in the best interests of Libra.

Libra has no employees but has available to it the treasury and business resources of LG to enable it to administer its business and perform its obligations.

Share Capital and Major Shareholders

The entire issued share capital of Libra comprises 50,000 ordinary shares of £1 each, all of which are fully paid up.

LG holds all of the shares of Libra.

ALTERNATIVE PERFORMANCE MEASURES

The Group believes that certain financial measures that are not recognised by UK GAAP, or FRS 102 (the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland (the "**Financial Reporting Standards**")), that are derived from the information provided in the Group's annual consolidated financial statements, provide additional useful information regarding its ongoing operating and financial performance, as well as the Group's ability to meet its obligations under the Bonds.

These measures are not recognised measures under the Financial Reporting Standards, do not have standardised meanings prescribed by the Financial Reporting Standards and should not be considered in isolation or construed to be alternatives to measures pursuant to the Financial Reporting Standards, including revenues, net income/(loss) and comprehensive income/(loss). The Group's method of calculating these measures may differ from the method used by other entities. Accordingly, certain of the financial performance measures presented in this Prospectus may not be comparable to similarly titled measures used by other entities or in other jurisdictions. Consequently, these measures should not be considered substitutes for the information contained in the financial statements referred to in "*Consolidated Financial Information on the Borrowers and the Group*" below and should be read in conjunction therewith.

In particular, the Group uses the financial measures set out, and defined in, the table below to evaluate the business performance of the Group. All references to the "financial statements" in the table below are to

the Group's audited consolidated annual financial statements, which include the report of the Board, the strategic report, the independent auditor's report and annual accounts, for the relevant financial years.

		Reconciliation	
		<i>(all references are to the audited consolidated financial statements of LG for the year ended 31 March 2017)</i>	
Alternative Performance Measure Metric	Definition	Reconciliation	Additional Information
Operating Surplus as a percentage of Turnover	(a) Operating Surplus divided by (b) Turnover, expressed as a percentage	"Operating Surplus" and "Turnover" are taken from the Consolidated Statement of Comprehensive Income	Operating margin is a measure of profitability. This ratio indicates the efficiency of the Group's financial performance by showing how much of each £1 of revenues is left after operating costs are deducted
Operating Costs per Unit under Management	(a) Operating Costs divided by (b) Total Housing Stock	"Operating costs" is taken from the Statement of Comprehensive Income "Total Housing Stock" is taken from Note 4 to the Financial Statements	This is an efficiency and value for money ratio that indicates operating costs per unit under management
Operating margin – Social housing lettings	(a) Management costs for social housing lettings divided by (b) total social housing units managed	"Management costs for social housing lettings" is taken from expenditure on letting activities (management) in Note 3b to the Financial Statements "Total social housing units managed" is taken from Note 4 to the Financial Statements	This is an efficiency and value for money ratio that indicates management costs per social housing unit under management
EBITDA-MRI	(a) Operating surplus, deducting (b) amortised government grant, adding back (c) depreciation on housing properties, adding back or deducting (d) impairment of housing properties, deducting (e) capitalised major repairs and adding back (f) actuarial gain/(loss) in respect of pension schemes.	"Operating surplus" as above "Amortised government grant" in relation to social housing lettings is taken from Note 3b to the Financial Statements "Depreciation of housing properties" and "Impairment of housing properties in relation to social housing lettings" are taken from Note 3b to the Financial Statements "Capitalised major repairs" is taken from the table in Note 13(a)	This indicates the cash operating performance of the Group, representing earnings before interest, tax, depreciation and amortisation adding back major repair capitalised costs

			to the Financial Statements and is shown as "Components Capitalised"	
			"Actuarial gain/(loss) in respect of pension schemes" is taken from Note 12 to the Financial Statements	
Net Cash Interest	(a) Cash Interest Paid deducting (b) Cash Interest Received	"Cash Interest Paid" is taken from the Consolidated Statement of Cash Flows "Cash Interest Received" is taken from the Consolidated Statement of Cash Flows	This indicates the net cash interest paid by the Group on its debt obligations and adjusts net interest payable (see below) by interest capitalised into work in progress.	
EBITDA-MRI / Net Cash Interest	(a) EBITDA-MRI divided by (b) Net Cash Interest, expressed as a percentage	"EBITDA-MRI" as above "Net Cash Interest" as above	This is a risk indicator that measures the ability of the Group to cover its interest payable from its cash operating performance	
Total Debt	(a) Creditors: Amounts falling due within 1 year plus (b) Creditors: Amounts falling adding amounts falling due after more than 1 year	" Creditors: Amounts falling due within 1 year " is taken from Note 19 to the Financial Statements and is shown as "Loans and overdrafts" " Creditors: Amounts falling adding amounts falling due after more than 1 year " is taken from Note 20(a) to the Financial Statements and is shown as "Loans"		
Historic Cost of Properties	(a) Historic Cost of completed housing properties including (b) properties under construction	"Historic Cost" is taken from Note 13(a) to the Financial Statements and is shown as "Cost" "Properties under construction" is taken from the columns "Social Housing Properties for letting under Construction" and "Low cost home ownership properties under construction" are both taken from Note 13 to the Financial Statements		
Gearing / Leverage	(a) Total Debt deducting (b) Cash and cash equivalents divided by (c) Historic Cost of Properties, expressed as a	"Total Debt" as above "Historic Cost of Properties" as above "Cash and cash equivalents" as above	This indicates the proportion of debt to housing property assets	

Net Debt	percentage (a) Total Debt deducting (b) Cash and cash equivalents	"Total Debt" as above "Cash and cash equivalents" is taken from the Statement of Financial Position	
Net Debt per Unit in Management	(a) Net Debt divided by (b) Total Housing Stock	"Net Debt" as above "Total Housing Stock" as above	This is a risk indicator that shows the level of indebtedness on a per unit basis
Recurrent Cash Interest Coverage	(a) Operating Surplus plus (b) Depreciation of housing properties, divided by (c) Net Cash Interest	"Operating Surplus" as above "Depreciation of housing properties" as above "Net Cash Interest" as above	This indicates how comfortably the Group's operating cash flow can service the Group's net interest costs. Depreciation (non-cash) is added back to operating surplus to give a proxy for operating cash flow
Social Housing Interest Coverage	(a) Turnover from Social Housing Lettings deducting (b) Operating Expenditure on Social Housing Lettings, divided by (c) Net Cash Interest	"Turnover from Social Housing Lettings" and "Operating Expenditure on Social Housing Lettings" are taken from Note 3 to the Financial Statements "Net Cash Interest" as above	Social housing interest cover is a measure of how comfortably the operating surplus from the Group's core social housing business stream can service the Group's net financing costs
Turnover from Social Housing Lettings as a percentage of Turnover	(a) Turnover from Social Housing Lettings divided by (b) Turnover, expressed as a percentage	"Turnover from Social Housing Lettings" as above "Turnover" as above	Turnover from social housing lettings informs what proportion of each £1 of revenues comes from its core social housing business stream
Turnover Growth	(a) Turnover in respect of a financial year deducting (b) Turnover in respect of the immediately preceding financial year divided by (c) turnover in respect of the immediately preceding financial, expressed as a percentage	"Turnover" as above	This indicates the growth in turnover in any financial year against the previous financial year
Margin on Sales	(a) Turnover from first tranche low cost homes sales, adding (b) Turnover from open market sales and deducting (c) first tranche low cost homes cost of sales, and (d) open market sales cost of sales divided by (e) turnover from first tranche low cost homes sales adding open market sales	Turnover and Costs of Sales from "first tranche low cost homes sales" is taken from Note 2a to the Financial Statements Turnover and Cost of Sales from open market sales is taken from Note 2a to the Financial Statements and is shown as "Properties developed for outright sale"	This indicates margin performance on sales activities and would be considered against the Group's minimum expected returns. Cost of sales includes interest costs which have been capitalised as part of each development and expensed as part of each sale

RECENT DEVELOPMENTS

Recent Developments

There have been no recent events particular to the Issuer that are, to a material extent, relevant to the evaluation of the Issuer's solvency.

CONSOLIDATED FINANCIAL INFORMATION ON THE BORROWERS AND THE GROUP

Beever and Struthers, Chartered Accountants and Statutory Auditor (the "**Auditor**") have given and have not withdrawn their consent to the inclusion in this Prospectus of their Auditor's Reports on the financial information of the Borrowers and the Group, as set out below, in the form and context in which they appear and has authorised the contents of those parts of this Prospectus which comprise its reports for the purpose of Rule 5.5.4R(2)(f) of the Prospectus Rules.

The audited consolidated financial statements for LG and each Borrower, including the reports of the auditors, for the financial years ended 31st March, 2016 and 31st March, 2017 are set out below.

The consolidated financial statements of LG (each of which shows the consolidated position of the Group, other than Axiom, which joined the Group as a subsidiary of LG on 7 July, 2017 (see "*Description of the Group*" for further information) and is therefore not included in the Group's consolidated financial statements (as set out in part 5 below)) are included for information purposes only. As at the date of this Prospectus, the Borrowers in aggregate comprise substantially all of the Group (see "*Description of the Group*" for further information). The Issuer therefore believes that the inclusion of the consolidated financial statements of LG are necessary to enable investors to make an informed assessment of the financial position of the Issuer and of the rights attaching to the Bonds.

It should, however, be noted that the Issuer will only have recourse to those entities which are, from time to time, Borrowers and will not have any recourse to Group entities which are not Borrowers, being (as at the date of this Prospectus) LG, Libra and Keystone.

Trading Update

The Group published their consolidated unaudited trading update for the period ending 31 December 2017 on 26 April, 2018. For the period of nine months to 31 December, 2017, the Group had a turnover of £108.8 million, with an operating surplus of £33.8 million, which represents an operating margin of 31.02%. During the period, there is an adjustment to write off negative goodwill of £5.2 million following the acquisition of Axiom on 7 July, 2017.

Part 1

AXIOM HOUSING ASSOCIATION LIMITED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 MARCH, 2017

AXIOM HOUSING ASSOCIATION
FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2017

CONTENTS

	Page
Legal and Administrative Details	2
Board Report and Responsibilities	3 - 24
Report of the Independent Auditors	25
Statement of Comprehensive Income	26
Statement of Financial Position	27
Statement of Changes in Reserves	28
Statement of Cash Flows	29
Notes to the Financial Statements	30 – 56

AXIOM HOUSING ASSOCIATION
REPORT OF THE BOARD OF MANAGEMENT

Board, Executive and Advisers

Board Members

Andrew Bish^{◇β}
Vanessa Connolly^{+*β*} (Chair of Resident Services Committee)
Mervyn Cowdell^{◇+*}
Patricia Dearnaley^{*}
David Fowler^{◇*} (Chair of Governance)
Marie Li Mow Ching^{◇β*} (Vice Chair of Board, Chair of Finance & Audit Committee)
Hilary Lindsay^{*} (Chair of Board)
Angela Morris^{◇+β*} (Chair of Care & Support Committee)
Brian Webster^{+β}
Arthur Wood^{◇β*} (Vice Chair of Board, Chair of Development & Assets)
Christine Wood^{+*}
Alan Lewin^{+♣} (Chief Executive)

Committees of the Board

◇ Finance & Audit Committee
+ Resident Services Committee
* Care & Support Committee
β Development & Assets
* Governance

Executive Team

Alan Lewin^{+*} Chief Executive
Louise Platt Executive Director – Corporate Services
Stuart Fort Executive Director - Operations
Mark Oldaker Assistant Director – Finance & Assurance
Charmaine Simei Assistant Director – Operations
Karen Chambers Assistant Director – Care & Support

Registration Details

Registered Society (Co-Operative and Community Benefit Societies Act 2014) number: 17971R

Homes & Communities Agency number: L0395

Principal Solicitors

Buckles Solicitors LLP
Grant House
101 Bourges Boulevard
Peterborough
PE1 1NG

Trowers & Hamblins
3 Bunhill Row
London
EC1Y 8YZ

Birketts LLP
Kingfisher House
1 Gilders Way
Norwich
NR3 1UB

Devonshires Solicitors
30 Finsbury Circus
London
EC2M 7DT

External Auditors

Beever and Struthers
15 Bunhill Row
London
EC1Y 8LP

Internal Auditors

Mazars LLP
45 Church Street
Birmingham
B3 2RT

Bankers

Barclays Bank plc
1 Church Street
Peterborough
PE1 1XW

Registered Office

Axiom House
Cottesmore Close
Netherton
Peterborough
PE3 9TP

AXIOM HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

The Board of Management is pleased to present its report and audited financial statements for the year ended 31 March 2017.

Nature of the Association

Axiom Housing Association is a not-for-profit organisation registered with the Financial Conduct Authority as a Registered Society under the Co-Operative and Community Benefit Societies Act 2014 with charitable status. The Association was founded in 1967 and was registered with the Housing Corporation in 1975.

At 31 March 2017 the Association managed 2,268 properties (of which 2,249 properties are owned), had housing assets of £106.4 million and employed 308 people on full time, part time and zero hour contracts, providing a range of housing and support services to approximately 5,000 people in Cambridgeshire and Lincolnshire.

Business Objectives and Corporate Strategy

The mission of the Association is to make a positive difference to people's lives and our communities we provide with homes and services. The Association's primary activity is the provision of high quality, well designed, rented housing at affordable rents for those in most need. The Association also provides housing and related services and support for vulnerable people.

Corporate Strategy

We operate in a fast changing environment and the corporate strategy set the direction for the period 2015-2020, building on our traditional values, whilst strengthening operations and financial resilience to meet the challenges ahead. As part of the strategy the Association has reviewed opportunities for increased partnership working which have culminated in the expected joining the Longhurst Group on 3 July 2017 as per note 29. Further details are provided in the value for money statement on pages 9 to 23.

Corporate Objectives

1. To remain a **strong and successful** organisation
2. To provide **value for money and social value**
3. To **build** on our **strengths**
4. To provide **distinctive homes and person centred** services
5. To **work together**
6. To **build** our **community commitment**

Board Structure

The Board of Management exercises direct control over the affairs of the Association. During 2015 the board conducted a comprehensive review of its governance structure resulting in a revision of its committee governance structure. From September 2015 the board has been supported by a Finance and Audit Committee, a Governance Committee, a Residents Services Committee, a Care & Support Committee and a Development & Assets Committee. The constitution, terms of reference and authority delegated to these committees is reviewed and updated annually.

AXIOM HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

Statement of Board of Management's Responsibilities

The Board is responsible for preparing the report and financial statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Acts and registered social housing legislation require the Board of Management to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of the income and expenditure for that period.

In preparing these financial statements, the Board of Management is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Board of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for private registered providers of social housing in England in 2015. The Board of Management has general responsibility for taking reasonable steps to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

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

Corporate Governance

The Association adopted the National Housing Federation's (NHF) code of Excellence in Standards of Conduct in 2015 and incorporated this into the standing orders of the association. A statement of compliance is set out below:

Code reference:

- | | |
|-----------|---|
| A1 | The code is followed by the board and is annually reviewed. |
| A2 | The board is committed to uphold the code and reports relating to compliance and disclosure are set out in the annual report. |
| B3 | The register of interests is reviewed annually and is included within the annual report. |
| C3 and C4 | Payments to the board and board members are included in the audited accounts |
| C5 | The remuneration of the Chief Executive is included within the audited accounts |

The association has also adopted the NHF's 2015 Code of Excellence in Governance and is compliant with the following exception. The overall maximum period of office for a board member shall be three terms or nine years. The Association has one member, for whom an extension of membership has been approved up to September 2017 to enable Axiom to make use of his skills and knowledge during its evaluation and negotiation of a potential merger with the Longhurst Group which was approved by board on 10 April 2017 and by shareholders at the special general meeting held on 16 May 2017.

The board confirms that the Association has met the Homes and Communities Agency's (HCA) regulatory expectations in the governance and financial viability standard. This requires regulated housing associations to comply with all relevant law, their own governing documents and regulatory requirements. The Board has reviewed evidence from internal management reports, independent audit reports and has considered the scope of legislative and regulatory requirements across the Association's sphere of operations and is satisfied the Association has complied with the regulatory and legal requirements.

AXIOM HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

Statement on Internal Controls

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

The Board of Management recognises that no system of internal control can provide absolute assurance or eliminate all risk. The system of internal control is designed to manage risk and to provide reasonable assurance that key business objectives and expected outcomes will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the Association's assets and interests.

In meeting its responsibilities, the Board of Management has adopted a risk-based approach to internal controls which are embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Association is exposed and is consistent with Turnbull principles. The risk assessments are reviewed and updated for each Committee meeting and reported to the board.

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

- **Identification and evaluation of key risks**

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is a formal and ongoing process of management review in each area of the Association's activities. This process is co-ordinated through a regular reporting framework. The management team regularly considers significant risks facing the Association and they are responsible for reporting to the Board of Management any significant changes affecting key risks.

- **Monitoring and corrective action**

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

- **Control environment and control procedures**

The Board of Management retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues including treasury strategy and new investment projects. The Board of Management has adopted, and disseminated the principles to all employees, the NHF codes of Excellence in Governance 2015 and Excellence in Standards of Conduct 2012. In addition the Board reviews and updates standing orders and financial regulations biannually. These set out the Association's policies with regard to the quality, integrity and ethics of its employees. It is supported by a framework of policies and procedures with which employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection and fraud prevention and detection.

- **Fraud prevention and detection**

The Association has embedded within the Internal Audit function a robust review of systems. These reviews of systems are designed not only to improve efficiencies, to recognise good practice, but are also designed to identify areas of risk that may lead to misappropriation, fraud, or attempted fraud.

- **Information and financial reporting systems**

Financial reporting procedures include detailed budgets for the year ahead and forecasts for subsequent years. A 40 year Business Plan is prepared and stress tested as part of the annual planning exercise. This is reviewed and approved by the Board of Management and monitored on a quarterly basis by the Finance & Audit committee. The Board of Management also regularly reviews key performance indicators via its Resident Services and Care & Support committees to assess progress towards the achievement of key business objectives, targets and outcomes.

AXIOM HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

The internal control framework and the risk management process are subject to regular review by the internal auditors who are responsible for providing independent assurance to the Board of Management via its Finance and Audit Committee. The Finance and Audit Committee considers internal control and risks at its meetings during the year.

In support of the Finance & Audit Committee, an Operational Risks Dashboard is prepared for monthly review. This report assesses procedural compliance and reports on incidents or breaches; it is examined in detail by the Wider Executive Team and reported to the committee. All underlying operational risks are updated as part of the risk review process for each committee risk register. The full strategic risk register is provided to the board twice per year.

The Finance and Audit Committee has received the management team's annual report on internal controls and has conducted its annual review of the effectiveness of the system of internal control taking account of any changes needed to maintain the effectiveness of the risk management and control process. The Finance and Audit Committee makes an annual report to the Board of Management.

The Board of Management confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Association. This process has been in place throughout the year under review, up to the date of the annual report, and is regularly reviewed by the Board of Management. During 2016-17 the board reviewed the risk appetite statement which forms part of the Risk Management policy.

Review of Business

- **Key Performance Indicators**

The Association measures its financial performance using a range of performance indicators that are reported quarterly to the Finance & Audit Committee. A small number of the indicators are considered to be key to monitoring and driving the continued improvement of the organisation and these are made available weekly to all board members and employees.

During 2016-17 the Association was able to report an improvement in the performance of rent arrears, rent loss due to voids, average re-let times and repairs completed within target. The performance of short term sickness absence worsened slightly to an average of 3.96 days lost per person, however long term sickness performance improved to 5.12 days lost per person compared with 5.66 days lost in 2015-16. The percentage of complaints resolved on target improved on last year, but the number of compliments received reduced again in 2016-17 to 97. These key indicators and their outcomes are summarised below:

Key Performance Indicators	2016-17	2015-16	Trend
Current tenant rent arrears as percent of income from social lettings	2.21%	2.70%	↓
Rent losses due to voids as percent of income from social lettings	1.27%	1.30%	↓
Average re-let times (weeks)	1.67	1.75	↓
Repairs completed within target time	99.63%	99.42%	↑
Complaints resolved on target	96.00%	93.00%	↑
Compliments received	25.00	136.00	↑
Average short-term sickness days lost per employee	3.96	3.31	↑
Average long-term sickness days lost per employee	5.12	5.66	↓

Table 1: Key Performance Indicators 2016-17 v. 2015-16

Each year the Association publishes a report to its tenants and stakeholders that incorporate the above indicators along with a wide range of other more detailed ratios and explanations on performance, including benchmark comparisons and trend data. This information is made available on the Association's website.

- **Income**

During the year the Association increased its turnover by 7.6% to £17.49 million (2016: £16.25million). This includes income from Axiom Care contracts for the full year of £1.545 million (2016: January to March 2016 of £401,000). If this increase is excluded, the underlying increase in income was 0.6%. This is driven by

AXIOM HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

inflationary rent rises of 2.2% determined by the HCA target 'rent influencing regime' for Sheltered and Supported and new developments. This is offset by the 1% rent reduction in General Needs.

- **Operating Surplus**

Overall the operating surplus for the year was £4.18 million (2016: £3.20 million). This represents a 23.9% (2016: 19.7%) margin over turnover. If the FRS 102 pension charge was removed (2017: £226,000 credit, 2016: £576,000 charge), the underlying operating margin was 22.6% (2016: 23.3%, FRS 102 pension charge also removed). The margin was also diluted by the inclusion of Axiom Care trading for the full year (2016: the last quarter only).

- **Interest**

Ordinary gross interest costs increased during the year as a result of additional borrowings and the impact of securing interest rate fixes. The average rate of interest incurred during the year 4.7% (2016: 4.85%). At the 31 March 2017 the proportion of loan stock subject to variable interest rate charges was 13% of the total debt (2016: 24%).

- **Net Surplus and Revenue Reserves**

The Association has recorded a net surplus for the year of £1,544,000, which includes a full year of Axiom Care. This result also includes an FRS 102 pension credit of £226,000 as outlined in the Consolidated Statement of Cash Flows ("Pension costs less contributions payable"). If this credit is added back, the surplus for the year is £1,318,000 (2016: £1,191,000). This marks a similar margin of net surplus to turnover of 7.5% compared to 7.3% for the prior year. The cumulative revenue reserves of the Association are £8.2m (2016 Restated: £6.6m).

- **Capital Investment**

The Association invested £2,711,000 (2016: £3,234,000) on major repairs and improvements to its housing stock during the year. Of this expenditure £1,630,000 (2016: £1,424,000) was taken as a cost in the Statement of Comprehensive Income. This included refurbishment of Moorside Court sheltered scheme.

- **Development**

During the financial year the Association accepted handover of 7 of 12 properties in Crowland. This is a section 106 scheme and includes shared ownership properties. A further property was built on existing land in Alconbury. At 31st March 2017, the Board of Management had authorised development expenditure of £16.0 million (2016: £16.9m).

Treasury Management

The Association finances its operations through a combination of borrowing and investment of revenue reserves. The Board of Management agrees the amount of borrowing and its terms. Through the use of revolving loan facilities, surplus funds are temporarily repaid in order to minimise borrowing costs rather than maximise investment income. During the year the Association prepaid a £5 million loan subject to a 3% interest rate floor and arranged a market purchase for £1m bond with an effective rate of interest of 7.3% using unutilised variable rate facilities at a rate of 2.1% per annum. Embedded interest rate fixes were also undertaken for another facility following the expiry of a fixed rate arrangement. An undrawn revolving facility and the loan facility with Peterborough City Council are secured and available to fund proposed development commitments for the next 40 months.

Rent Policy

The Association operates the "Rent Influencing Regime" policy defined by the Homes & Communities Agency. Target rents have been set for all properties let under assured tenancies, based on average earnings and property values in an area using the Homes & Communities Agency parameters. From April 2017 onwards the Association will apply 1% rent cuts to its social and affordable tenancies, this will continue each of the next two years until April 2019. Affordable rents have been applied on new developments in accordance with grant funding conditions. During the year the Association converted 23 tenancies from a social rent to an affordable rent where it was financially beneficial to do so. The average weekly increment upon conversion was £18.67.

AXIOM HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

Maintenance

Long term maintenance of the housing stock is carried out in accordance with a planned programme to ensure that building components are replaced when they reach the end of their useful life.

Maintaining the quality of our homes is a defined objective within the Association's corporate strategy. Axiom stock is of good quality in comparison to peer organisations due to its age (most stock is under 40 years old). In 2009 we carried out a comprehensive stock condition survey and increased the level of investment in our homes; we continue to survey 20% of our stock year on year and the overall survey informs our annual major works programme. This programme ensures that we replace components when they reach the end of their useful life and provides residents with a clear indication of component replacement dates.

Health & Safety

The Board of Management recognises the importance of the promotion of health & safety for all employees and the Association's operations generally. The Chief Executive is responsible for ensuring that the Association's policy on health and safety is enforced. It is the Association's policy to do all that is reasonable to protect everyone from foreseeable work hazards. The Care & Support Committee receive a summary of all incidents and QA checks at each scheduled meeting.

Employees

The Association recognises its legal and social obligations with respect to the employment of all people from minority and disadvantaged groups. The association has the accreditation "Positive about Disabled People". The Association is also a member of the Housing Diversity Network to learn and apply best practice. The Association has reviewed and updated its policies to comply with the Equality Act.

The Association values its staff and keeps all its employees informed on matters affecting them and the Association generally, through a weekly corporate bulletin "Inside Axiom". The Association has a formal Staff Consultative Group (SCG) which is complemented by regular team briefings and an annual staff conference. As part of the 2015 governance review the board created a governance role for a board member to have special interest in employee concerns. The portfolio holder for Exemplar Employee matters may attend SCG meetings and the SCG chair or vice chair represents staff at meetings of the board twice per year.

The Association continues to place great emphasis on engaging and retaining high calibre staff and investing in their training and development. The association has been accredited with an "Investors in People" Gold standard and in 2017 we are once again proud to have achieved recognition within the coveted Sunday Times Top 100 Companies to Work For, being placed 66th for the second time in the Not-for-profit category. Despite this success, we continue to improve our methods of developing, recognising and rewarding staff. The company operates a performance management system linking performance to training, personal development and rewards. The combined training cost in the financial year was £52k excluding the costs of the annual staff conference; several staff attended "lunch & learn" sessions provided by the Chartered Institute of Housing and other free sessions run by our solicitors in order to reduce pressure on the training budget.

A full review of absence management procedures and a comprehensive management training course was delivered in 2016 to address rising absence and support employee well-being. This is seen as an important intervention as the KPI statistics above show absence trend year on year is unfavourable.

AXIOM HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

Value for Money (VFM)

Axiom's mission is to deliver high quality homes and services that make a positive difference to people's lives and our communities. This means making the best use of the resources available to us to provide high quality homes, care and support services which in turn lead to improved quality of life and wellbeing of our residents and service users.

Our reputation for delivering responsive, innovative, value for money services generating positive outcomes for service users is strong amongst our customers and stakeholders. This strength continues to generate opportunities for growth in the provision of general needs housing and support, care and training services.

How we approach VFM

As a smaller and diversified provider of homes and services, our resources have had to be planned and managed appropriately to ensure that we maintain an optimum balance of the operating and financial risks of providing our care and support services alongside our traditional housing services. Since the introduction of the reduction in social and affordable rents by 1% per annum from 2016 to 2020, the external environment has continued to become less predictable and more challenging. Axiom has sought to continually improve the efficiency and management of its resources through restructuring and exiting non-viable activities.

The Board has overall responsibility for Value for Money. It annually reviews performance outcomes against corporate objectives within the Corporate Strategy. The VFM agenda is driven from the key priorities within the corporate strategy which was updated in 2015. In 2016 the Association's VFM policy was also reviewed and updated. During the year, the Board, via its Resident Services and Finance & Audit Committees, received regular monitoring reports on progress supplemented by independent reporting via internal audit and benchmarking.

Delivery of VFM

The Association has embraced a comprehensive approach to continuous improvement and VFM. The VFM policy is underpinned by a number of linked policies focussed on procurement, quality assurance, performance management, asset management, human resources and ICT.

Central to our approach is a performance management system that monitors performance against all annual improvement plans and objectives and is accessible to all employees via the Association's intranet. A selection of key performance indicators are also published to employees and the board on a weekly basis and the full range of over 100 performance indicators are scrutinised by the wider executive team on a quarterly basis.

Our Resident Services Committee, which is made up of Board members and tenants, examines and challenges progress against objectives and targets in our annual Service Plans every quarter. The Finance & Audit Committee monitor the delivery of financial efficiency objectives identified within the business plan and report regularly to the Board. All decisions of the Board and Committees are subject to a VFM assessment which will include social value considerations alongside financial ones, and be balanced against the objectives set out within the corporate strategy.

To ensure that VFM remains central to our everyday activities, each employee of the association is assessed annually against a revised competency framework that explicitly includes a competency linked to VFM.

VFM Achievements – Use of Resources and Return on Assets

Use of Resources

Due to its scale and high proportion of supported and care activities, Axiom has limited capacity to reinvest in **new housing developments**. The average size programme is 50 units per annum, based on SHG funded investments and section 106 schemes, although this has peaks and troughs. Each year the Board considers the capacity of the business plan to fund growth and development by reinvesting surpluses into new services and housing stock. Axiom reviewed its objectives to increase the supply of affordable housing, and set a three year target to build or acquire 132 new homes by March 2018. Delays in planning and a temporary suspension of older persons and supported development during 2016-17 mean that we are currently on course to complete 69 of those units by 31 March 2018 and have a further 80 on site and under construction.

AXIOM HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

The level of investment allocated to housing and new business development is established through a process of rigorous financial planning after allotting appropriate resources to resident led improvements, core service improvements and maintenance commitments.

In recognition of the relatively higher investment needed to develop specialised accommodation, the Axiom Board introduced a policy requiring that the mix of approved developments should be balanced in order to deliver a combined minimum average yield of at least 4%.

Individual development projects are financially appraised and must meet the Board's maximum payback decision criteria and, in combination, the programme must continue to meet the average yield target of 4% per annum. The table of approved or indicative funded developments, below, demonstrates how this target has been applied.

Scheme Name	Rental type	Rented Units	Sale Units	Weekly Rent per Unit £	Weekly Service Income per Unit £	Routine Repairs per unit per year £	Net Income per Annum per Unit £	Gross Investment per Unit £'000	Net Income YIELD per rental unit %	FY of completion
Crowland 1	Intermediate	5	5	£85.80	£ -	£ 250.00	£ 4,211.60	£ 95.10	4.43%	2017-18
Bassenhally Phase 2	Affordable	12	11	£121.89	£ -	£ 300.00	£ 6,038.19	£ 123.94	4.87%	2017-18
Bassenhally Extra Care	Affordable	60	-	£94.60	£117.32	£ 250.00	£ 5,322.07	£ 150.36	3.54%	2018-19
Flaxland, Bretton Gate	Affordable	10	10	£110.54	£ 5.00	£ 250.00	£ 5,387.13	£ 119.70	4.50%	2018-19
Crowland 2	Intermediate	4	4	£119.58	£ -	£ 250.00	£ 5,968.16	£ 101.05	5.91%	2020-21
HCA2017-21 RTHB	Affordable	42	0	£115.40	£130.30	£ 250.00	£ 5,750.80	£ 131.07	4.39%	2020-21
Bassenhally Phase 2A	Affordable	6	6	£91.99	£ -	£ 300.00	£ 4,483.48	£ 97.41	4.60%	2020-21
Total/ Weighted Average		139	26	£ 111.85	£ 76.44	£ 275.76	£ 5,764.50	£ 116.95	4.13%	

Table 2: completed and in progress development yield (excludes 43 unit exclusive affordable home ownership scheme)

The proposed introduction of a **Local Housing Allowance Cap** from April 2019 on Housing Benefit eligibility for housing for older persons and supported accommodation places material financial uncertainty upon the affordability of such schemes. Whilst the government announced that it will establish a ring-fenced funding pot, that will be administered by local authorities and be sufficiently large to compensate for the reduction in housing benefit; there remains much uncertainty regarding the size of that pot and its practical allocation.

In anticipation of these changes, in January 2017, local authority capital funding for a planned 27 unit young persons' foyer in Melton Mowbray was withdrawn, triggering large abortive costs in the year. In contrast, the 60 unit extra care scheme in Bassenhally, Whittlesey continues to be supported at both the local and county council level and is now expected to proceed to construction.

Return on Assets

We have good quality information on our assets including stock condition, energy efficiency, repair costs, rent collection levels, turnover and long term demand. The quality of our housing stock is good and relatively young in comparison with peers with 94% having been constructed post 1975, of which 26% has been constructed since the year 2000.

The **2017-2022 Asset Management Strategy** continues to provide for the ten year capital programme to 2026 that commits £25.5m of investment in cyclical and planned maintenance and improvements. Our strategy includes plans to continue with the programme to consider disposal of 78 identified older units as each becomes vacant, taking into account market value, increased future capital needs and the ability to convert the property to achieve our thermal efficiency targets. Sales proceeds from these disposals are applied to supporting new development and to funding improvements to sheltered and supported schemes and estates infrastructure. During 2016-17, 5 units were assessed and voluntarily disposed of; generating £0.7m of additional proceeds for reinvestment.

Key ratios for the operating and net returns on assets are measured and projected to ensure that asset growth is achieved in a sustainable way generating income streams for reinvestment in the future. Due to the size of the Association, the phasing of new developments may lead to a short-term deterioration in performance that

AXIOM HOUSING ASSOCIATION
REPORT OF THE BOARD OF MANAGEMENT

recovers once assets are fully commissioned. Table 3 below illustrates the actual and anticipated profile arising from completed and in-progress development activity as profiled within the 2017 Financial Business Plan.

	2016-17 Performance			2017-18		2018-19	
	Planned	Actual	Result	Projected	Trend	Projected	Trend
	£ / %	£ / %		£ / %		£ / %	
Operating Return on Assets	3.7%	3.8%	😊	3.5%	↓	4.0%	↑
Net Return on Assets	1.4%	1.4%	😊	1.6%	↑	2.2%	↑

Table 3: Operating and Net return on assets with adjustments for FRS102, including and excluding VRTB assumptions

In 2013-14 we established our approach for monitoring the returns delivered across our housing stock by asset type and location. The table below shows the summary of net rental returns on capital employed by accommodation type for the last three financial years. To enable comparison across years, 2014-15 has been restated under FRS102 and the additional pension valuation charge in 2015-16 has been excluded.

During 2016-17 we have seen a minor deterioration in overall return from 10.9% to 10.8%. In general needs accommodation this is as a result of the imposition of the first year of 1% rent cuts. In older persons accommodation it is attributable to an investment of over £500,000 of our sheltered scheme at Moorside Court; renewing all kitchens, bathrooms, doors, a buggy store and undertaking a lighting upgrade plus additional revenue expenditure on decoration, interior design and the electrics for a new buggy store. Within supported younger persons foyers approximately £80,000 was invested in the provision of internal secondary double glazing within Paines Mill Foyer (a listed building).

Accommodation Type	2016-17		2015-16	2014-15
	Net Rental Returns	Net Capital Employed		
General Needs	£ 4.46m	£ 36.93m	12.1%	11.4%
Older Persons	£ 1.54m	£ 15.58m	9.9%	9.9%
Supported: Young Persons Foyers	£ 0.23m	£ 2.06m	11.2%	21.6%
Supported: Hostels and Other	£ 0.39m	£ 4.03m	9.7%	11.0%
Stock identified for disposal	£ 0.14m	£ 4.15m	3.3%	3.2%
Combined Net Rental Returns (before overhead)	£ 6.76m	£ 62.75m	10.8%	10.6%

**adjusted for FRS NBV of assets*

Table 4: Return on capital employed for each major asset category

Table 4 also reveals the variations in return between categories of housing, an element of this variation will be attributable to the higher average net capital employed per unit of older persons and supported accommodation (10% and 15% respectively). These categories of stock have a higher relative proportion of recent development expenditure compared that has been subject to less depreciation.

Each year we conduct a detailed analysis of net annual rental returns by housing scheme / estate which includes five¹ internal benchmarking criteria employed to identify poorly performing stock:

- Financial return
- Resident satisfaction
- Thermal efficiency
- Stock turnover
- Social value

¹ Not all are relevant for every type of accommodation. For example, void turnover is not used for supported accommodation where residents are on shorter licences and resident turnover is not an indicator of demand for the property.

AXIOM HOUSING ASSOCIATION
REPORT OF THE BOARD OF MANAGEMENT

Financial return carries a weighting of 50% in all calculations, with the remaining 50% being spread over the other applicable measures equally.

The social value measure is based on a system where accommodation is scored for its impact in the following areas: homelessness prevention, support for care leavers, educational achievement, support for employment, crime prevention, use of hospital beds, falls prevention and the provision of support or care service. Some measures are scored based on management assessment of relative impact at different accommodation types and some are based on data from the relevant accommodation type. This provides a method by which the relative social value across accommodation types is reflected within the return on assets outcome.

Assets performing below the Association average are used to prioritise areas of investment or management intervention. A small number of schemes managed by the association but owned by others were identified to be non-core and are in the process of being surrendered to the landlord. The stock identified for disposal is net of any future investment requirements and is subject to updated individual financial appraisals upon becoming vacant.

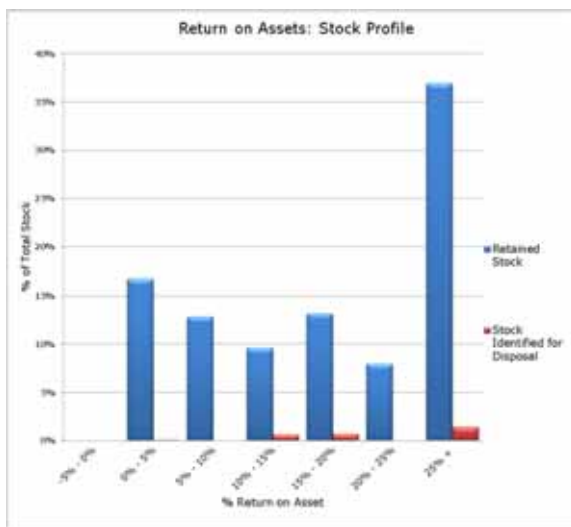


Figure 1: Profile of Financial Returns on Assets

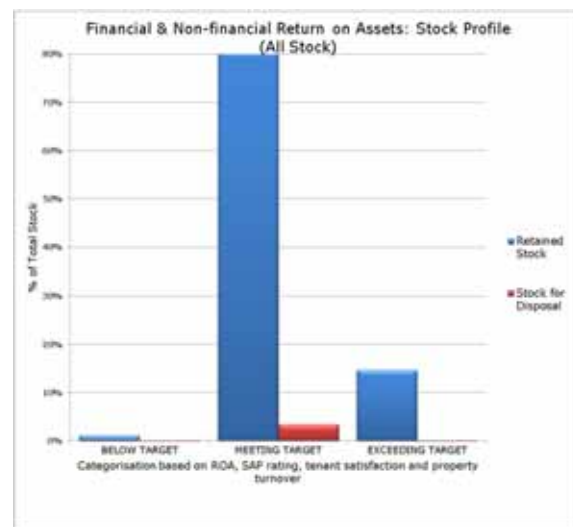


Figure 2: Profile of Financial and Non-Financial Returns on Assets

Within the retained stock classification, 25 units fell below target performance. This relates to a scheme which has undergone significant refurbishment in 2016 with over £500k of capital expenditure and significant revenue expenditure. The replacement of all kitchens, bathrooms and doors also affected void costs during the year. No schemes remained below target from the previous year.

VFM Achievements – Service Costs and Performance

Housing Related Services

The association has used HouseMark to benchmark our housing management performance against our peers in the Southern Traditional Housing Associations Benchmark Club. Whilst this provides a good basis for peer to peer comparison, there is a delay with the publication of the data. This is why the 2015/16 data in fig 3 below is the most recent published data available.

For monitoring and reporting we monitor cost and performance across 8 service areas established within the HouseMark VFM Dashboard. Supported housing, care and overheads are monitored separately.

For management purposes, each of the HouseMark service areas are tracked over time. Service managers produce annual VFM service reviews where they analyse these trends and use them to target deteriorating or below target performance and/or costs in order that improvement actions can be taken. A summary of the performance within the eight service areas from HouseMark is given below.

AXIOM HOUSING ASSOCIATION
REPORT OF THE BOARD OF MANAGEMENT

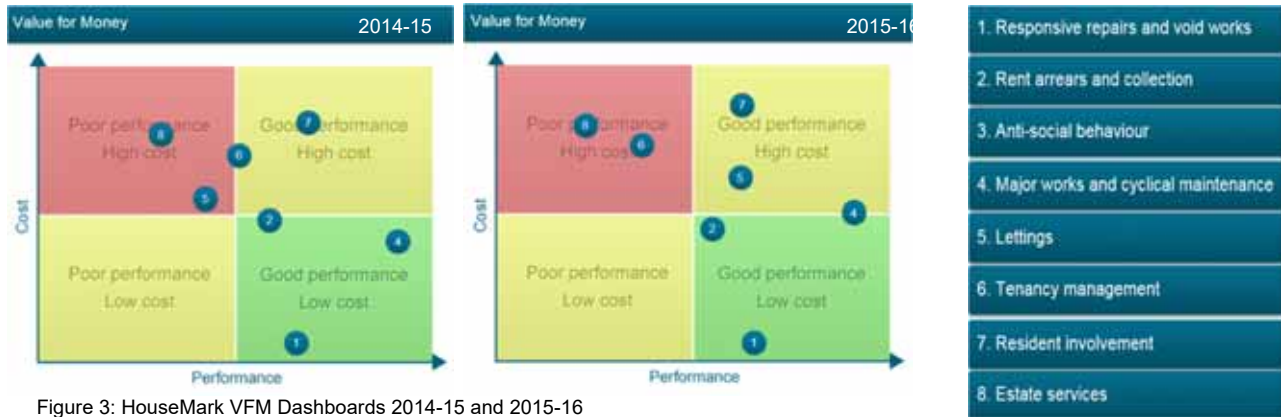


Figure 3: HouseMark VFM Dashboards 2014-15 and 2015-16

Responsive repairs and void works: direct service costs have been brought down over the last three years and are in the upper quartile benchmark. Satisfaction with performance also remains good and our plans are focussed on maintaining this position.

Rent arrears and collection: rent arrears performance has continued to be strong focus of management attention as the impact of welfare reform and the introduction of direct payments under universal credit have begun to have an impact on overall collection rates. Current arrears continue to meet internal target expectations with further improved performance last year, but plans are focussed on avoiding the accumulation of former tenant arrears.

Anti-social behaviour: the resolution of anti-social behaviour cases improved over the last three years to 99.3% (quartile 1) in response to revised processes and added resources. In 2015 HouseMark launched their ‘StarT’ initiative, which sought to benchmark performance against transactional surveys. Axiom did not subscribe to the framework and therefore the relevant quality indicator does not appear on the VFM dashboards (above). Instead Axiom introduced its own rigorous schedule of internal compliance checks which is verified by internal auditors 3 times a year. We continue to undertake transactional surveys on all closed cases which have returned an 87.5% satisfaction rating for year ending 2016/17. In the 2016 STAR survey the overall level of satisfaction with the final outcome of anti-social behaviour complaints was 62% (quartile 3). This represents an improvement of 18% since our last survey in 2014. Satisfaction in the way in which anti-social behaviour complaints were dealt with was 63% (also quartile 3). This represents an improvement of 12% since the 2014 and reveals that the improvement work undertaken in this key area has had a significant and positive impact on the customer experience. Costs per property for handling anti-social behaviour are in the lower median quartile of performance and our plans are to maintain our stronger resolution performance and improve satisfaction levels.

Major works and cyclical maintenance: expenditure in this area was increased in 2015-16 to meet improvements to traditional sheltered accommodation in line with our asset strategy, but economies in other areas of expenditure mean that overall our costs are close to the benchmark mean position. The quality of our housing stock is good and satisfaction with the quality of our homes has remained consistently top quartile in the region of 90%. Our plans continue to include phased programme of sheltered scheme improvements that are timed to broadly coincide with asset lifecycle changes.

Lettings: average re-let time reduced in 2015-16 improving benchmark performance to the second quartile. Rent loss due to voids also reduced bringing performance into the third quartile compared to peers. Performance in both of these areas improved in 2016-17 and targets have been set to continue this progression.

Tenancy management: we traditionally have a high tenancy turnover in comparison with our peer group (average of 11.4% turnover per year over the last three years) due to the relatively high ratio of flats and smaller properties amongst our housing stock. Eviction rates remain in line with peer group median at 0.37%, but overall satisfaction rates at 88% (benchmarked at quartile 2). Costs per property attributed to this activity are in line with the peer group median

AXIOM HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

Resident involvement: our approach to resident involvement is rooted in the values of the association and is an area that the board have willingly applied resources to in order maintain high outcomes. We are typically able to engage around 15% of tenants and in the 2016 STAR survey we recorded a 75% satisfaction rate for taking resident's views into account. Whilst we have taken actions to deliver involvement services more efficiently and have reduced our costs by 4.6% since 2013-14, others have reduced their expenditure more drastically in the same time period (11.6%) such that our benchmark performance remains at quartile 4. There will be opportunities by joining the Longhurst Group to deliver a number of our involvement activities in new, more cost effective ways without depleting satisfaction rates.

Estate Services: this is an area of activity chargeable to tenants through service charges. The overall cost per property is in quartile 3 compared to peers, but is impacted by the higher proportion of grounds work necessary to cover communal grounds associated with our older persons and supported housing projects. General tenant satisfaction with neighbourhood is benchmarked at quartile 3 at 83.5% based upon a 2014 survey. The 2016 STAR survey confirmed satisfaction at 84%.

Care & Support Related Services:

Our supported services continued to achieve 83% positive outcomes in an ongoing challenging cost environment in 2016/17. The operating margin achieved on older persons housing, supported housing and support in 2016-17 was 16.6%. The operating margin achieved in our care services was 3.5%.

Our **mental health outreach service** continues to offer a high quality, responsive mental health service to the community in Peterborough and Huntingdonshire. There has been a growth in the number of service users from 62 to 74 and a 9% growth in the number of hours being delivered adding considerable social and personal value to both individuals in their quality of life and reductions in the use of acute mental health services, use of emergency services and hospital stays. The support from the service reduces the number of long stay hospital admissions for clients who are enabled to effectively manage their mental health, reducing crisis admissions. It also ensures that clients can manage their tenancies, reduce the likelihood of anti-social behaviour either perpetrated unwittingly by clients, but also working with the local community to understand their neighbours' needs. The service can also support clients with accommodation move to more suitable accommodation and reduce the risk of evictions.

Our **floating support service** in Huntingdon and **drop-in services** at Fair View Court and The New Haven continue to perform very well, supporting 224 individuals during 2016-17 and achieving positive outcome rates of 87% and 95% respectively.

Axiom Care has achieved an encouraging operating surplus of £53,000 for the financial year 2016-17. During this year the Care Quality Commission only visited one of our schemes, Beech Court. The current regulatory assessment of our 6 care services is:

Care Service	Inspection Date	Overall Rating
Bircham House	August 2015	Requires Improvement
Willowbank	December 2015	Good
Friary Court	-	-
The Pavilions	-	-
The Spinney	-	-
Beech Court	January 2017	Good

Table 5

During the 2015-16 financial year, care in the community activities continued to fall short of growth and surplus targets. The Board therefore responded by acting to withdraw from loss-making community care contracts in order to focus management efforts on the delivery of contracts within five extra care locations and one sheltered scheme. Following that withdrawal, the team have been able to focus on our six core extra-care contracts and accommodation-based care provision in Littleport and its surroundings.

We still face challenges in meeting the growing costs of delivery through the phased increases to national minimum wage, but have opportunities through re-tendering in 2017 and 2018 to seek to apply for increased hourly rates, and through growth in private hour delivery to increase operational efficiencies.

AXIOM HOUSING ASSOCIATION
REPORT OF THE BOARD OF MANAGEMENT

VFM Achievements – Corporate Performance

As a smaller diversified association, we have regularly reported upon the issues of comparison to the housing sector as a whole. Below is a table of benchmarked business and financial ratios from HouseMark compared to the Southern Traditional Housing Associations Benchmark Club.

Business & Financial					
	Value	Previous	Trend	Median	KPI
Total overhead costs as % adjusted turnover	15.0%	14.6%	↑	11.9%	↑
Growth in turnover	7.3%	1.5%	↔	6.9%	↔
Operating margin	19.7%	24.4%	↓	30.5%	↓
Total overhead costs as % direct revenue costs	31.8%	30.1%	↑	27.6%	↑
Weighted average cost of capital	4.90%	5.20%	↓	4.15%	↓

KEY	
★	Upper Quartile (top 25%)
👑	Middle-Upper Quartile (between 25%-50%)
👊	Middle-Lower Quartile (between 50%-75%)
🔴	Lower Quartile (between 75%-100%)

Table 6: HouseMark VFM Analysis for 2015-16 vs. 2014-15

As in previous years, the ratios of overheads to direct revenue or turnover performance remain in the lower quartile compared to our non-diversified peers. This is reflective of our strategy to continue to deliver a diversified range of services which absorb a higher level of direct and indirect expenditure, but does not require extensive asset cover.

The association’s operating margin also compares relatively poorly with the broader sector, and has specifically been impacted by the inclusion of a growing care business, which adds to turnover at lower margin than traditional housing growth. However, when a comparison is made with peer group associations delivering similar ‘upper quartile’ levels of older persons and supported housing activity we can begin to identify valuable corporate benchmarks. The table below, extracted from the HouseMark Southern Traditional peer group report for 2015-16, reveals an operating margin efficiency that is amongst the strongest of our direct peers, taking into account our diversity and organisational size.

HouseMark 2015-16	Operating margin			% Supported & Housing for Older Persons	% Supported Housing	Total Units Owned / Managed
	%	Rank	Quartile			
Bournemouth Churches Housing Association*	6.8%	6	Q4	42.7%	39.1%	2,064
Croydon Churches Housing Association	22.5%	2	Q4	33.3%	17.1%	1,431
Axiom Housing Association (2015/16)	19.7%	3	Q4	33.4%	10.8%	2,262
Christian Action Housing	19.7%	3	Q4	29.1%	14.5%	1,591
Orwell Housing Association*	18.9%	5	Q4	21.2%	7.9%	3,429
Cambridge Housing Society*	30.0%	1	Q2	14.3%	6.7%	2,669

*operating margin extracted from 2015-16 annual accounts

Table 7

Unit Cost Data Analysis

The impact of housing diversity on operating costs has also been independently reported by the Homes and Communities Agency (HCA) in its analysis of unit cost data across the sector. The HCA has defined a ‘headline social housing cost per unit’ measure to analyse Global Accounts cost data across the sector. This is a deliberately broad measure which brings together management, service charge, maintenance, major repair and social housing costs in order to minimise the impact of different approaches to apportioning costs in financial statements. For simplicity, headline social housing costs aim to measure gross costs rather than costs net of income or other financial benefits from services provided or costs incurred. This means that gross service charge costs are included rather than costs net of any service charge income that may cover these costs.

AXIOM HOUSING ASSOCIATION REPORT OF THE BOARD OF MANAGEMENT

The 2016 Global Accounts analysis reported that the mean average headline social housing cost per unit across the sector was £3,970 per year, and the median cost was £3,570 per unit. However there was a significant cost variation across the sector. Axiom's base comparison with the data is presented in the table below:

Homes & Communities Agency : <i>Headline social housing cost analysis</i>	Financial Data						Contextual Data		
	Headline social housing cost per unit £000	Management cost per unit £000	Service charge cost per unit £000	Maintenance cost per unit £000	Major Repairs cost per unit £000	Other social housing costs per unit £000	Supported Housing %	Housing for Older Persons %	Regional wage index (England =1)
Axiom Housing Association	5.33 Q4	0.93 Q2	1.87 Q4	0.99 Q3	0.91 Q3	0.64 Q4	11.5% Q4	23.0% Q4	0.99
Sector level data									
Upper Quartile	4.35	1.32	0.60	1.18	1.08	0.45	4.3%	15.2%	Closing social housing units managed 2,262
Median	3.57	1.02	0.36	0.97	0.81	0.21	1.3%	7.9%	
Lower Quartile	3.12	0.74	0.24	0.79	0.54	0.08	0.1%	3.5%	

Table 8: 2016 Global Accounts Unit Cost Data

It is recognised that supported housing is associated with significantly higher costs than for general needs properties. Additional costs associated with housing for older people are also significant to unit cost comparisons but are typically much more modest than for other supported housing. In the report '*Delivering Better Value for Money: Understanding Differences in Unit Costs*' published in June 2016, the HCA quantified the lower quartile additional costs associated with Supported Housing to be £8,400 per unit per annum and £1,800 per unit per annum for Housing for Older Persons.

Using the data provided we are able to calculate an adjusted headline social housing costs per unit for Axiom in 2016 and beyond by removing notional additional costs for the delivery of supported and older persons' accommodation. The adjustments give rise to an average cost per unit of £3,250 which would place performance at the lower quartile for the sector.

The report from the HCA explains that the sector is planning to make cost reductions on all key measures between 2016 and 2020 and included data on sector forecasts of headline social housing costs per unit. The chart below illustrates how, after bearing the costs of restructuring and SHPS past deficit provisions in 2015-16, the adjusted unit costs for Axiom remain below the sector average position and reduced more steeply than others during 2016-17 as a result of planned efficiency measures.

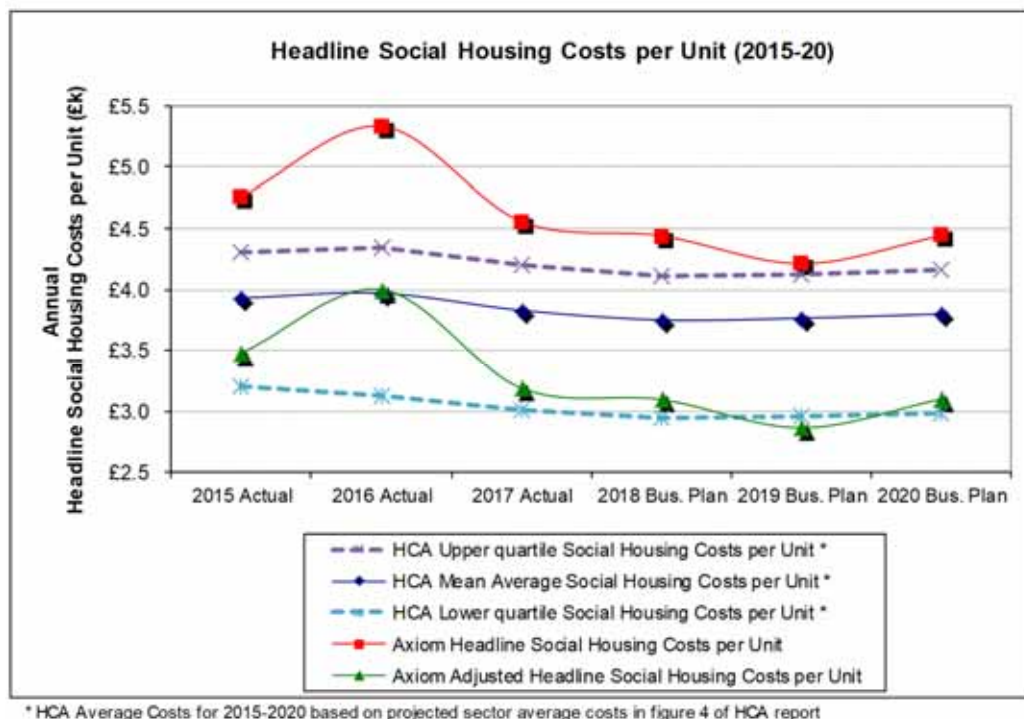


Figure 4

AXIOM HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

Overhead Analysis

Management of overheads and improving the efficiency of back-office services is a key area of focus as the sector delivers 1% rent cuts. The trends in Axiom's overhead expenditure are monitored against growth across its complete range of activities. As a provider of care and support services, housing unit growth is not the most significant driver for overhead increases, and so, as Figure 5 reveals, whilst we have continued to invest in care and support activities, the ratio of overheads per unit of housing have tended to increase.

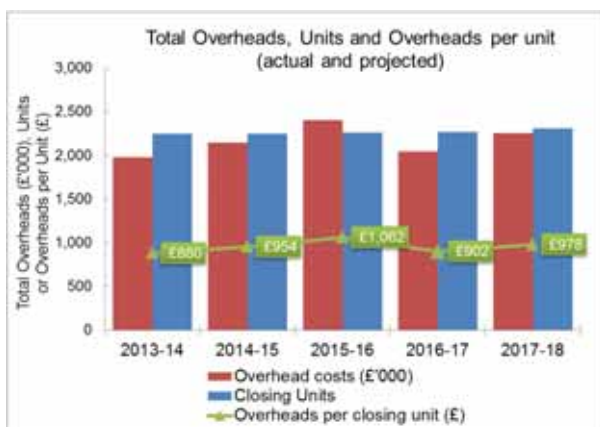


Figure 5

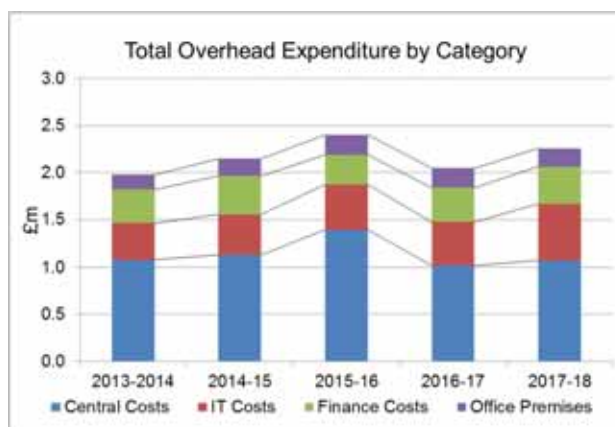


Figure 6

As Figure 6 indicates, central overhead expenditure was reduced in 2016-17 following a restructuring exercise and pension benefit cuts with actual expenditure falling 4% below budget (2015-16: 1% below). During 2017-18 additional IT expenditure will be incurred to align Axiom's core IT systems with those of the Longhurst Group.

The success of Axiom Care in its acquisition of three new care contracts during 2015-16 means that the ratio of central overhead costs compared to turnover and direct costs have decreased as activity from Axiom Care becomes a more significant part of the overall association's operations. In 2017-18 the inclusion of supported and older persons accommodation within the 1% rent cut causes another slight increase as illustrated in table 7 below. The pattern of overhead costs to direct revenue expenditure is projected to continue on its downward trajectory for the year ahead.

	2014-15	Actual 2015-16	2016-17	Budgeted 2017-18	4 Year Trend
Overhead costs % turnover	13.8%	13.9%	11.6%	12.4%	
Overhead costs % direct revenue costs	28.2%	21.0%	20.5%	19.4%	

Table 9: Profile of overhead cost ratios over time

Operating Margin

Operating margin performance is tracked as an overall measure of financial business improvement. In 2016-17 operating margin began its pathway of following changes implemented in response to rent cuts and to meet added regulatory requirements.

The successful addition of three new contracts to Axiom Care in 2015-16 added valuable income to the business, albeit at a lower operating margin than traditional housing and support services leading to a dilution of Association operating margins of circa 1%.

The table below indicates that we anticipate a strong recovery in operating margin during from 2018-19 onwards as a result of anticipated merger efficiencies to be implemented once Axiom joins the Longhurst Group:

AXIOM HOUSING ASSOCIATION
REPORT OF THE BOARD OF MANAGEMENT



Operating Margin Performance Post FRS102	2016	2017	2018	2019	2020	Trend
Operating Margin Pre Merger	18.5%	23.9%	22.5%	22.2%	20.2%	
Operating Margin Post Merger	18.5%	23.9%	22.5%	25.6%	24.4%	

Table 10: Profile of actual and projected operating margin trends

The operating margin continues to be the focus for overall corporate efficiency within Axiom, and employees participate in a self-funding bonus scheme that is subject to delivery of a stretch target. Operating margin projections are published in the employee newsletter on a monthly basis.

VFM Achievements – Cost and Efficiency Gains

In 2016-17 onwards we re-based our cost and efficiency performance upon the financial position at the end of March 2016 in order to measure the effectiveness of our VFM response to the rent cuts and other sector-related changes, following the integration of care activities into the Association.

The Association has continued with its comprehensive programme of VFM initiatives during the year which included several significant cost saving and efficiency initiatives forming the basis of our cost and efficiency agenda over the next four years, starting from a base cashable reduction in expenditure of circa £310,000. In 2016-17 the Association realised actual gains and cash savings of 4.6% of the Association’s annual operating costs (net of depreciation, Axiom Care, pension charge and development) which is £147,000 higher than projected.

- A review of our current **pension commitments**. In April 2016 the final salary DB schemes for existing members was replaced with a career average related earnings scheme. This saved £78,400 (compared to projections of £80,000 from 2016-17).
- A review of **organisational structure**. This led to a redundancy programme which saved £68,600 (compared to £100,000 projected in overhead staff cost) from 2016-17. This saving was lower than projected due to the addition of a Home Ownership Officer role. Various efficiency reviews and the introduction of new mobile working technology support the reapportionment of tasks.
- **Treasury Management**. As a result of a revised profile of development expenditure, the association took the opportunity to prepay a loan at the end of 2015-16 using cash and cheaper finance. This resulted in an interest saving for 2016-17 of £200,000 (projected £66,000). Two further loans were repaid during 2016-17 incurring early repayment charges of £558,000 which will deliver interest savings in future years of over £3 million.
- Reduction of **discretionary expenditure** across all overhead areas. This includes a revised approach to the annual resident conference, an increased shift to digital format of reports and newsletters, reduced expenditure on selective accreditations and savings in training and travel in some areas. This resulted in budget cuts of around £30,000. Actual savings achieved in 2016-17 were £39,500.
- In addition to a re-phasing of capital works, the **Asset Management** team achieved savings in both responsive and planned maintenance of 7.2% and 13.5% respectively (figures from note 3 to the statutory accounts). Planned year-on-year savings were therefore achieved, absorbing increased property numbers into existing responsive repairs costs and reducing void repair costs.
- Further **efficiency initiatives and procurement exercises** were also completed in 2016-17. This included procurement of internal audit and data services and the disaster recovery site. Savings will be delivered in 2017-18.

AXIOM HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

VFM – Challenges and Plans

VFM through Partnership

During 2015-16 we undertook a detailed review of options to identify increased saving potential to mitigate the impact upon the Association's performance from the reductions in rent income from 2016-2020, which we estimated would have a cumulative impact of £3.7 million.

In April 2016 the Board formed a Steering Group to review the potential for meeting its objectives for delivering sustainable growth and for continuing to improve the quality of existing homes and services through a potential partnership.

On 10 April 2017 the Board and subsequently the Shareholders (16 May) voted unanimously (subject to lender consent and regulatory registration) for Axiom to join the Longhurst Group. Completion is expected to occur by 3 July 2017.

The full business case ('FBC') supporting the merger concluded that joining Longhurst Group will be transformational for Axiom; maintaining high standards for customers, enabling step change in growth, and therefore helping future customers and key stakeholders. When Axiom joins Longhurst, together the partners will: -

- be a regionally significant contributor, building a diverse range of high quality homes for people in housing need;
- provide high quality, locally based housing services informed by resident and customer needs, resident and customer views and priorities;
- deliver vital care and support services including for vulnerable people;
- be a key partner, influencing the national, regional and local agenda, capitalising on opportunities by sharing their strength, resources, and relationships;
- use their regional strength to support sustained local delivery, connectivity, visibility and accessibility; and
- act in a way that delivers the best outcomes for residents, customers, colleagues, stakeholders and the business.

Financial Resilience

The combined 30-year financial plan and stress testing demonstrated that Axiom joining the Longhurst Group will provide for a more resilient combined business. Generating an operating margin of 28% in 2020 rising up to 30% in 2022 by which time recurring annual efficiency savings of **£1.66m per annum** will have been achieved for two years.

Forecast integration costs to align ICT systems and restructure staff teams are in the region of £500k for work. A measured pace of change is planned to undertake the necessary alignment of ICT platforms within Axiom and permit for the continued engagement of overlapping posts in delivering a smooth transition of legacy systems. It is the Group's intention to deliver incremental efficiency gains from the proposed merger over an 18 month period.

Increased Housing Supply

Joining the Longhurst Group, will provide Axiom with capacity for additional future development through a step change in its mixed tenure development programme for up to 250 units per annum; this will bring the group development programme up to 700 homes per annum per year for 3 years. One third of these homes will be within the Peterborough and Cambridgeshire areas. It will also provide Axiom with growth through efficient local management of housing stock within the Peterborough and Cambridgeshire area by transferring management of circa 1,125 existing homes.

Longhurst Group's experience, including in sales and marketing, and the potential use of its Keystone Development vehicle will, subject to the health of the housing market, facilitate cross subsidy from market sales to support the delivery of affordable homes. In addition, the Group can share equally with Axiom the VAT efficiencies on development which are achieved via Keystone.

AXIOM HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

The scale of the programme means that development and sales staff will be based at Axiom's office, adding to the sense of a dynamic, growing organisation. Looking ahead, the shared aim is to increase the development of affordable homes to meet local need, in particular expanding activity across Peterborough, Cambridgeshire and the East of England.

Together the organisations will seek to exploit the opportunities within the Cambridgeshire devolution deal. Axiom's strong reputation and its base in Peterborough position the combined organisation as a 'local' player in the Cambridgeshire growth area. Participation in this geography increases the Longhurst Group's agility and risk spread, it also ensures services for those in need will be provided by regional associations with local connectivity and enduring commitment to the East region.

The increase in the combined development programme presents an opportunity to dilute further the existing management costs of both Axiom and the Longhurst Group by ensuring new units are managed in the most efficient manner with new units coming into management on a marginal cost basis.

Care and Support

Critically, the merger agreement underpins the continuation of significant care and support services for vulnerable people by Axiom as part of a wider group activity. Care and support will continue to be a substantial business stream, with a proposed trading level in the range of 15% to around 20% of the group social housing lettings turnover. The target range recognises the value and importance of the activity to the group whilst ensuring proper management and control of the risks associated with a business area including some potentially low margin services, and where the viability of services are significantly impacted by central and local government policy.

The combined business will utilise a robust, consistent appraisal model alongside local market intelligence, considerations of geography and anticipated government funding policy, and the social value we create to categorise the existing care and support activities into three groups. These will reflect the strategic appetite to **grow** existing business activity and seek new similar opportunities or to **maintain** existing business activity at current levels or **exit** existing activity that is deemed unsustainable and/or is duplicating similar provision by other organisations better suited for such delivery. This exercise will inform the development of a Care and Support Strategy, and restructuring plan. The establishment of a new group Care and Support Committee to support the Homes Board in developing the approach for recommendation to Group Board reflects the priority given to this service area.

VFM – Social Value

Our services work with some of the most vulnerable people in society. Many of our clients do not lead traditional lifestyles and require regular, positive interventions and additional resources to support them to lead independent lives. By providing this support and promoting independent living, the demand on the public purse is reduced.

Individual case studies show how, through our work, we reduce hospital admissions, improve quality of life, reduce anti-social behaviour, increase educational achievement, increase career opportunities, reduce demands on police and the courts, increase the health and wellbeing of individuals and in the longer-term enable people to contribute to society and to be full members of their local community.

Money advice support is delivered by both Axiom and Longhurst as part of housing services, with the associated cost being recovered through improved rent arrears performance. During 2016/17 Axiom's Income Management Advisor realised £278,411 of entitlements on behalf of clients.

Axiom Academy

In 2014-15 we produced our first Social Value report that focused on the work of Axiom Academy in delivering skills, learning and development to vulnerable people. This report identified that for every £1 spent by Axiom Academy we were able to demonstrate that it generated £8 of social value. By joining the Longhurst Group this activity will be expanded. A three-year vision has been agreed to create a group-wide Academy, based on the

AXIOM HOUSING ASSOCIATION

REPORT OF THE BOARD OF MANAGEMENT

Axiom Academy model, to deliver the combined organisation's social value vision in enhancing lives of people in receipt of our services and the local community.

The gross budget identified for social value activities is £550k for 2017/18. This figure relates to pre and post tenancy training for tenants, community support projects and employment training initiatives for residents. The Axiom Academy is the most significant contributor to social value, it generates a small annual surplus. Money advice support is delivered by both Axiom and Longhurst as part of housing services, with the associated cost being recovered through improved rent arrears performance.

VFM – Assurance gained by Board

VFM Assessments show the relationship between cost and the level of service provided. These are monitored by the wider executive team to monitor performance. Costs are monitored, reviewed and adjusted in the light of potential over or under spends or efficiency objectives and there is an audit trail on the costs and adjustments.

There is a VFM and Social Value section on all papers that go to the Board that provides evidence of our approach in action.

Volume controllers are routinely questioned on their assessment of VFM for core services (rents and service charges). Results from STAR survey at June 2016 showed that at 85% of residents were satisfied that their rent provided value for money and 76% of residents were satisfied that their service charges provided value for money.

All internal audit reports include a specific section referring to the VFM implications of services reviewed; furthermore Axiom now has seven years of independently benchmarked performance data through membership of HouseMark which is reported to residents and committees of the board. In January 2016, Axiom's approach to Scrutiny underwent a review to address failing membership, value for money concerns and to ensure that our approach made maximum use of our current resident involvement framework. The scrutiny panel then completed their sixth detailed review of services examining the 'Responsive Repairs Completed Right First Time'. Despite responsive repairs being benchmarked as a high performing service area; our first time fix performance was identified to be third quartile in the detailed HouseMark Core benchmarking report 2015/16. The process of scrutiny generated an improvement action plan that was approved by the Residents' Services Committee and will be delivered during 2017.

For 2016-17 the Association will be transferring its benchmarking activities to Vantage Business Solutions in alignment with its Longhurst Group partners.

VFM – Self Assessment Summary

In accordance with the regulatory standard on Value for Money (VFM) which came into effect on 1 April 2012, this report is the sixth annual self-assessment of how the Association is achieving value for money in delivering its purpose and objectives. It sets out the range of evidence that the Board have considered in support of their assessment of compliance with the standard requirements, including independent benchmarking, internal performance reports and management accounts, tenant feedback surveys, complaints analysis and internal audit.

Following this robust assessment of our performance the Board conclude that the Association has good evidence to support compliance with the expected outcomes of the VFM standard. Areas requiring additional investigation and analysis have progressed satisfactorily and as a consequence the assurance that we can provide in this report is considered to have improved once again.

We have presented a summary of the self-assessment assurance rating arising against each section of the VFM standard according to the following criteria:

STRONG	Strong evidence
GOOD	Good evidence – some improvements needed to meet best practice and/or top quartile corporate improvement objectives
REASONABLE	Reasonable evidence – some weaknesses to be addressed or further evidence of outcomes required
LOW	Low evidence – weaknesses requiring identified action

AXIOM HOUSING ASSOCIATION
REPORT OF THE BOARD OF MANAGEMENT

Self-Assessment Area ▪ Extract of VFM Standard Requirement	Compliance	Assurance Rating
<p>A definition of VFM in the context of the organisation's purpose and objectives</p> <ul style="list-style-type: none"> ▪ Registered providers shall articulate and deliver a comprehensive approach to achieving value for money in meeting their objectives, taking into account the interests of and commitments to stakeholders. 	<ul style="list-style-type: none"> ○ We have provided a comprehensive and transparent report upon the range of our value for money activities and outcomes. ○ We have a VFM Policy clearly setting out our commitment and approach ○ We have investigated the relatively high cost of some of our services compared to peer organisations, explained the basis of our central costs relative to non-diversified and diversified organisations. Identifying those areas where improvements shall be made and those where we choose to continue investment in high social value areas in line with our strategic objectives. ○ In particular we have considered the opportunities to deliver increased VFM through partnering, resulting in the proposed merger with Longhurst Group in July 2017 	<p style="text-align: center;">STRONG</p>
<p>The association's strategic approach to VFM and use of resources</p> <ul style="list-style-type: none"> ▪ How they are achieving value for money in delivering their purpose and objectives ▪ A robust approach to making decisions on the use of resources to deliver the provider's objectives, including an understanding of the trade-offs and opportunity costs of its decisions. 	<ul style="list-style-type: none"> ○ All board decisions require presentation of VFM issues for consideration. All members and staff have received training. ○ In light of the rent cuts introduced from April 2016, we undertook a wide review of the business plan and reprioritised the use of our more limited resources in order to continue to meet our key strategic goals. ○ The Finance & Audit Committee regularly monitor the delivery of identified cost reductions and efficiency gains. All target efficiencies in 2016-17 were delivered ○ Additional opportunities to lower future treasury costs were identified and acted on 	<p style="text-align: center;">STRONG</p>
<p>Understanding and optimizing returns from our assets</p> <ul style="list-style-type: none"> ▪ An understanding of the return on its assets, and a strategy for maximising the future returns on assets, measured against the organisation's purpose and objectives. 	<ul style="list-style-type: none"> ○ We have expanded upon our financial analysis of return on assets across all of our housing stock into areas of energy efficiency, tenant satisfaction, stock turnover and expanded our analysis of relative social value. ○ We have examined our findings and reported to the Development and Assets Committee regularly undertaking option appraisals for properties with below average returns which may/may not lead to sale on the open market. ○ We have continued to meet the target financial return (average 4% rental yield) to ensure that new developments provide an appropriate balance of financial and social value return. 	<p style="text-align: center;">GOOD</p>
<p>The association's arrangements to ensure delivery of VFM</p> <ul style="list-style-type: none"> ▪ That its performance management and scrutiny functions are effective at driving and delivering improved performance with outcomes and outputs clearly demonstrated 	<ul style="list-style-type: none"> ○ We have reported upon the outcomes of our VFM service efficiency initiatives and programme of procurement and treasury activities ○ We have embedded VFM into our corporate strategy and staff competencies ○ Through performance monitoring and delivery of targets ○ We have identified potential to provide increased VFM through forming a partnership with Longhurst Group 	<p style="text-align: center;">STRONG</p>
<p>What the organisation has achieved</p> <ul style="list-style-type: none"> ▪ An understanding of the cost of delivering specific services, which underlying factors influence these costs and how they do so, and how costs relate to appropriate benchmarks 	<ul style="list-style-type: none"> ○ We have reported efficiency gains of 4.6% of the Association's annual operating costs (net of depreciation, Axiom Care, pension charge and development) which is £147,000 higher than projected. 	<p style="text-align: center;">STRONG</p>

AXIOM HOUSING ASSOCIATION
REPORT OF THE BOARD OF MANAGEMENT

Self-Assessment Area ▪ Extract of VFM Standard Requirement	Compliance	Assurance Rating
	<ul style="list-style-type: none"> ○ We have reviewed the performance of 9 different service areas over time and how trends have improved or deteriorated. ○ All deteriorating or Q3/4 benchmarks have been challenged and plans to improve (where appropriate to our corporate objectives) agreed. 	
Measuring and knowing the social value of our outputs <ul style="list-style-type: none"> ▪ How they are achieving value for money in delivering their purpose and objectives ▪ A measurement of social returns arising from the association's activities. 	<ul style="list-style-type: none"> ○ We have published a number of social value reports including the outcomes from our Huntingdon Outreach service over the last five years and illustrated the potential net gains to the public purse of £875,725; and on our work with care leavers within our young person foyers, illustrating with case studies how the service delivers significant social returns. ○ Our Income Management Advisory service has realised £278,411 of entitlements on behalf of clients. ○ We have plans to expand the works of the Axiom Academy through the Longhurst Group 	STRONG
The organisation's plans for next year <ul style="list-style-type: none"> ▪ A rigorous approach to assessing options for value for money improvement, including where there are potential benefits in alternative delivery models that may involve partnerships, mergers and/or contracting with third parties 	<ul style="list-style-type: none"> ○ We shall be joining the Longhurst Group, Completion is expected to occur by 3 July 2017 ○ Integration is expected to take 18 months. ○ After transition costs of circa £500k, recurring annual efficiency savings of £1.66m per annum are expected to accrue 	STRONG
How the board has gained assurance in respect of the VFM self-assessment <ul style="list-style-type: none"> ▪ How they have gained assurance in reaching their view on value for money 	<ul style="list-style-type: none"> ○ Through a detailed self-assessment containing year on year trends and projections within the annual VFM report ○ Through benchmarking comparisons ○ Via peer assessments within internal audit reports and from published sector accounts ○ Via analysis and comparison with the 2016 HCA Unit Costs report. 	STRONG

The Board of Management and Executive Team

The Board of Management and Executive Team of the Association are listed on page 2. There are 11 non-executive board members all of whom hold one share of £1 in the Association, and 1 non-shareholding executive board member, the Chief Executive Officer.

Apart from the Chief Executive Officer, the other Executive Team members hold no interest in the Association's share capital and are not members of the Board of Management.

Annual General Meeting

The Annual General Meeting will be held on Wednesday 20th September 2017.

Public Benefit Entity

As a public benefit entity, Axiom Housing Association has applied the public benefit entity 'PBE' prefixed paragraphs for FRS 102.

Auditors

AXIOM HOUSING ASSOCIATION
REPORT OF THE BOARD OF MANAGEMENT

A resolution proposing the re-appointment of Beever and Struthers as auditors of the Association will be proposed at the Annual General Meeting.

Statement of Disclosure of Information to Auditors

We, the Board Members of the Association, who held office at the date of approval of these financial statements as set out on page 2 each confirm, so far as we are aware, that:

- there is no relevant audit information of which the Association's auditors are unaware; and
- we have taken all the steps that we ought to have taken as Board Members in order to make ourselves aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

On behalf of the Board of Management

Dr Hilary Lindsay

Chair of Board

29 June 2017

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
AXIOM HOUSING ASSOCIATION LIMITED**

We have audited the Association's financial statements of Axiom Housing for the year ended 31 March 2017 which comprise of the Statement of Comprehensive Income, Statement of Financial Position, Statement of Reserves and Statement of Cash Flows. 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 Association's members, as a body, in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Board and the Auditor

As explained more fully in the Statement of Board's Responsibilities set out on page 4, the Board is responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Board of Management to identify material inconsistencies with the audited financial statements and to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on or materiality inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Association's affairs as at 31 March 2017 and of the Association's surplus/deficit for the year then ended; and
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

In our opinion the information given in the Report of the Board of Management for the financial year for which the financial statements are prepared is consistent with the financial statements;

Matters on which we are required to report by exception

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

- A satisfactory system of control over transactions has not been maintained; or
- The Association has not kept proper accounting records; or
- The financial statements are not in agreement with the books of account; or
- We have not received all the information and explanations we require for our audit.

Beever and Struthers
Statutory Auditor

15 Bunhill Row
London
EC1Y 8LP

Date:

AXIOM HOUSING ASSOCIATION

STATEMENT OF COMPREHENSIVE INCOME YEAR ENDED 31 MARCH 2017

	Notes	2017 £000	2016 £000
TURNOVER	2	17,490	16,251
Cost of sales	2	(67)	(104)
		<hr/>	<hr/>
Gross Profit		17,423	16,147
Operating Expenditure	2	(13,240)	(12,943)
		<hr/>	<hr/>
OPERATING SURPLUS		4,183	3,204
Gain on disposal of Property, Plant & Equipment	6	475	420
Gain/ (Loss) on disposal of Financial Instrument		(410)	-
Interest and Financing costs	7	(2,705)	(2,744)
Interest Receivable	8	1	7
Transfer of Engagement of Subsidiary		0	(272)
		<hr/>	<hr/>
Surplus before Tax	9	1,544	615
Taxation	10	-	-
		<hr/>	<hr/>
Total Comprehensive Income for the year		1,544	615
		<hr/>	<hr/>

The financial statements on pages 26-29 were approved and authorised for issue by the board on 29 June 2017 and were signed on its behalf by:

H Lindsay
(Chair of Board)

M Li Mow Ching
(Board Member)

L Platt
(Secretary)

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The association results relate wholly to continuing activities and the notes on pages 30 to 56 form an integral part of these financial statements.

AXIOM HOUSING ASSOCIATION

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

	Notes	2017 £000	2016 £000
Fixed Assets			
Tangible Fixed Assets – Housing properties	14	106,426	107,055
Tangible Fixed Assets - Other	14	2,902	3,038
		<u>109,328</u>	<u>110,093</u>
Current Assets			
Stock	15	172	130
Trade and Other Debtors	16	1,015	856
Cash and Cash equivalents	17	1,247	545
		<u>2,434</u>	<u>1,531</u>
Less:			
Creditors: Amounts falling due within one year	18	4,021	4,654
Net Current Assets / (Liabilities)		<u>(1,587)</u>	<u>(3,123)</u>
Total Assets Less Current Liabilities		<u>107,741</u>	<u>106,970</u>
Creditors: Amounts falling due after more than one year	19	99,574	100,347
Total Net Assets		<u>8,167</u>	<u>6,623</u>
Reserves			
Revenue Reserve		8,167	6,623
Total Reserves		<u>8,167</u>	<u>6,623</u>

The financial statements on pages 26-29 were approved and authorised for issue by the board on 29 June 2017 and were signed on its behalf by:

H Lindsay
(Chair of Board)

M Li Mow Ching
(Board Member)

L Platt
(Secretary)

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The notes on pages 30 to 56 form an integral part of these financial statements.

AXIOM HOUSING ASSOCIATION

STATEMENT OF CHANGES IN RESERVES

	Income and Expenditure Reserve £000
Balance as at 31 March 2016	6,623
Surplus from Statement of Comprehensive income	1,544
	<hr/>
Balance as at 31 March 2017	8,167
	<hr/>

The notes on pages 30 to 56 form an integral part of these financial statements.

AXIOM HOUSING ASSOCIATION

STATEMENT OF CASH FLOWS

	Year Ended 31 Mar 2017 £000	Year Ended 31 Mar 2016 £000
Net cash generated from operating activities (see note I)	5,198	5,417
Cash Flow from investing activities		
Purchase of tangible fixed Assets	(1,880)	(3,997)
Proceeds from sale of tangible fixed assets	707	591
Grants received	57	721
Interest received	-	-
	4,082	2,732
Cash Flow from Financing Activities		
Interest paid	(3,009)	(3,142)
Interest received	1	0
New secured loans	7,200	2,800
Repayment of borrowings	(7,580)	(2,378)
Loan issue costs	8	(73)
	(3,380)	(2,793)
Net change in Cash and Cash equivalents	702	(61)
Cash and Cash equivalents at beginning of the year	545	606
Cash and cash equivalents at end of the year	1,247	545
	702	(61)
Note I		
	£000	£000
Cash flow from operating activities		
Surplus / (deficit for the year)	1,544	615
Adjustments for non-cash items;		
Depreciation of Tangible fixed Assets	2,348	2,156
Decrease/ (Increase) in stock	(42)	(40)
Decrease/ (Increase) in trade and other debtors	(159)	(28)
Decrease/ (Increase) in trade and other creditors	(478)	27
Pension costs less contributions payable	(226)	576
Carrying amount of tangible fixed asset disposals	261	217
Adjustments for investing or financing activities:		
Proceeds from the sale of tangible fixed assets	(707)	(637)
Government grants utilised in the year	(457)	(478)
Costs from the sale of financial instruments	410	-
Interest payable	2,705	2,742
Transfer of engagement	-	272
Interest received	(1)	(5)
Net Cash generated from operating activities	5,198	5,417

The notes on pages 30 to 56 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2017

Legal Status

Axiom Housing Association Limited is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 [Companies Act 2006] and is registered with the Homes and Communities Agency as a Private Registered Provider of Social Housing. The registered office is: Axiom House, Cottesmore Close, Netherton, Peterborough, England, PE3 9TP.

1. PRINCIPLE ACCOUNTING POLICIES

Basis of Accounting

The Association'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.

The financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The accounts are prepared on the historical cost basis of accounting and are presented in sterling £.

The Association's financial statements have been prepared in compliance with FRS102. As a public benefit, Axiom Housing Association has applied the public benefit entity 'PBE' prefixed paragraphs of FRS 102.

Going concern

The Association's financial statements have been prepared on a going concern basis which assumes an ability to continue operating for the foreseeable future. Government's announcements in July 2015 impacting on the future income of the Association have led to a reassessment of the Association's business plan as well as an assessment of imminent or likely future breach in borrowing covenants. No significant concerns have been noted and we consider it appropriate to continue to prepare the financial statements on a going concern basis.

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.

- a. **Development expenditure.** The Association capitalises development expenditure in accordance with the accounting policy described on page 32-33. 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.
- b. **Categorisation of housing properties.** The Association has undertaken a detailed review of the intended use of all housing properties and has determined that all units are held for social benefit. There are no investment properties.
- c. **Impairment.** The Association has identified a cash generating unit for impairment assessment purposes at a property scheme level.

Other key sources of estimation and assumptions:

- a. **Tangible fixed assets.** 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017**

1. PRINCIPLE ACCOUNTING POLICIES (continued)

- b. **Pension and other post-employment benefits.** The cost of defined benefit pension plans and other post-employment benefits are 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 13.
- c. **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 the application of the government change in rent policy has been applied across all stock. This resulted in a material impact on the net income expected to be collected in the future for housing properties and the Association has assessed that this represents a trigger for impairment review.

The Association performed impairment tests based on a value in use calculation using depreciated replacement cost. The depreciated replacement cost is based on:

- the replacement cost per the insurance schedule (depreciated), or for specialised accommodation
- the application of the square meterage of the property multiplied by recent construction rates for a similar property type (general needs, sheltered, supported), depreciated by splitting into components and applying existing policy

Following the assessment of impairment no impairment losses were identified in the reporting period.

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.

Support income and costs including Supporting People income and costs

Supporting People contract income received from Administering Authorities is accounted for as Supporting People contract income in the Turnover as per note 2. 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 3 and matched against the relevant costs.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017**

1. PRINCIPLE ACCOUNTING POLICIES (continued)

Support Charges

A charge for support services is made to residents of sheltered schemes. This includes a charge for the alarm service and the Service Manager at schemes. This income is recorded against "Charges for Support Services" in note 3 and the costs against "Service Charge costs". These charges are ineligible for housing benefit.

Service charges

Service charge income and costs are recognised on an accruals basis. The Association 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.

Where periodic expenditure is required, a provision ("Reserve fund") 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 long term 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.

Value Added Tax

The Association is only able to reclaim a small percentage of the value added tax that it incurs. This irrecoverable tax is a cost to the Association and consequently all figures within these financial statements are inclusive of VAT.

Tangible fixed assets and depreciation

Housing properties

Tangible fixed assets are stated at cost, less accumulated depreciation. Donated land/assets or assets acquired at below market value from a government source, i.e. local authority, are included as a liability in the Statement of Financial Position at the fair value less consideration paid.

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 association depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories. UELs for identified components are as follows:

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017**

1. PRINCIPLE ACCOUNTING POLICIES (continued)

	Years
Boilers	15
Kitchens, Windows, Lifts	20
Bathroom, Doors	30
Electrics	40
Roofs	80
Structure	120

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:

	Years
Computers & Office equipment	3-10
Maintenance & laundry equipment, communal furniture	5-15
Motor vehicles	25% reducing balance

Low cost and 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 Association 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 Account.

Where the agency carries the majority of the financial risk, income includes only that which relates solely to the Association.

In both cases, the assets and associated liabilities are included in the Association's Statement of Financial Position.

Leasing and hire purchase

Where assets are financed by hire purchase contracts and leasing agreements that give rights approximating to ownership (finance leases), they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as obligations to the lessor in creditors. They are depreciated over the shorter of the lease term and their economic useful lives.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017**

1. PRINCIPLE ACCOUNTING POLICIES (continued)

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit and loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Other leases are treated as operating leases and payments are charged to the Statement of Comprehensive Income on a straight line basis over the term of the lease.

Reverse premiums and similar incentives received on leases to enter into operating lease agreements are released to Statement of Comprehensive Income over the term of the lease.

Current asset investments

Current asset investments include cash and cash equivalents invested for periods of more than 24 hours. They are recognised initially at cost and subsequently at fair value at the reporting date. Any change in valuation between reporting dates is recognised in the statement of comprehensive income.

Stock and properties held for sale

Stock of materials are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

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 one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Deferred Capital Grant

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. Social Housing Grant (SHG) received for items of cost written off in the Statement of Comprehensive Income Account is included as part of Turnover.

When SHG in respect of housing properties in the course of construction exceeds the total cost to date of those housing properties, the excess is shown as a current liability.

SHG must be recycled by the Association 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. 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017**

1. PRINCIPLE ACCOUNTING POLICIES (continued)

Non-monetary government grant

On disposal, assets for which non-monetary government grants are held as liabilities in the Statement of Financial Position, the unamortised amount in creditors is derecognised and recognised as income in the Statement of Comprehensive Income.

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 one year. Recycling capital grant can be abated when sale proceeds are less than the original cost.

Employee Benefits

A liability is recognised to the extent of any employee benefits including unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods.

This is measured at the undiscounted cost to the employees of the future holiday entitlement and 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 Association has a participating interest.

Contributions payable under an agreement with The Pension Trust (TPT) to fund past deficits are recognised as a liability in the Association'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 1.92 at 31 March 2015, 2.06 at 31 March 2016 and 1.33 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.

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.

Financial instruments held by the Association 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,
- Derivatives such as interest rate swaps are classified as financial assets or financial liabilities at fair value.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017**

1. PRINCIPLE ACCOUNTING POLICIES (continued)

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

- (a) The best evidence of fair value is a quoted price in an active market.
- (b) 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.
- (c) 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.

Impairment of Financial Assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

The following financial instruments are assessed individually for impairment:

- (a) All equity instruments regardless of significance; and
- (b) Other financial assets that are individually significant.

Other financial instruments are assessed for impairment either individually or grouped on the basis of similar credit risk characteristics.

An impairment loss is measured as follows on the following instruments measured at cost or amortised cost:

- (a) For an instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.
- (b) For an instrument measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive for the asset if it were to be sold at the reporting date.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The reversal cannot result in a carrying amount (net of any allowance account) which exceeds what the carrying amount would have been had the impairment not previously been recognised. The amount of the reversal is recognised in profit or loss immediately.

AXIOM HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS (continued) YEAR ENDED 31 MARCH 2017

2 TURNOVER, OPERATING COSTS AND SURPLUS FOR THE YEAR

	-----2017-----				-----2016-----			
	Turnover £000	Cost of Sales £000	Operating Costs £000	Operating Surplus £000	Turnover £000	Cost of Sales £000	Operating Costs £000	Operating Surplus £000
Social housing lettings (notes 3a and 3b)	14,012	-	(9,967)	4,045	13,836	-	(10,911)	2,925
Other Social Housing Activities								
Shared ownership property sales	86	(67)	-	19	96	(104)	-	(8)
Supporting people contract income	1,729	-	(1,401)	328	1,781	-	(1,440)	341
Activities other than Social Housing								
Development services	-	-	(243)	(243)	-	-	(10)	(10)
Managed associations	17	-	(4)	13	14	-	(24)	(10)
Axiom Academy	73	-	(107)	(34)	95	-	(139)	(44)
Axiom Care	1,545	-	(1,491)	54	401	-	(393)	8
Miscellaneous Grants	28	-	(27)	1	28	-	(26)	2
Total	17,490	(67)	(13,240)	4,183	16,251	(104)	(12,943)	3,204

See note 3 for a detailed analysis of income and expenditure from social housing lettings

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017**

3 INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS

	General Needs Housing	Supported Housing and Housing for Older People	Shared Ownership	2017 £000	2016 £000
	£000	£000	£000		
Income					
Rent receivable net of identifiable service charge	6,694	3,581	72	10,347	10,263
Service charge income	377	2,721	37	3,135	3,094
Charges for Support Services	-	73	-	73	60
Grant Amortisation	256	193	8	457	419
	<u>7,327</u>	<u>6,568</u>	<u>117</u>	<u>14,012</u>	<u>13,836</u>
Turnover from social housing lettings					
Operating Expenditure					
Management	742	768	-	1,510	2,096
Service charge costs	1,107	2,987	12	4,106	4,258
Routine maintenance	639	353	-	992	1,067
Planned maintenance	572	461	-	1,033	1,172
Major repairs expenditure	63	191	-	254	255
Bad debts	55	40	1	96	75
Depreciation of housing Properties	1,212	744	20	1,976	1,988
	<u>4,390</u>	<u>5,544</u>	<u>33</u>	<u>9,967</u>	<u>10,911</u>
Operating expenditure on Social Housing lettings					
Operating surplus on lettings	<u>2,937</u>	<u>1,024</u>	<u>84</u>	<u>4,045</u>	<u>2,925</u>
Void Losses	<u>(21)</u>	<u>(154)</u>	<u>-</u>	<u>(175)</u>	<u>(182)</u>

AXIOM HOUSING ASSOCIATION

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017**

4 ACCOMMODATION OWNED, MANAGED AND IN DEVELOPMENT

	-----2017-----		-----2016-----	
	No. of Properties Owned Managed		No. of Properties Owned Managed	
Social Housing				
Under development at the end of the year:				
General needs housing social rent	-	-	1	1
General needs housing affordable rent	-	-	-	-
Supported Housing	-	-	-	-
Housing for Older People	-	-	-	-
Shared Ownership	-	-	-	-
	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>
Under management at the end of the year:				
General needs housing social rent	1,280	1,280	1,312	1,312
Affordable rent	110	110	86	86
Intermediate Rent	13	13	9	9
Supported Housing	241	260	237	254
Housing for Older People	512	512	510	510
Shared Ownership (<100%)	41	41	44	44
Shared Ownership (100%)/Leaseholders	52	52	47	47
Staff accommodation	0	0	0	0
	<u>2,249</u>	<u>2,268</u>	<u>2,245</u>	<u>2,262</u>

5 ACCOMODATION MANAGED BY OTHERS

The Association owns property managed by other bodies as follows:

	2017	2016
	No. of properties	No. of properties
Thera Trust	-	1

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017**

6 GAIN/ (LOSS) ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT (FIXED ASSETS)

	Shared Ownership Staircasing Sales £000	Other Properties £000	2017 Total £000	2016 Total £000
Proceeds of sales	-	707	707	637
Cost of sales	-	(232)	(232)	(217)
Surplus	<u>-</u>	<u>475</u>	<u>475</u>	<u>420</u>
Capital Grant recycled (Note 21)			42	125

7 INTEREST AND FINANCING COSTS

	2017 £000	2016 £000
On loans repayable in five years	120	145
On loans wholly or partly repayable in more than five years	2,380	2,528
Costs associated with financing	13	68
Net write off of loan issue costs on redemption	149	-
Deferred Benefit Pension Charge	55	41
	<u>2,717</u>	<u>2,782</u>
Less: Interest capitalised on housing properties under construction	(12)	(38)
	<u>2,705</u>	<u>2,744</u>

The weighted average interest on borrowings of 4.7% (2016: 4.85%) was used for calculating capitalised finance costs.

8 INTEREST RECEIVABLE

	2017 £000	2016 £000
Interest receivable from term deposits, bank deposits and building society accounts	<u>1</u>	<u>7</u>

AXIOM HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS (continued) YEAR ENDED 31 MARCH 2017

9 OPERATING SURPLUS FOR THE YEAR

	2017	2016
	£000	£000
Operating Surplus for the year is stated after charging:		
Auditor's remuneration (excluding VAT):		
Audit of the Association financial statements	11	12
Audit of Subsidiaries	1	1
Fees Payable to the company's auditor and its associates for other services to the Association		
Taxation compliance services	-	-
Service charge certification	3	3
Operating lease rentals		
Land and Buildings	37	17
Office Equipment	15	25
Depreciation of housing properties	2,009	1,788
Depreciation of other Fixed Assets	372	372
Surplus/ (Deficit) on sale of other fixed assets	-	(1)

10 TAX ON SURPLUS/ (DEFICIT) ON ORDINARY ACTIVITIES

The Association has charitable status and is therefore exempt from corporation tax under Part 11 of the Corporation Tax Act 2010 to the extent that income arises from exempt sources and is applied to the Association's Charitable status.

11 DIRECTORS' REMUNERATION

	2017	2016
	£000	£000
Emoluments paid to or receivable by non-executive Directors and former non-executive Directors		
Bish A	1	-
Connolly V	2	-
Cowdell J	2	-
Dearnaley P	1	-
Fairbairn K	2	-
Fowler D	2	-
Li Mow Ching M	4	2
Lindsay H	7	3
Logan V	1	2
Morris A	3	-
Webster B	2	-
Wood A	4	-
Wood C	2	2
	<hr/> 33	<hr/> 9
	<hr/>	<hr/>

AXIOM HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS (continued) YEAR ENDED 31 MARCH 2017

11 DIRECTORS' REMUNERATION (continued)

	2017 £000	2016 £000
The aggregate emoluments paid to or receivable by executive Directors and former executive Directors	302	306
The emoluments paid to the highest paid director excluding pension Contributions	111	107
The aggregate amount of Directors or past Directors pensions, excluding Amounts payable under a property funded pension scheme	11	24
Total expenses reimbursed to non-executive directors not chargeable to UK Income tax	6	7

The Chief Executive is an ordinary member of The Social Housing Pension Scheme. The pension scheme is a final salary 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 Axiom Housing of £4k (2016: £8.2k) was paid in addition to the personal contributions of the Chief Executive.

Directors (key management personnel) are defined as members of the Board, the Chief Executive and other members of the Senior Management Team.

12 EMPLOYEE INFORMATION

	2017 No.	2016 No.
The average number of persons employed during the year expressed in full time equivalents (37 hours per week) was:		
Office Staff	54	57
Wardens, Support Workers, Caretakers and Cleaners	95	95
Care workers	70	20
Maintenance Staff	15	16
	<u>234</u>	<u>188</u>

	2017 £000	2016 £000
Staff costs (for the other persons):		
Wages & Salaries	5,449	4,492
Social Security costs	412	334
Other Pension costs	230	1,005
	<u>6,091</u>	<u>5,831</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017**

12 EMPLOYEE INFORMATION (continued)

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

	2017	2016
	No.	No.
£60,000-£70,000	1	1
£70,000-£80,000	-	-
£80,000-£90,000	-	-
£90,000-£100,000	2	2
£100,000-£110,000	-	1
£110,000-£120,000	1	-

13 PENSION OBLIGATIONS

The company participates in three schemes operated by TPT Retirement Solutions; Social Housing Pension Scheme (SHPS), the Growth Plan (PTGP) and the defined contribution scheme (PTDC). SHPS and PTGP ("The Schemes") are multi-employer schemes which provides benefits to some 500 non-associated employers. The schemes are defined benefit schemes in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the schemes as defined contribution schemes.

The SHPS defined benefit (DB) scheme is now closed and employees have transferred to the DB CARE scheme in accordance with their wishes. All new employees of the Association are auto-enrolled in the DC scheme. Membership and costs of each scheme are summarised in section 14c of this note.

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

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

13a SHPS DISCLOSURE NOTE

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

Deficit contributions

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017**

13a SHPS DISCLOSURE NOTE (continued)

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

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

PRESENT VALUES OF PROVISION

	31 March 2017 (£000s)	31 March 2016 (£000s)	31 March 2015 (£000s)
Present value of provision	2,642	2,868	2,295

RECONCILIATION OF OPENING AND CLOSING PROVISIONS

	Period Ending 31 March 2017 (£000s)	Period Ending 31 March 2016 (£000s)
Provision at start of period	2,868	2,295
Unwinding of the discount factor (interest expense)	55	41
Deficit contribution paid	(354)	(268)
Remeasurements - impact of any change in assumptions	73	(17)
Remeasurements - amendments to the contribution schedule	-	817
Provision at end of period	2,642	2,868

INCOME AND EXPENDITURE IMPACT

	Period Ending 31 March 2017 (£000s)	Period Ending 31 March 2016 (£000s)
Interest expense	55	41
Remeasurements – impact of any change in assumptions	73	(17)
Remeasurements – amendments to the contribution schedule	-	817
Contributions paid in respect of future service*	*	*
Costs recognised in income and expenditure account	*	*

*includes defined contribution schemes and future service contributions (i.e. excluding any deficit reduction payments) to defined benefit schemes which are treated as defined contribution schemes. To be completed by the company.

ASSUMPTIONS

	31 March 2017 % per annum	31 March 2016 % per annum	31 March 2015 % per annum
Rate of discount	1.33	2.06	1.92

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017**

13a SHPS DISCLOSURE NOTE (continued)

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

13b PTGP DISCLOSURE NOTE

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

Deficit contributions

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

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

Deficit contributions

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

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

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

PRESENT VALUES OF PROVISION

	31 March 2017 (£s)	31 March 2016 (£s)	31 March 2015 (£s)
Present value of provision	18,613	19,658	15,433

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017**

13b PTGP DISCLOSURE NOTE (continued)

RECONCILIATION OF OPENING AND CLOSING PROVISIONS

	Period Ending 31 March 2017 (£s)	Period Ending 31 March 2016 (£s)
Provision at start of period	19,658	15,433
Unwinding of the discount factor (interest expense)	384	252
Deficit contribution paid	(2,008)	(1,862)
Remeasurements - impact of any change in assumptions	579	(307)
Remeasurements - amendments to the contribution schedule	-	6,142
Provision at end of period	18,613	19,658

INCOME AND EXPENDITURE IMPACT

	Period Ending 31 March 2017 (£s)	Period Ending 31 March 2016 (£s)
Interest expense	384	252
Remeasurements – impact of any change in assumptions	579	(307)
Remeasurements – amendments to the contribution schedule	-	6,142
Contributions paid in respect of future service*	-	-
Costs recognised in income and expenditure account	-	-

*includes defined contribution schemes and future service contributions (i.e. excluding any deficit reduction payments) to defined benefit schemes which are treated as defined contribution schemes.

ASSUMPTIONS

	31 March 2017 % per annum	31 March 2016 % per annum	31 March 2015 % per annum
Rate of discount	1.32	2.07	1.74

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

13c SUMMARY

The association has a contractual obligation under an agreement to pay additional deficit payments to TPT Retirement Solutions as outlined in the deficit contributions schedules above.

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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017**

13c PENSION OBLIGATIONS SUMMARY (continued)

	SHPS		PTGP	
	2017	2016	2017	2016
	£000	£000	£000	£000
Provision at start of the year	2,868	2,295	20	15
Additional liabilities in the year	0	817	0	6
Interest for the year	55	41	0	1
Impact of change in assumptions	73	(17)	1	-
Released to expenditure in the year	(354)	(268)	(2)	(2)
Provision at end of year	2,642	2,868	19	20

The Association has been notified by TPT Retirement Solutions of the estimated employer debt on withdrawal from SHPS based on the financial position of the Scheme as at 30 September 2016. As of this date the estimated employer debt was £20.5 million. There are 59 members remaining in the SHPS DB scheme.

AXIOM HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017

14 TANGIBLE FIXED ASSETS

(a) **Housing properties**

Cost	Completed Schemes Lettings £000	Under Construction Lettings £000	Completed Schemes S/Ownership £000	Under Construction S/Ownership £000	Total £000
At 1 April 2016	123,683	512	2,515	-	126,710
Additions	1,120	760	-	-	1,880
Transfers to Completed	499	(819)	320	-	-
Disposals	(382)	-	(193)	-	(575)
Abortive Costs	-	(219)	-	-	(219)
At 31 March 2017	124,920	234	2,642	-	127,796
Depreciation					
At 1 April 2016	19,519	-	136	-	19,655
Charge for the year	1,962	-	14	-	1,976
Eliminated on disposals	(261)	-	-	-	(261)
At 31 March 2017	21,220	-	150	-	21,370
Net book value At 31 March 2017	103,700	234	2,492	-	106,426
At 1 April 2016	104,164	512	2,379	-	107,055
Housing properties comprise:					
				2017 £000	2016 £000
Freeholds				106,426	107,055
Long leaseholds				-	-
				106,426	107,055
Works to existing Housing Properties					
Total expenditure on works to existing housing properties:					
- amounts capitalised				1,081	1,810
- amounts charged to Income and Expenditure account				1,630	1,424
				2,711	3,234

Interest Capitalised in 2017 is £11,887 (2016: £37,913) and the interest rate charged is 4.7% (2016: 4.85%)

NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017

14 TANGIBLE FIXED ASSETS

(b) Other Fixed Assets	Freehold Premises £000	Motor Vehicles £000	Computers And Office Equipment £000	Maintenance Equipment, Communal Furniture & Laundry Equipment £000	Total £000
Cost					
At 1 April 2016	2,027	181	1,951	1,747	5,906
Additions	-	-	142	141	283
Disposals	(43)	-	(21)	(10)	(74)
At 31 March 2017	1,984	181	2,072	1,878	6,115
Depreciation					
At 1 April 2016	91	88	1,366	1,323	2,868
Charge for the year	36	37	192	107	372
Disposals	(1)	-	(18)	(8)	(27)
At 31 March 2017	126	125	1,540	1,422	3,213
Net book value					
At 31 March 2017	1,858	56	532	456	2,902
At 31 March 2016	1,936	93	585	424	3,038

AXIOM HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS (continued) YEAR ENDED 31 MARCH 2017

15 STOCK

	2017 £000	2016 £000
Properties held for sale:		
Shared Ownership properties		
Completed	159	66
Work in Progress	-	-
Properties for Outright Sale		
Completed	13	64
Work in Progress	-	-
	<u>172</u>	<u>130</u>

Stocks with a net book value of £nil (2016: £nil) have been pledged as security for liabilities of the Association.

16 TRADE AND OTHER DEBTORS

	2017 £000	2016 £000
Rent Arrears	467	471
Less: Provision for Bad Debts	(184)	(156)
Other Debtors	1	1
Prepayments and accrued income	731	540
	<u>1,015</u>	<u>856</u>

Debtors are all due within one year

17 CASH AND CASH EQUIVALENTS

	2017 £000	2016 £000
Cash at Bank	1,247	545
	<u>1,247</u>	<u>545</u>

In the above are balances totalling £175k (2016: £164k) which are held in trust for Shared Ownership Leaseholders.

AXIOM HOUSING ASSOCIATION**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017****18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2017	2016
	£000	£000
Loans and overdraft	20	12
Housing Loans	702	932
Trade Creditors	258	638
Rent and service charges paid in advance	395	292
Service charge balances held on behalf of leaseholders	238	211
Other taxation and social security payable	98	98
Accruals and deferred income	1,217	1,328
TPT pension agreement plan (note 13c)	370	356
Deferred Capital Grant (Note 20)	457	456
Recycled Capital Grant Fund (Note 21)	213	213
Other Creditors	53	118
	4,021	4,654

19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2017	2016
	£000	£000
Loans	52,521	52,671
Deferred Capital grant (Note 20)	44,535	44,960
Recycled Capital Grant Fund (Note 21)	228	186
TPT pension agreement plan	2,290	2,530
	99,574	100,347
Analysis of debt maturity:		
Housing loans repayable by instalments:		
Within one year	702	932
In one year or more but less than two years	968	936
In two years or more but less than five years	4,429	4,488
In five years or more	17,781	23,111
	23,880	29,467
Housing loans not repayable by instalments:		
Within one year	-	-
In one year or more but less than two years	-	-
In two years or more but less than five years	2,000	3,000
In five years or more	27,200	21,000
	53,080	53,467
Add: Premium on issue	714	863
Less: Loan issue costs	(571)	(728)
Total Loans	53,223	53,602

All housing loans are secured by fixed charges on the Association's assets and are repayable at varying rates of interest.

AXIOM HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS (continued) YEAR ENDED 31 MARCH 2017

19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

The interest rate profile of the Association at 31 March 2017 was:

	Total	Variable Rate	Fixed Rate	Weighted Average Rate	Weighted Average Term
	£000	£000	£000	%	Years
Instalment loans	23,880	5,104	18,777	5.5	20.76
Non-Instalment loans	29,200	2,000	27,200	4.0	5.95
	<u>53,080</u>	<u>7,104</u>	<u>45,977</u>	<u>4.7</u>	<u>12.62</u>

At 31 March 2017 the Association has the following borrowing facilities;

	£000
Undrawn committed facilities Secured	8,257
Undrawn committed facilities Unsecured	15,543
Total Undrawn facilities	23,800

20 DEFERRED CAPITAL GRANT

	2017 £000	2016 £000
At the start of the year	45,416	53,828
Amortised in Prior year	0	(8,257)
Grant received in year	57	324
Released to income in the year	(457)	(419)
Disposals	(24)	(60)
At the end of the year	<u>44,992</u>	<u>45,416</u>
Amount due to be released <1 Year	457	456
Amount due to be released >1 Year	<u>44,535</u>	<u>44,960</u>
	<u>44,992</u>	<u>45,416</u>
Capital Grant at Cost		
Social Housing Grant	46,331	46,386
Other grant	8,065	7,995
Total Cumulative grant at cost	<u>54,396</u>	<u>54,381</u>

AXIOM HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017

21 RECYCLED CAPITAL GRANT FUND

	2017	HCA	2016
	£000		£000
At the start of the year	399		272
Inputs: Grants recycled	42		125
Interest accrued	1		2
Recycling: New Builds	-		-
Major repairs	-		-
Repayment of grant to the HCA	-		-
	<hr/>		<hr/>
At the end of the year	442		399
	<hr/>		<hr/>
Amount three years or older where Repayment may be required	214		115
	<hr/>		<hr/>

22 NON-EQUITY SHARE CAPITAL

	2017	2016
	£	£
Association		
Allotted and fully paid	19	20
At the start of the year	20	21
Issued during the year	4	-
Cancelled during the year	(5)	(1)
	<hr/>	<hr/>
At the end of the year	19	20
	<hr/>	<hr/>

The par value of each share is £1. The shares do not have a right to any dividend or distribution in a winding up, and are not redeemable. Each share has full voting rights. All shares are fully paid.

AXIOM HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS (continued) YEAR ENDED 31 MARCH 2017

23 CAPITAL COMMITMENTS

	2017 £000	2016 £000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	2,388	57
Capital expenditure that has been authorised by the Board of Management but has not yet been contracted for	13,622	16,820
Association Total	16,010	16,877
The Association expects to finance the above expenditure by:		
Social Housing Grant	3,100	4,070
Loans and cash reserves	10,818	11,625
First Tranche Shared Ownership Receipts	2,092	1,182
	16,010	16,877

The above figures include the full cost of shared ownership properties contracted for.

	2017 £000	2016 £000
Capital commitments will be incurred over the next;		
In one year or more but less than two years	14,841	5,823
In two years or more but less than five years	1,169	11,054
In five years or more	-	-
	16,010	16,877

AXIOM HOUSING ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS (continued) YEAR ENDED 31 MARCH 2017

24 OPERATING LEASES

	2017 £000	2016 £000
Land and Buildings		
Within one year	25	15
In one year or more but less than two years	12	3
In two years or more but less than five years	-	-
In five years or more	-	-
Others		
Within one year	9	10
In one year or more but less than two years	4	9
In two years or more but less than five years	2	6
In five years or more	-	-
	<u>52</u>	<u>43</u>

The lease agreements do not include any contingent rent or restrictions.

25 RELATED PARTIES

Mrs C Wood, Mr M Cowdell and Mr B Webster were members of the Board of Management for all of the year and tenants of the Association. They each hold a standard tenancy agreement and cannot use their position to their advantage. They were all existing tenants before serving on the Board. Rent charged to the tenant Board members was £14,164 (2016: £13,914). There was an overall credit balance of £411 on their tenancies at the reporting period end (2016: £Nil).

26 SUBSIDIARY UNDERTAKINGS

The Association has two subsidiary undertakings.

Axiom Homeless Action Ltd is a company limited by guarantee (No.2626686) and a registered charity (No.1005310). It operates by receiving donations and making grant payments to projects or activities in the area of the Association's operations connected with the alleviation of homelessness.

Axiom Homeless Action Ltd had net incoming resources in its year to 31 March 2017 of £2,246 (2016: £2,180) and had net assets of £19,096 (2016: £16,850) at that date. At 31 March 2017 there was a balance due to the Association from Axiom Homeless Action of £1,870 (2016: £1,217). Consolidated accounts have not been prepared on the basis of immateriality.

The second subsidiary company, Axiom Care Ltd, is dormant and has not traded during the year to 31 March 2017.

27 ASSOCIATE UNDERTAKINGS

Axiom Housing Association are shareholders of Pondersbridge Management Limited (No.04895541) (holding 16 ordinary shares of the 44 ordinary shares in issue) and provides management services including the company secretarial and accounting functions. No fee is charged to Pondersbridge Management Limited for this service. Consolidated accounts have not been prepared on the basis of immateriality.

Financial results of Pondersbridge Management Limited for the financial year to 30 September 2016 stated turnover as £19,670, profit before tax of £5,115, taxation £0 and loss after tax of £5,115.

Current assets were £18,827 and liabilities due within one year were £8,228. Shareholders' funds were £10,599 as at this date.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2017**

28 FINANCIAL INSTRUMENTS

	2017 £000	2016 £000
Financial assets		
Financial assets at amortised cost	2,262	1,402
Financial liabilities		
Financial liabilities at amortised cost	56,163	57,141

Note

Financial assets measured at amortised cost comprise cash at bank and in hand, trade debtors, other debtors, accrued income (£86 (2016 - £84), amounts owed by joint ventures and association undertakings.

Financial liabilities measured at amortised cost comprise bank loans and overdrafts, trade creditors and other creditors.

29 SUBSEQUENT EVENTS

On 10 April 2017 the Board voted unanimously for Axiom to join the Longhurst Group as a subsidiary company subject to necessary consents.

A special general meeting was then held on 16 May 2017 at which special resolution was passed to replace the Rules of the association which, once registered would transfer parental control to the Longhurst Group. Registration of the new Rules was subject to obtaining all necessary lender consents.

Following approval of lender consents at a meeting of a delegated Committee of the Board on **XX June 2017**, an application was made to the HCA and FCA for registration of the new Rules. Completion is expected to occur by **3 July 2017**.

Upon completion the Chief Executive Officer and all Board Members of the Association will resign from office. All payments made to the Chief executive to compensate him for loss of office will be made in line with the Association policy which applies to all staff. Governance of the Association will be assumed by the Homes Board of Longhurst Group.

AXIOM HOUSING ASSOCIATION LIMITED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 MARCH, 2016

AXIOM HOUSING GROUP
GROUP FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2016

CONTENTS

	Page
Legal and Administrative Details	2
Board Report and Responsibilities	3 - 20
Report of the Independent Auditors	21
Association and Consolidated Statement of Comprehensive Income	22
Association and Consolidated Statement of Financial Position	23
Consolidated Statement of Changes in Reserves	24
Consolidated Statement of Cash Flow s	25
Notes to the Financial Statements	26 – 57

Board, Executive and Advisers

Board Members

Andrew Bish^{◇β} (Appointed 26 May 2016)
Vanessa Connolly* (Appointed 26 May 2016)
Mervyn Cowdell^{◇+*}
Ken Fairbairn^{◇+**} (Chair of Resident Services Committee)
David Fowler^{◇**}
Brian Keegan (Retired 22 September 2015)
Marie Li Mow Ching^{◇β*} (Vice Chair of Board, Chair of Finance & Audit Committee)
Hilary Lindsay^{◇β*} (Chair of Board)
Viny Logan** (Resigned 26 May 2016)
Angela Morris* (Appointed 26 May 2016, Chair of Care & Support Committee)
Donald Sang (Resigned 1 March 2016)
Brian Webster^{◇+β}
Arthur Wood^{◇β*} (Vice Chair of Board, Chair of Development & Assets)
Christine Wood^{+*}

Principal Solicitors

Buckles Solicitors LLP
Grant House
101 Bourges Boulevard
Peterborough
PE1 1NG

Trowers & Hamlins
3 Bunhill Row
London
EC1Y 8YZ

Birketts LLP
Kingfisher House
1 Gilders Way
Norwich
NR3 1UB

Devonshires Solicitors
30 Finsbury Circus
London
EC2M 7DT

Committees of the Board and Subsidiary Company

- ◇ Finance & Audit Committee
- + Resident Services Committee
- * Care & Support Committee
- β Development & Assets
- * Governance

External Auditors

Beever and Struthers
15 Bunhill Row
London
EC1Y 8LP

Executive Team

Alan Lewin (Chief Executive)
Louise Platt (Executive Director – Corporate Services)
Stuart Fort (Executive Director - Operations)
Mark Oldaker (Assistant Director – Finance & Assurance)
Charmaine Simei (Assistant Director – Operations)
Karen Chambers (Assistant Director – Care & Support)

Internal Auditors

Mazars LLP
45 Church Street
Birmingham
B3 2RT

Bankers

Barclays Bank plc
1 Church Street
Peterborough
PE1 1XW

Registration Details

Registered Society (Co-Operative and Community Benefit Societies Act 2014) number: 17971R

Homes & Communities Agency number: L0395

Registered Office

Axiom House
Cottesmore Close
Netherton
Peterborough
PE3 9TP

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

The Board of Management is pleased to present its report and audited financial statements for the year ended 31 March 2016.

Group Structure

Axiom Housing Group comprises Axiom Housing Group Limited and its subsidiary companies detailed in note 28.

Nature of the Association

Axiom Housing Association is a not-for-profit organisation registered with the Financial Conduct Authority as a Registered Society under the Co-Operative and Community Benefit Societies Act 2014 with charitable status. The Association was founded in 1967 and was registered with the Housing Corporation in 1975.

At 31 March 2016 the Association managed 2,262 properties (of which 2,245 properties are owned), had housing assets of £107 million and employed 313 people on full time, part time and zero hour contracts, providing a range of housing and support services to approximately 5,000 people in Cambridgeshire and Lincolnshire.

Business Objectives and Corporate Strategy

The mission of the Association is to make a positive difference to people's lives and our communities we provide with homes and services. The Association's primary activity is the provision of high quality, well designed, rented housing at affordable rents for those in most need. The Association also provides housing and related services and support for vulnerable people.

Corporate Strategy

We operate in a fast changing environment and the corporate strategy set the direction for the period 2012-2015, building on our traditional values, whilst strengthening operations and financial resilience to meet the challenges ahead.

Corporate Objectives

1. To remain a **strong and successful** organisation
2. To provide **value for money and social value**
3. To **build** on our **strengths**
4. To provide **distinctive homes and person centred** services
5. To **work together**
6. To **build** our **community commitment**

Board Structure

The Board of Management exercises direct control over the affairs of the Association. During 2015 the board conducted a comprehensive review of its governance structure resulting in a revision of its committee governance structure. From September 2015 the board has been supported by a Finance and Audit Committee, a Governance Committee, a Residents Services Committee, a Care & Support Committee and a Development & Assets Committee. The constitution, terms of reference and authority delegated to these committees is reviewed and updated annually.

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

Statement of Board of Management's Responsibilities

The Board is responsible for preparing the report and financial statements in accordance with applicable law and regulations.

The Co-operative and Community Benefit Societies Acts and registered social housing legislation require the Board of Management to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of the income and expenditure for that period.

In preparing these financial statements, the Board of Management is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Board of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Association and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for private registered providers of social housing in England in 2015. The Board of Management has general responsibility for taking reasonable steps to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

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

Corporate Governance

The Association adopted the National Housing Federation's (NHF) code of Excellence in Standards of Conduct in 2015 and incorporated this into the standing orders of the association. A statement of compliance is set out below:

Code reference:

- | | |
|-----------|---|
| A1 | The code is followed by the board and is annually reviewed. |
| A2 | The board is committed to uphold the code and reports relating to compliance and disclosure are set out in the annual report. |
| B3 | The register of interests is reviewed annually and is included within the annual report. |
| C3 and C4 | Payments to the board and board members are included in the audited accounts |
| C5 | The remuneration of the Chief Executive is included within the audited accounts |

The association has also adopted the NHF's 2015 Code of Excellence in Governance and is compliant with the following exception. The overall maximum period of office for a board member shall be three terms or nine years. Following a scheduled retirement at the Annual General Meeting in September 2016, the Association shall have one member, for whom an extension of membership has been permitted up to September 2017. This is in accordance with the approved retirement and succession plan. The Board has reviewed the plan and concluded that it is essential that the board member remain for the next 12 months, to enable Axiom to make use of his skills and knowledge as it evaluates and negotiates a potential merger.

The Homes and Communities Agency (HCA) governance standard requires regulated housing associations to comply with all relevant law, their own governing documents and regulatory requirements. During the year, the Association incurred a civil penalty notice for the employment of an illegal worker, having failed to adequately satisfy itself within the required timeframe that the individual, transferred under TUPE arrangements, continued

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

to have the appropriate right to remain in the UK. The Board commissioned a full independent internal investigation of all employee documentation held to satisfy itself that no other cases of illegal working existed and have assurance that this was an isolated case. A full internal investigation revealed weaknesses in communications and controls. An action plan to prevent recurrence by introducing new procedures and internal controls was completed to the Board's satisfaction by 28 July. The Board has reviewed evidence from internal management reports, independent audit reports and has considered the scope of legislative and regulatory requirements across the Association's sphere of operations and is satisfied that with the exception of the noted incident the Association has complied with the regulatory and legal requirements.

Statement on Internal Controls

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

The Board of Management recognises that no system of internal control can provide absolute assurance or eliminate all risk. The system of internal control is designed to manage risk and to provide reasonable assurance that key business objectives and expected outcomes will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the Association's assets and interests.

In meeting its responsibilities, the Board of Management has adopted a risk-based approach to internal controls which are embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Association is exposed and is consistent with Turnbull principles. The risk assessments are reviewed and updated for each Committee meeting and reported to the board.

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

- **Identification and evaluation of key risks**

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is a formal and ongoing process of management review in each area of the Association's activities. This process is co-ordinated through a regular reporting framework. The management team regularly considers significant risks facing the Association and they are responsible for reporting to the Board of Management any significant changes affecting key risks.

- **Monitoring and corrective action**

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

- **Control environment and control procedures**

The Board of Management retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues including treasury strategy and new investment projects. The Board of Management has adopted, and disseminated the principles to all employees, the NHF codes of Excellence in Governance 2015 and Excellence in Standards of Conduct 2012. In addition the Board reviews and updates standing orders and financial regulations biannually. These set out the Association's policies with regard to the quality, integrity and ethics of its employees. It is supported by a framework of policies and procedures with which employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection and fraud prevention and detection.

- **Fraud prevention and detection**

The Association has embedded within the Internal Audit function a robust review of systems. These reviews of systems are designed not only to improve efficiencies, to recognise good practice, but are also designed to identify areas of risk that may lead to misappropriation, fraud, or attempted fraud.

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

- **Information and financial reporting systems**

Financial reporting procedures include detailed budgets for the year ahead and forecasts for subsequent years. A 40 year Business Plan is prepared and stress tested as part of the annual planning exercise. This is reviewed and approved by the Board of Management and monitored on a quarterly basis by the Finance & Audit committee. The Board of Management also regularly reviews key performance indicators via its Resident Services and Care & Support committees to assess progress towards the achievement of key business objectives, targets and outcomes.

The internal control framework and the risk management process are subject to regular review by the internal auditors who are responsible for providing independent assurance to the Board of Management via its Finance and Audit Committee. The Finance and Audit Committee considers internal control and risks at its meetings during the year.

In support of the Finance & Audit Committee, an Operational Risks Dashboard is prepared for monthly review. This report assesses procedural compliance and reports on incidents or breaches; it is examined in detail by the Wider Executive Team and reported to the committee. All underlying operational risks are updated as part of the risk review process for each committee risk register. The full strategic risk register is provided to the board twice per year.

The Finance and Audit Committee has received the management team's annual report on internal controls and has conducted its annual review of the effectiveness of the system of internal control taking account of any changes needed to maintain the effectiveness of the risk management and control process. The Finance and Audit Committee makes an annual report to the Board of Management.

The Board of Management confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Association. This process has been in place throughout the year under review, up to the date of the annual report, and is regularly reviewed by the Board of Management.

Review of Business

- **Key Performance Indicators**

The Association measures its financial performance using a range of performance indicators that are reported quarterly to the Finance & Audit Committee. A small number of the indicators are considered to be key to monitoring and driving the continued improvement of the organisation and these are made available weekly to all board members and employees. During 2015-16 the Association was able to report an improvement in the performance of short and long term and re-let times, but performance across other areas such as current tenant rent arrear and repairs target declined when compared with that of previous year. The percentage of complaints resolved on target reduced on last year as did the number of compliments received. These key indicators and their outcomes are summarised below:

Key Performance Indicators	2015-16	2014-15
Current tenant rent arrears as percent of income from social lettings	2.70%	2.10%
Rent losses due to voids as percent of income from social lettings	1.30%	1.30%
Average re-let times (weeks)	1.75	1.77
Repairs completed within target time	99.42%	99.65%
Complaints resolved on target	93.00%	97.40%
Compliments received	136.00	175.00
Average short-term sickness days lost per employee	3.31	3.54
Average long-term sickness days lost per employee	5.66	4.59

Each year the Association publishes a report to its tenants and stakeholders that incorporate the above indicators along with a wide range of other more detailed ratios and explanations on performance, including benchmark comparisons and trend data. This information is made available on the Association's website.

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

- **Income**

During the year the Association increased its turnover by 7.3% to £16.25 million (2015: £15.15million). This includes income from Axiom Care contracts for January to March 2016 of £401,000. If this is excluded, the underlying increase in income was 4.7%. This is driven by inflationary rent rises of 2.2% determined by the HCA target 'rent influencing regime' and new developments.

- **Operating Surplus**

Overall the operating surplus for the year was £3.20 million (2015: £3.86 million). This represents a 19.7% (2015: 25.5%) margin over turnover. If the additional FRS 102 pension charge in 2015/16 of £576,000 was removed, the underlying operating margin was 23.3% (2015: 24.9%, FRS 102 pension charge also removed). A number of one-off costs such as redundancy due to organisational restructuring and professional fees associated with meeting new regulatory requirements contributed to the reduced margin. The margin was also diluted by the inclusion of Axiom Care trading in the Association for the last quarter.

- **Interest**

Ordinary gross interest costs increased during the year as a result of additional borrowings and the impact of securing interest rate fixes. The average rate of interest incurred during the year was 4.85% (2015: 5.20%). At the 31 March 2016 the proportion of loan stock subject to variable interest rate charges was 24% of the total debt (2015: 12%).

- **Net Surplus and Revenue Reserves**

The Association has recorded a net surplus for the year of £615,000, which includes the transfer of business from Axiom Care Ltd to Axiom Housing Association Ltd on 13 January 2016 (see note 8). This result also includes a significant FRS 102 adjustment to the pension cost as outlined in the Consolidated Statement of Cash Flows ("Pension costs less contributions payable"). If this adjustment is added back, the surplus for the year is £1,191,000 (2015: £1,098,000). This marks a similar margin of net surplus to turnover of 7.3% compared to 7.9% for the prior year. The cumulative revenue reserves of the Association are £6.6m (2015 Restated: £6.0m).

- **Capital Investment**

The Association invested £3,234,000 (2015: £2,914,000) on major repairs and improvements to its housing stock during the year. Of this expenditure £1,424,000 (2015: £1,304,000) was taken as a cost in the Income and Expenditure Account. This included refurbishment of Beech Court, the largest older persons sheltered scheme.

- **Development**

During the financial year the Association completed the conversion of its former office premises to provide an additional 15 supported units in Peterborough. This was named "Changemaker House". It also completed 12 units of general needs accommodation in Eye, 3 of which were for shared ownership. At 31st March 2016, the Board of Management had authorised development expenditure of £16.9 million (2015: £16.9m).

Treasury Management

The Association finances its operations through a combination of borrowing and investment of revenue reserves. The Board of Management agrees the amount of borrowing and its terms. Through the use of revolving loan facilities, surplus funds are temporarily repaid in order to minimise borrowing costs rather than maximise investment income. During the year the Association prepaid a £2 million loan subject to a 4.2% interest rate floor using unutilised variable rate facilities at a rate of 3% per annum. The loan facility with Peterborough City Council was secured and is available to fund proposed development commitments for the next five years.

Rent Policy

The Association operates the "Rent Influencing Regime" policy defined by the Homes & Communities Agency. Target rents have been set for all properties let under assured tenancies, based on average earnings and property values in an area using the Homes & Communities Agency parameters. From April 2016 onwards the Association

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

will apply 1% rent cuts to its social and affordable general needs tenancies, this will continue each of the next three years until April 2019. Supported and Older Persons accommodation will be cut in line with legislation, currently expected to be by 1% from April 2017 for three consecutive years. Affordable rents have been applied on new developments in accordance with grant funding conditions. During the year the Association converted 41 tenancies from a social rent to an affordable rent where it was financially beneficial to do so. The average weekly increment upon conversion was £11.24.

Maintenance

Long term maintenance of the housing stock is carried out in accordance with a planned programme to ensure that building components are replaced when they reach the end of their useful life.

Maintaining the quality of our homes is a defined objective within the Association's corporate strategy. Axiom stock is of good quality in comparison to peer organisations due to its age (most stock is under 40 years old). In 2009 we carried out a comprehensive stock condition survey and increased the level of investment in our homes; we continue to survey 20% of our stock year on year and the overall survey informs our annual major works programme. This programme ensures that we replace components when they reach the end of their useful life and provides residents with a clear indication of component replacement dates. During 2015/16 we increased the number of homes with photo-voltaic (PV) panels to help reduce the costs of energy for our residents. Approximately 7% of our stock now has PV panelling.

Health & Safety

The Board of Management recognises the importance of the promotion of health & safety for all employees and the Association's operations generally. The Chief Executive is responsible for ensuring that the Association's policy on health and safety is enforced. It is the Association's policy to do all that is reasonable to protect everyone from foreseeable work hazards. The Care & Support Committee receive a summary of all incidents and QA checks at each scheduled meeting.

Employees

The Association recognises its legal and social obligations with respect to the employment of all people from minority and disadvantaged groups. The association has the accreditation "Positive about Disabled People". The Association is also a member of the Housing Diversity Network to learn and apply best practice. The Association has reviewed and updated its policies to comply with the Equality Act.

The Association values its staff and keeps all its employees informed on matters affecting them and the Association generally, through a weekly corporate bulletin "Inside Axiom". The Association has a formal Staff Consultative Group (SCG) which is complemented by regular team briefings and an annual staff conference. As part of the 2015 governance review the board created a governance role for a board member to have special interest in employee concerns. The portfolio holder for Exemplar Employee matters may attend SCG meetings and the SCG chair or vice chair represents staff at meetings of the board twice per year.

The Association continues to place great emphasis on engaging and retaining high calibre staff and investing in their training and development. The association has been accredited with an "Investors in People" Gold standard and in 2015 we are proud to have achieved recognition within the coveted Sunday Times Top 100 Companies to Work For, being placed 66th in the Not-for-profit category. Despite this success, we continue to improve our methods of developing, recognising and rewarding staff. The company operates a performance management system linking performance to training, personal development and rewards. During 2013, we implemented improvements to our reward and recognition framework which included an updated set of competency standards, a revised performance-related bonus structure, and individual personal development plans for every employee. The combined training cost in the financial year was £64k; provision has been made to increase this investment by 31% in 2016-17 through a combination of external resource and our own internal training division, Axiom Academy, which works closely with local colleges and education establishments to deliver courses through our network of learning centres.

During 2015/16 all employees were consulted on the issues of pensions and sickness absence. As a result of this process, from April 2016 all members of the Social Housing Pension Scheme (SHPS) defined benefit pension scheme will have their future pension benefit accrual aligned with the 120ths CARE scheme. All eligible staff will also be able to benefit from national insurance savings via the introduction of a salary sacrifice scheme. Also from April 2016 new members of staff will receive sickness absence pay benefits. A full review of absence management

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

procedures and a comprehensive management training course will be delivered in 2016 to address rising absence and support employee well being.

Value for Money (VFM)

Axiom's mission is to deliver high quality homes and services that make a positive difference to people's lives and our communities. This means making the best use of the resources available to us to provide high quality homes, care and support services which in turn lead to improved quality of life and wellbeing of our residents and service users.

Our reputation for delivering responsive, innovative, value for money services generating positive outcomes for service users is strong amongst our customers and stakeholders. This strength continues to generate opportunities for growth in areas of support, care and training. As a smaller and diversified provider of homes and services, our resources have to be planned and managed appropriately to ensure that we maintain an optimum balance of the operating and financial risks of providing our care and support services alongside our traditional housing services. To meet this challenge, Axiom seeks to continually improve the efficiency and management of its resources. To do this the Board has established a clear strategy for sustainable growth and for continuing to improve the quality of our existing homes and services. The drive is to maximise the use of the Association's assets to deliver social, environmental and financial returns.

How we approach VFM

The Board has overall responsibility for Value for Money. It annually reviews performance outcomes against corporate objectives within the Corporate Strategy. The VFM agenda is driven from the key priorities within the corporate strategy which was updated in 2015. In 2016 the Association's VFM policy was also reviewed and updated.

During the year, the Board, via its Resident Services and Finance & Audit Committees, receives regular monitoring reports on progress supplemented by independent reporting via internal audit and benchmarking.

Delivery of VFM

The Association has embraced a comprehensive approach to continuous improvement and VFM. The VFM strategy is underpinned by a number of linked policies focussed on procurement, quality assurance, performance management, asset management, human resources and ICT.

Central to our approach is a performance management system that monitors performance against all annual improvement plans and objectives and is accessible to all employees via the Association's intranet. A selection of key performance indicators are also published to employees and the board on a weekly basis and the full range of over 100 performance indicators are scrutinised by the wider executive team on a quarterly basis.

Our Resident Services Committee, which is made up of Board members and tenants, examines and challenges progress against objectives and targets in our annual Service Plans every quarter. The Finance & Audit Committee monitor the delivery of financial efficiency objectives identified within the business plan and report regularly to the Board. All decisions of the Board and Committees are subject to a VFM assessment which will include social value considerations alongside financial ones, and be balanced against the objectives set out within the corporate strategy.

To ensure that VFM remains central to our everyday activities, each employee of the association is assessed annually against a revised competency framework that explicitly includes a competency linked to VFM.

VFM Achievements – Return on Assets and Use of Resources

Each year the Board considers the capacity of the business plan to fund growth and development by reinvesting surpluses into new services and housing stock. The Association reviewed its objectives to increase the supply of affordable housing, and meet its three year target to build or acquire 132 new homes by March 2018. The level of investment allocated to housing and new business development is established through a process of rigorous financial planning after allotting appropriate resources to resident led improvements, core service improvements and maintenance commitments. The Association remains committed to its objectives to deliver housing across

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

the full spectrum of social housing need, including accommodation for clients requiring specialised support and older persons, where social value returns are considered to be particularly strong.

In recognition of the relatively higher investment needed to develop specialised accommodation, the Board introduced a policy requiring that the mix of approved developments should be balanced in order to deliver a combined minimum average yield of at least 4%.

Following the Government's announcement on 8 July 2015 of its intention to change the rent indexing model from CPI +1% to a reduction in existing rents by 1% per annum from 2016 to 2020, the Board reassessed the capacity of the Association's finances to support new housing development growth and to balance this with its ongoing management and maintenance priorities.

Individual **development** projects were each reappraised and were found to meet the minimum decision criteria and, in combination, the programme continued to meet the average yield target of 4% per annum. The table of approved developments, below, demonstrates how this target has been applied.

Scheme Name	Rental type	Rented Units	Sale Units	Weekly Rent /Unit	Weekly Service Income /Unit	Routine Repairs per Annum per Unit £	Net Income per Annum per Unit £	Gross Investment per Unit £000	Net Income YIELD per rental unit %	FY of completion
267 Eastfield Road	Affordable	26	-	£ 88.48	£ 37.13	£ 145.99	£ 5,473.29	£ 110.88	4.94%	2014-15
Gainsborough Foyer	Affordable	12	-	£ 78.05	£ 169.61	£ 437.74	£ 3,717.53	£ 114.42	3.25%	2014-15
Millport Drive (Thorney Rd 2)	Affordable	9	3	£124.42	£ 7.00	£ 250.00	£ 6,104.23	£ 113.08	5.40%	2015-16
Changemaker House	Affordable	15	-	£ 75.00	£ 7.00	£ 250.00	£ 3,598.64	£ 85.07	4.23%	2015-16
Globe Lane, Alconbury	Affordable	1	-	£126.00	£ 5.00	£ 250.00	£ 6,171.16	£ 151.01	4.09%	2016-17
Flaxland, Bretton	Affordable	10	10	£110.41	£ 5.00	£ 250.00	£ 5,380.64	£ 119.70	4.50%	2017-18
Crowland 1	Intermediate	5	5	£ 85.80	£ -	£ 250.00	£ 4,211.60	£ 95.10	4.43%	2017-18
Crowland 2	Intermediate	7	5	£107.78	£ -	£ 250.00	£ 5,354.63	£ 101.05	5.30%	2017-18
Total/ Weighted Average		85	23	£ 95.75	£ 30.51	£ 245.82	£ 4,947.24	£ 111.29	4.56%	

Table 1: completed and in progress development yield

The threat of a Local Housing Allowance cap on Housing Benefit eligibility for older persons and supported accommodation continues to present a material financial risk to the association and for this reason it was decided to temporarily suspend ongoing development activity on two funded projects; a 27 unit young persons' foyer in Melton Mowbray and a 60 unit extra care scheme in Whittlesey.

The **Asset Management Strategy**, included plans to accelerate the existing programme of disposal of older and uneconomic stock. This strategy continues to avoid uneconomic future maintenance liabilities and to increase the overall thermal efficiency of the stock (by replacing older stock with new, energy efficient properties). Sales proceeds from disposals are applied to supporting new development and to funding improvements to older persons and supported schemes and estates infrastructure. During 2015-16, 7 units were voluntarily disposed; generating £0.6m of additional proceeds for reinvestment.

During 2015-16 the asset management plan has been modified to reflect the need to reduce costs in preparation for the introduction of rent cuts, and prepare for the **voluntary right to buy** (VRTB) scheme.

In response to proposed rent cuts, the total investment in planned maintenance was reduced. This will be achieved by a deferral of scheduled replacements of components to general needs housing estates that will remain in satisfactory condition during the deferral period, in order to ensure that capacity remains to deliver improvements to existing older persons accommodation to preserve their attractiveness and suitability for client groups in the future.

Key ratios for the operating and net returns on assets are measured and projected to ensure that asset growth is achieved in a sustainable way generating income streams for reinvestment in the future. Due to the size of the Association, the phasing of new developments may lead to a short-term deterioration in performance that recovers once assets are fully commissioned. Table 2 below illustrates the actual and anticipated profile arising from completed and in-progress. In our previous report, planned and projected performance was reported using the

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

previous 2010 SORP. The impact of applying the new accounting standard FRS102 is to lower the ratio calculations; the ratios have therefore been adjusted to permit comparability of results to target.

The possibility of housing assets being sold under VRTB may have a significant impact upon the age and profile of our housing stock. A preliminary assessment has been made to identify those assets that would be considered unsuitable for disposal under the terms of the VRTB proposals and the board have received reports on the potential eligibility of tenants under the scheme and on the profile of housing stock that is at risk of disposal. Our business plans now include speculative figures on possible housing disposals. Whilst initially the impact of VRTB on the net return on assets is a positive one, over time, the loss of rental income will reduce operating returns, unless replaced by new assets.

The table below illustrates how from 2016 onwards operating return is initially impacted by the rent cut, and the introduction of a modest number of VRTB disposals. In contrast the net return on assets is more significantly impacted by surpluses that might be generated from housing stock disposals in the short term. During 2016-17 the Development & Assets Committee will be monitoring the delivery of the asset management plan and appraising the implications to asset management arising from VRTB once launched.

	2015-16 Performance			2016-17		2017-18	
	Planned	Actual	Result	Projected	Trend	Projected	Trend
	£ / %	£ / %		£ / %		£ / %	
Operating Return on Assets	5.7%						
Operating Return on Assets after FRS102	3.2%	2.8%	☹	3.7%	↑	3.4%	↓
Operating Return on Assets (ignoring VRTB disposals)				3.7%	↑	3.5%	↓
Net Return on Assets	1.6%						
Net Return on Assets after FRS102	0.8%	0.8%	☺	2.0%	↑	2.1%	↑
Net Return on Assets (ignoring VRTB surpluses)				1.4%	↑	1.1%	↓

Table 2: Operating and Net return on assets with adjustments for FRS102, including and excluding VRTB assumptions

In 2013-14 we reported upon our approach for monitoring the returns delivered across our housing stock by asset type and location. During 2015-16 we have seen an improvement in overall returns increasing from 10.6% to 10.9%. The table below shows the summary of net rental returns on capital employed by accommodation type for the last two financial years. To enable comparison across years, the prior year capital employed has been restated under FRS102 and the additional pension valuation charge for 2015-16 has been excluded.

Accommodation Type	2015-16		2015-16 Return %	2014-15 *Return %	2014-15 Return %
	Net Rental Returns	Net Capital Employed			
General Needs	£ 4.51m	£ 37.66m	12.0%	11.4%	11.6%
Older Persons	£ 1.62m	£ 15.59m	10.4%	9.9%	10.2%
Supported: Young Persons Foyers	£ 0.30m	£ 2.41m	12.4%	21.6%	24.0%
Supported: Hostels and Other	£ 0.37m	£ 3.87m	9.6%	11.0%	11.4%
Stock identified for disposal	£ 0.18m	£ 4.37m	4.1%	3.2%	2.8%
Combined Net Rental Returns (before overhead)	£ 6.98m	£ 63.90m	10.9%	10.6%	10.7%

*FRS 102 adjusted

Table 3: Return on capital employed for each major asset category

Table 3 reveals the marked reduction in return for supported accommodation. This effect is driven by two new investments. Firstly, the addition of two new supported developments; the Gainsborough Foyer and Changemaker House. These schemes were both developed closely with the respective local authority to meet the needs of young people and were authorised by the board in line with investment appraisal policy (see also Table 1). Secondly, a refurbishment at Paines Mill Foyer has added to the capital employed, reducing the return

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

on the scheme to 16%. The revenue cost element of the refurbishment incurred in 2015-16 reduced the return for that scheme. If both new schemes and the refurbishment costs for Paines Mill Foyer were excluded from the above analysis, the return for Young Persons Foyers would be in line with the prior year.

A detailed analysis of net rental returns by housing scheme / estate was compiled in 2014-15 which identified internal benchmarks of asset performance. Assets performing below the Association average were mapped against quality indicators such as thermal efficiency, resident satisfaction and stock turnover in order to prioritise areas of investment or management intervention. A programme of older persons' accommodation refurbishment projects was agreed. Properties suitable for installation of photovoltaic panels were identified and fittings continued up to the date that feed-in-tariffs were cut to below viable levels. A small number of schemes owned or managed by others were identified to be non-core and are in the process of being returned or disposed of. Detailed information is provided in the Association's annual value for money publication.

The stock identified for disposal is net of any future investment requirements.

VFM Achievements – Service Costs

The association uses HouseMark to benchmark our housing management performance against our peers in the Southern Traditional Housing Associations Benchmark Club.

For monitoring and reporting we have established 10 key service areas:

- Responsive repairs and void works
- Anti-social behaviour
- Lettings
- Resident involvement
- Supported Housing
- Rent arrears and collection
- Major works and cyclical maintenance
- Tenancy Management
- Estate Services
- Overheads

Service areas are tracked over time, covering three historic years, the year of performance and one year ahead. Service managers produce annual VFM service reviews where they analyse these trends and use them to target deteriorating or below target performance and/or costs in order that improvement actions can be taken. These trends and future actions are then incorporated into the annual service plans and budgets and are reported to stakeholders in the separately published annual VFM report.

For the last three years, the Association has consistently delivered service performances in the top two quartiles and in 2014-15 70% of those benchmarked as HouseMark indicators of quality and satisfaction reached this target.

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

Efficiency Summary for Axiom Housing Association										
Business Activity	Cost KPI	2015/16		2014/15		Quality KPI	2015/16		2014/15	
		Result	Trend	Result	Quartile		Result	Trend	Result	Quartile
Responsive Repairs & Void Works	Total CPP of Responsive Repairs & Void Works	£506	↑	£504	Q1	Percentage of tenants satisfied with the repairs and maintenance service (GN & HfOP)	86%	↑	84%	Q1
						Average number of calendar days taken to complete repairs	6.09	↓	6.42	Q1
						Average time in days to re-let empty properties	25.1	↓	27.9	Q3
Housing Management	Total CPP of Housing Management	£549	↑	£534	Q2	Percentage of tenants satisfied with overall services provided (GN & HfOP)	83%	↓	88%	Q1
						Total number of tenancies terminated during the year as a percentage of properties managed (GN & HfOP)	11.2%	↑	10.6%	Q4
						Current tenant rent arrears net of unpaid HB as % of rent due	1.6%	↑	1.2%	Q1
Estate Services	Total CPP of Estate Services	£239	↓	£241	Q3	Percentage of tenants satisfied with their neighbourhood as a place to live (GN & HfOP)	87%	↑	84%	Q3
Overheads	Overhead costs as % adjusted turnover	15.3%	↑	14.6%	Q4	Overhead costs as % direct revenue costs	33.5%	↑	30.1%	Q3
Major Works & Cyclical Maintenance	Total CPP of Major Works & Cyclical Maintenance	£1,390	↑	£1,276	Q2	Percentage of tenants satisfied with overall quality of home (GN & HfOP)	91%	↔	91%	Q1
						Percentage of dwellings failing to meet the Decent Homes Standard	0%	↔	0%	Q1

Table 4: HouseMark Efficiency Summary for 2014/15 (vs 40 comparators) with indicative computed 2015/16 metrics and trends

As the table above demonstrates, the unit cost of delivery per property remains comparatively high in the majority of areas compared to our non-diversified peers. The increase in overheads to direct revenue reflects our strategy to diversify by growing our care business, which adds to turnover at lower margin than traditional housing growth but does not require asset cover. Our overall position associated with providing a high proportion of housing for supported and older persons is recognised, and overheads have grown due to investment in new technology.

VFM Achievements – Corporate

As a smaller diversified association, we have regularly reported upon the issues of comparison to the housing sector as a whole. The association's operating margin efficiency compares relatively poorly with the broader sector, even when limiting benchmark comparators on the basis of region and scale. It is only when a comparison is made with peer group associations delivering similar 'upper quartile' levels of older persons and supported housing activity that we can begin to identify valuable corporate benchmarks. The table below, extracted from the HouseMark Southern Traditional peer group report for 2014-15, reveals an operating margin efficiency that is amongst the strongest of our direct peers, taking into account our diversity and organisational size.

HouseMark 2014-15	Operating margin			% Supported & Housing for Older Persons	% Supported Housing	Total Units Owned / Managed
	%	Rank	Quartile			
Bournemouth Churches Housing Association*	6.3%	7	Q4	46.7%	42.9%	2,030
Croydon Churches Housing Association	14.5%	4	Q4	40.1%	18.4%	1,331
Axiom Housing Association	24.4%	2	Q3	32.9%	10.4%	2,250
Christian Action Housing	21.2%	3	Q4	27.7%	11.8%	1,446
Orwell Housing Association	12.4%	5	Q4	21.2%	7.9%	3,429
Cambridge Housing Society	25.5%	1	Q3	14.3%	6.7%	2,669
Salvation Army Housing Association	8.6%	6	Q4	13.6%	5.8%	3,424

*operating margin calculated from 2014/15 annual report

Table 5

The impact of housing diversity on operating costs has also been independently reported by the Homes and Communities Agency (HCA) in its recent report 'Delivering Better Value for Money: Understanding Differences in Unit Costs' which was published in June 2016. This report built upon analysis previously reported in 2012. Within it the HCA defined a 'headline social housing cost per unit' measure to analyse Global Accounts cost data across

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

the sector. This is a deliberately broad measure which brings together management, service charge, maintenance, major repair and social housing costs in order to minimise the impact of different approaches to apportioning costs in financial statements which limit the value of accounts data as a tool for comparison.

The report identified that in 2015 the mean average headline social housing cost per unit across the sector was £3,950 per year, and the median cost was £3,550 per unit. However there was a significant cost variation across the sector. Axiom's base comparison with the data is presented in the table below:

Homes & Communities Agency: <i>Headline social housing cost analysis</i>	Financial Data						Contextual Data		
	Headline social housing cost per unit £000	Management cost per unit £000	Service charge cost per unit £000	Maintenance cost per unit £000	Major Repairs cost per unit £000	Other social housing costs per unit £000	Supported Housing %	Housing for Older Persons %	Regional wage index (England =1)
Axiom Housing Association	4.76	0.66	1.75	1	0.76	0.59	11.3%	23.0%	0.97
	Q4	Q1	Q4	Q3	Q2	Q4	Q4	Q4	Closing social housing units managed
Sector level data									
Upper Quartile	4.30	1.27	0.61	1.18	1.13	0.41	4%	15%	
Median	3.55	0.95	0.36	0.98	0.80	0.20	1%	8%	
Lower Quartile	3.19	0.70	0.23	0.81	0.53	0.08	0%	4%	2,250

Table 6

The HCA carried out statistical analysis to identify the extent to which variation in unit costs between providers might be explained by differences in measured factors. The analysis identified six key factors which together could explain around 50% of the cost variation between providers. These factors are:

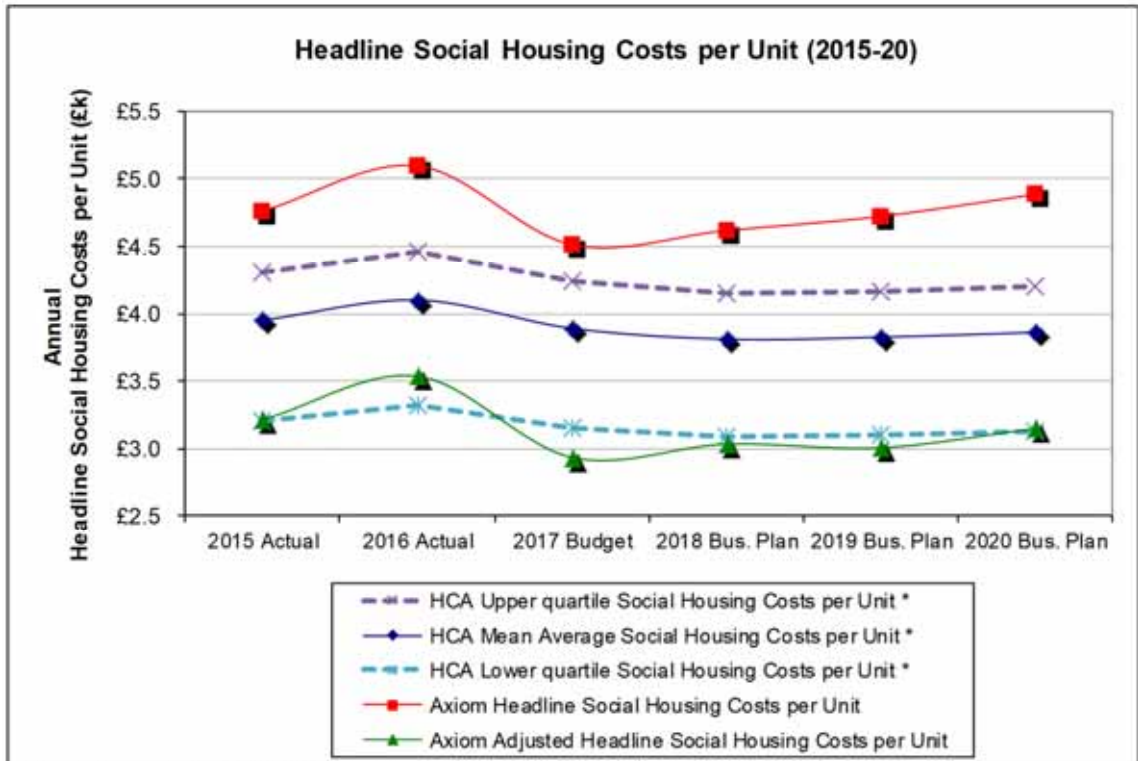
- Supported Housing
- Regional Wage Levels
- Stock Transfers
- Housing for Older Persons
- Neighbourhood Deprivation
- Decent Homes

For Axiom, three of these factors are relevant; the level of supported and older persons housing, and regional wages.

The HCA analysis quantified the average additional costs associated with Supported Housing to be £10,800 per unit per annum and £1,800 per unit per annum for Housing for Older Persons. Using the data provided we are able to calculate an adjusted headline social housing cost per unit for Axiom in 2015 by removing notional additional costs for the delivery of supported and older persons' accommodation and by increasing the notional wage costs. The adjustments give rise to an average cost per unit of £3,200 which would place performance at the lower quartile for the sector.

The report from the HCA explains that the sector is planning to make cost reductions on all key measures between 2016 and 2020 and included data on sector forecasts of headline social housing costs per unit. The chart below illustrates how, after bearing the costs of restructuring and SHPS past deficit provisions in 2015-16, the adjusted unit costs for Axiom remain below the sector average position and are projected to reduce more steeply than others during 2016-17 as a result of planned efficiency measures.

AXIOM HOUSING GROUP
REPORT OF THE BOARD OF MANAGEMENT



* HCA Average Costs for 2016-2020 based on projected sector average costs in figure 4 of HCA report

Figure 1

Management of overheads and improving the efficiency of back-office services is a key area of improvement during the next four years as the sector delivers 1% rent cuts. The trends in Axiom’s overhead expenditure are monitored against growth and rising activities across the whole group. As a provider of care and support activities, housing unit growth is not the most significant driver for overhead increases, and so, as Figure 2 reveals, over time the ratio of overheads per unit of housing have increased.



Figure 2

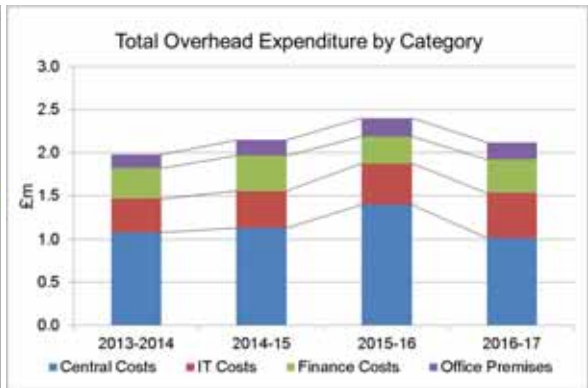


Figure 3

As Figure 3 indicates, overhead expenditure has risen during 2014-15 and 2015-16. Each year we set targets to control the growth of overhead expenditure and for 2016-17 plans have been drawn up to reduce costs in response to rent cuts.

During 2015-16 central expenditure was increased under the authority of the Board to permit the delivery of the following key strategic actions:

- Completion of a Governance Review involving a Restructure of Boards and Committees
- Independent advice regarding the Board Member recruitment & pay

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

- Introduction of the assets and liabilities register
- A review of SHPS pension arrangements leading to a reduction in future pension benefits to staff
- A restructure of back office teams
- Support for Axiom Care in bid for care contracts in Peterborough and restructure of operations

Excluding the above activities, overhead departments controlled expenditure to 1% below budget (2014-15: 2.7% below) which represented a £23,000 saving, that was however, insufficient to meet the target for payment of a corporate bonus to staff.

The success of Axiom Care in its acquisition of three new care contracts during 2015-16 means that the ratio of central overhead costs compared to group turnover and direct costs have decreased and are projected to continue to fall in the current financial year as activity from Axiom Care becomes a more significant part of the overall group's operations as illustrated in table 7 below.

	2013-14	Actual 2014-15	2015-16	Budgeted 2016-17	4 Year Trend
Overhead costs % group turnover	14.2%	13.8%	13.4%	12.2%	
Overhead costs % group direct revenue costs	28.3%	28.2%	20.1%	19.1%	

Table 7: Profile of overhead cost ratios over time

Operating margin performance is tracked as an overall measure of financial business improvement. In 2015-16 a drop in operating margin occurred for the first time in five years as the association undertook changes to improve future efficiency and to meet added regulatory requirements.

The successful addition of three new contracts to Axiom Care in 2015-16 added valuable income to the group, albeit at a lower operating margin than traditional housing and support services leading to a dilution of group operating margins of circa 1%. During the 2015-16 financial year, care in the community activities continued to fall short of growth and surplus targets. The Board therefore responded by acting to withdraw from community care contracts in order to focus management efforts on the delivery of contracts within five extra care locations and one older persons sheltered scheme.

Operating Margin Performance Pre FRS102	2012	2013	2014	2015	2016	Trend
Housing Association Only	21.2%	22.1%	23.8%	24.4%	23.6%	
Group (with Axiom Care)φ	21.2%	21.7%	23.1%	23.0%	21.4%	

φ Joint Venture in 2013 and 2014

Table 8: Profile of historic operating margin trends using pre-FRS102 accounting

The association's business plan projections have been modified to respond to the imposition of 1% rent cuts over the four years from 2016-17 to 2019-20. The table below indicates that we anticipate a strong recovery in operating margin during 2016-17 as a result of the accounting changes under FRS102 following the provision for SHPS pension deficits in 2015-16. Excluding the impact of pension accounting, the trend of reducing operating margin performance caused by rent cuts is more visible:

Operating Margin Performance Post FRS102	2016	2017	2018	2019	2020	Trend
Group (with Axiom Care)	18.5%	23.6%	21.8%	20.6%	21.2%	
Group (excluding Pension Provision Movements)	24.4%	21.9%	20.1%	18.6%	19.1%	

Table 9: Profile of actual and projected operating margin trends using FRS102 accounting

The operating margin continues to be the focus for overall corporate efficiency within Axiom, and employees participate in a self-funding bonus scheme that is subject to delivery of a stretch target. Operating margin projections are published in the employee newsletter on a monthly basis.

VFM Achievements – Cost and Efficiency Gains

The Association has continued with its comprehensive programme of VFM initiatives during the year realising actual gains and cash savings in 2015-16 of 6.4% of the Association's annual operating costs (net of depreciation)

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

which is £52,800 higher than anticipated in last year's report. This has been delivered through a range of initiatives including the following:

Procurement

In 2014-15 we completed planned procurement tasks in respect of asbestos inspections, gas servicing and replacement, mobile phone services and commercial banking facilities. The anticipated annualised savings derived from these activities has now been measured and is delivering approximately £86,000 of annualised savings.

Organisational Change

During the last three years the Association has undertaken a significant programme of organisational change involving employee reorganisations across supported housing, older persons and general needs housing, finance, and performance management. Specifically in 2015-16 the transfer of care activities into the Association has further facilitated an integration of management across older persons' services.

New Technology

The investments our virtualised server environment and new voice over internet protocol (VOIP) telephony system continue to pay dividends. We added over 10 servers to our network in 2015-16 which would have previously cost in excess of £40,000 in new server hardware in a non-virtualised environment. The VOIP system has also reduced Axiom House telephone costs by more than £5,000 per year. Finally, the investment in paperless storage technology has enabled the reduction of off-site storage costs from £12,000 per year to £4,000 per year.

New Ways of Working

Axiom Academy continues to coordinate and deliver training across the association which has resulted in savings for several courses. The facilities at Axiom House have also enabled various events to take place on site, saving the costs of booking externally. Finally, the rationalisation of surveys sent to our tenants has also enabled savings in employee time, postage and stationery.

Asset Management Strategy

The voluntary disposal of older housing units has continued to provide sources of funds for re-investment in new properties, and has avoided uneconomic improvement expenditure in assets nearing their useful economic life. As at March 2016 the association had accumulated a balance of £399,000 of recyclable grant that will be reinvested in future development.

Cumulative Cost and Efficiency Gains

Cumulatively the Association has now reported over £2 million of cost and efficiency gains representing 7% of the operating costs (net of depreciation) over the three year period.

	Capital Investment / Up front Cost £'000	2013-14 Actual			2014-15 Actual			2015-16 Actual			Cumulative since 2013-14 Actual		
		Efficiency Gain £'000	Cash Saving £'000	Total Gain £'000	Efficiency Gain £'000	Cash Saving £'000	Total Gain £'000	Efficiency Gain £'000	Cash Saving £'000	Total Gain £'000	Efficiency Gain £'000	Cash Saving £'000	Total Gain £'000
VFM Intervention													
Impact Assessment	£ 12.0	£ 13.7	£ 37.1	£ 50.8	£ 13.7	£ 44.0	£ 57.7	£ 3.7	£ 23.2	£ 26.8	£ 31.0	£ 127.5	£ 158.5
New Technology	£ 139.5	£ 26.5	£ 17.3	£ 43.8	£ -	£ 19.8	£ 19.8	£ -	£ 23.4	£ 23.4	£ 26.5	£ 104.7	£ 131.2
New Ways of Working	£ -	£ 12.0	£ 6.8	£ 18.8	£ 24.6	£ 14.4	£ 39.0	£ 2.1	£ 10.4	£ 12.6	£ 38.7	£ 40.9	£ 79.7
Organisational Change Programme	£ 252.0	£ 145.3	£ 208.6	£ 353.9	£ 43.1	£ 238.8	£ 281.9	£ 43.1	£ 264.4	£ 307.5	£ 260.9	£ 743.6	£ 1,004.5
Re-tendering	£ -	£ 54.5	£ 31.3	£ 85.8	£ 43.1	£ 175.4	£ 218.5	£ 70.0	£ 213.7	£ 283.7	£ 167.6	£ 420.5	£ 588.1
Re-financing	£ 70.7	£ -	£ -	£ -	£ -	£ 3.8	£ 3.8	£ -	£ 35.1	£ 35.1	£ -	£ 38.9	£ 38.9
Asset Management Strategy	£ -				£ 1.7	£ -	£ 1.7	£ -	£ 5.7	£ 5.7	£ 1.7	£ 5.7	£ 7.4
Simplicity Review	£ -	£ 4.7	£ -	£ 4.7	£ 4.7	£ -	£ 4.7	£ 4.7	£ -	£ 4.7	£ 14.1	£ -	£ 14.1
	£ 474.2	£ 256.6	£ 301.2	£ 557.8	£ 130.8	£ 496.2	£ 627.0	£ 123.6	£ 576.0	£ 699.6	£ 540.6	£1,481.8	£2,022.4
Annual / Cumulative Operating Costs (net of depreciation)				£ 8,956			£ 9,274			£ 10,783			£ 29,013
Gain / Operating Costs		2.9%	3.4%	6.3%	1.4%	5.3%	6.7%	1.1%	5.3%	6.4%	1.9%	5.1%	7.0%

Table 10 : Reported historic cost and efficiency gains since 2013-14

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

From 2016-17 onwards we shall re-base our cost and efficiency performance upon the group position at the end of March 2016. This will permit us to measure the effectiveness of our VFM response to the rent cuts and other sector-related changes, now that the care activities have been integrated into the Association.

VFM Challenges and Plans

Response to Sector Change

During 2015-16 we undertook a detailed review of options to identify increased saving potential to mitigate the impact upon group performance of the reductions in rent income from 2016-2020, which we estimated would have a cumulative impact of £3.7 million. This review included several significant cost saving and efficiency initiatives which form the basis of our cost and efficiency agenda over the next four years, starting from a base cashable reduction in expenditure of circa £310,000. The key initiatives are as follows:

- A review of our current **pension commitments**. In April 2016 the final salary DB schemes for existing members was replaced with a career average related earnings scheme. This will save c. £80,000 from 2016-17 (£60,000 of which is for overhead departments).
- A review of **organisational structure**. This led to a redundancy programme which will save £100,000 in overhead staff cost from 2016-17 (after the introduction of a new Assistant Director of Care & Support). Various efficiency reviews and the introduction of new mobile working technology support the reapportionment of tasks.
- **Treasury Management**. As a result of a revised profile of development expenditure, the association took the opportunity to prepay a loan at the end of 2015-16 using cash and cheaper finance. This resulted in a predicted interest saving for 2016-17 of £66,000. Opportunities to lock into prevailing low interest rates as fixed borrowings mature have, and will continue to be, taken facilitating an anticipated reduction in interest costs of £100,000 for 2016-17.
- Reduction of **discretionary expenditure** across all overhead areas. This includes a revised approach to the annual resident conference, an increased shift to digital format of reports and newsletters, reduced expenditure on selective accreditations and savings in training and travel in some areas. This has resulted in budget cuts of around £30,000.
- In addition to a re-phasing of capital works, the **Asset Management** team has planned for cost savings in revenue expenditure. There is a planned year-on-year saving, absorbing increased property numbers into existing responsive repairs costs and reducing void repair costs.
- Further **efficiency initiatives and procurement exercises** are also planned for 2016-17. This includes procurement of internal audit and data services to Axiom House and the disaster recovery site. Employees are encouraged to bring business cases for new initiatives to the monthly business review meeting for presentation and approval of expenditure if a payback can be achieved within agreed parameters.

VFM – Social Value

Our services work with some of the most vulnerable people in society. Many of our clients do not lead traditional lifestyles and require regular, positive interventions and additional resources to support them to lead independent lives. By providing this support and promoting independent living, the demand on the public purse is reduced.

Individual case studies show how, through our work, we reduce hospital admissions, improve quality of life, reduce anti-social behaviour, increase educational achievement, increase career opportunities, reduce demands on police and the courts, increase the health and wellbeing of individuals and in the longer-term enable people to contribute to society and to be full members of their local community. In 2014-15 we produced our first Social Value report that focused on the work of Axiom Academy in delivering skills, learning and development to vulnerable people. This report identified that for every £1 spent by Axiom Academy we were able to demonstrate that it generated £8 of social value.

AXIOM HOUSING GROUP

REPORT OF THE BOARD OF MANAGEMENT

During 2015-16 we introduced a Social Value Policy which set out our commitment to achieving and measuring social value in the future, which is one of our key corporate objectives. We were successful in growing the number of care contracts that we deliver in Extra Care schemes for frail older people and we are close to producing the results of the social value that we generate on these schemes for commissioners and stakeholders. We also plan to publish social value information relating to the positive outcomes generated through our homeless and young people client groups.

Assurance gained by Board

VFM Assessments show the relationship between cost and the level of service provided. These are monitored by the wider executive team to monitor performance. Costs are monitored, reviewed and adjusted in the light of potential over or under spends or efficiency objectives and there is an audit trail on the costs and adjustments.

There is a VFM and Social Value section on all papers that go to the Board that provides evidence of our approach in action.

All internal audit reports include a specific section referring to the VFM implications of services reviewed; in addition Axiom now has seven years of independently benchmarked performance data through membership of HouseMark.

Volume controllers are routinely questioned on their assessment of VFM for core services (rents and service charges). Results from STAR survey at June 2016 showed that at 85% of residents were satisfied that their rent provided value for money and 76% of residents were satisfied that their service charges provided value for money.

The scrutiny panel completed their fifth detailed review of services during the year (2015/16) examining the ground maintenance service, in particular reviewing service level agreements, expectations and service charges, making a series of recommendations which they reported directly to the Residents Services Committee. Following the review we revised our approach to scrutiny in general, informed by the best practice recommendations arising from our rigorous, but successful, TPAS Landlords accreditation audit. The process of scrutiny is now embedded within our wider resident involvement framework and will continue by utilising the expertise of the various service panels which are customer service focused groups comprised of key staff and members of Axiom Residents Forum.

We will be publishing a detailed report on VFM outcomes for all stakeholders in September 2016 and this will be made available on our website.

The Board of Management and Executive Team

The Board of Management and Executive Team of the Association are listed on page 2. There are 11 board members all of whom hold one share of £1 in the Association.

The Executive Team members hold no interest in the Association's share capital and are not members of the Board of Management.

Annual General Meeting

The Annual General Meeting will be held on Thursday 22nd September 2016.

Public Benefit Entity

As a public benefit entity, Axiom Housing Group has applied the public benefit entity 'PBE' prefixed paragraphs for FRS 102.

Auditors

AXIOM HOUSING GROUP
REPORT OF THE BOARD OF MANAGEMENT

A resolution proposing the re-appointment of Beever and Struthers as auditors of the Association will be proposed at the Annual General Meeting.

Statement of Disclosure of Information to Auditors

We, the Board Members of the Association, who held office at the date of approval of these financial statements as set out on page 2 each confirm, so far as we are aware, that:

- there is no relevant audit information of which the Association's auditors are unaware; and
- we have taken all the steps that we ought to have taken as Board Members in order to make ourselves aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

On behalf of the Board of Management

Dr Hilary Lindsay

Chair of Board

Date:

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
AXIOM HOUSING ASSOCIATION LIMITED**

We have audited the Group and Association's financial statements of Axiom Housing Group for the year ended 31 March 2016 which comprise of the Statement of Comprehensive Income, Statement of Financial Position, Statement of Reserves and Statement of Cash Flows. 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 Group and Association's members, as a body, in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Group and Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and Association and the Group and Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Board and the Auditor

As explained more fully in the Statement of Board's Responsibilities set out on page 4, the Board is responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Board of Management to identify material inconsistencies with the audited financial statements and to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on or materiality inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Group and Association's affairs as at 31 March 2016 and of the Group and Association's surplus/deficit for the year then ended; and
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

In our opinion the information given in the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements;

Matters on which we are required to report by exception

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

- A satisfactory system of control over transactions has not been maintained; or
- The Association and Group has not kept proper accounting records; or
- The financial statements are not in agreement with the books of account; or
- We have not received all the information and explanations we require for our audit.

Beever and Struthers
Statutory Auditor

15 Bunhill Row
London
EC1Y 8LP

Date:

AXIOM HOUSING GROUP**ASSOCIATION AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 MARCH 2016**

	Notes	GROUP		ASSOCIATION	
		2016 £000	Restated 2015 £000	2016 £000	Restated 2015 £000
TURNOVER		17,087	15,643	16,251	15,145
Cost of sales	2	(104)	(523)	(104)	(72)
Gross Profit		16,983	15,120	16,147	15,073
Operating Expenditure	2	(13,825)	(11,359)	(12,943)	(11,211)
OPERATING SURPLUS		3,158	3,761	3,204	3,862
Gain on disposal of Property, Plant & Equipment	6	420	240	420	240
Interest and financing costs	7	(2,744)	(2,769)	(2,744)	(2,772)
Interest Receivable	8	0	1	7	4
Transfer of Engagement of Subsidiary	9	-	-	(272)	-
Surplus before Tax	10	834	1,233	615	1,334
Taxation	11	-	-	-	-
Exceptional item	30	-	(51)	-	(51)
Total Comprehensive Income for the year		834	1,182	615	1,283

The financial statements on pages 22-25 were approved and authorised for issue by the board on 28 July 2016 and were signed on its behalf by:

H Lindsay
(Chair of Board)

M Li Mow Ching
(Board Member)

L Platt
(Secretary)

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The consolidated and parent results relate wholly to continuing activities and the notes on pages 26 to 57 form an integral part of these accounts.

AXIOM HOUSING GROUP

ASSOCIATION AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016

	Notes	GROUP		ASSOCIATION	
		2016 £000	Restated 2015 £000	2016 £000	Restated 2015 £000
Fixed Assets					
Tangible Fixed Assets – Housing properties	15	107,055	105,912	107,055	105,912
Tangible Fixed Assets - Other	15	3,038	2,715	3,038	2,711
		<u>110,093</u>	<u>108,627</u>	<u>110,093</u>	<u>108,623</u>
Current Assets					
Stock	16	130	90	130	90
Trade and Other Debtors	17	856	1,054	856	1,227
Cash and Cash equivalents	19	545	616	545	606
		<u>1,531</u>	<u>1,760</u>	<u>1,531</u>	<u>1,923</u>
Less:					
Creditors: Amounts falling due within one year	20	<u>4,654</u>	<u>4,470</u>	<u>4,654</u>	<u>4,410</u>
Net Current Assets / (Liabilities)		<u>(3,123)</u>	<u>(2,710)</u>	<u>(3,123)</u>	<u>(2,487)</u>
Total Assets Less Current Liabilities		<u>106,970</u>	<u>105,917</u>	<u>106,970</u>	<u>106,136</u>
Creditors: Amounts falling due after more than one year	21	100,347	100,128	100,347	100,128
Total Net Assets		<u>6,623</u>	<u>5,789</u>	<u>6,623</u>	<u>6,008</u>
Reserves					
Revenue Reserve		6,623	5,789	6,623	6,008
Total Reserves		<u>6,623</u>	<u>5,789</u>	<u>6,623</u>	<u>6,008</u>

The financial statements on pages 22-25 were approved and authorised for issue by the board on 28 July 2016 and were signed on its behalf by:

H Lindsay
(Chair of Board)

M Li Mow Ching
(Board Member)

L Platt
(Secretary)

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The notes on pages 26 to 57 form an integral part of these accounts

AXIOM HOUSING GROUP

**ASSOCIATION AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2016**

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

AXIOM HOUSING GROUP

ASSOCIATION AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016

	Income and Expenditure Reserve £000
Balance as at 1 April 2014 as previously stated	6,241
Changes on transition to FRS 102	(1,634)
Balance as at 1 April 2014 as restated	4,607
Surplus from Statement of Comprehensive income	1,182
Restated Balance as at 31 March 2015	5,789
Surplus from Statement of Comprehensive income	834
Balance as at 31 March 2016	6,623

The notes on pages 26 to 57 form an integral part of these accounts

AXIOM HOUSING GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended 31 Mar 2016 £000	Restated Year Ended 31 Mar 2015 £000
Net cash generated from operating activities (see note I)	5,186	5,856
Cash Flow from investing activities		
Purchase of tangible fixed Assets	(4,041)	(6,524)
Proceeds from sale of tangible fixed assets	591	331
Grants received	721	891
Interest received		
	<u>2,457</u>	<u>554</u>
Cash Flow from Financing Activities		
Interest paid	(2,877)	(2,948)
Interest received	0	1
New secured loans	2,800	3,800
Repayment of borrowings	(2,378)	(1,073)
Loan issue costs	(73)	(73)
Net change in Cash and Cash equivalents	<u>(71)</u>	<u>261</u>
Cash and Cash equivalents at beginning of the year	616	355
Cash and cash equivalents at end of the year	545	616
	<u>(71)</u>	<u>261</u>
Note I	£000	£000
Cash flow from operating activities		
Surplus /(deficit for the year)	3,158	3,710
Adjustments for non-cash items;		
Depreciation of Tangible fixed Assets	2,157	2,222
Amortisation of Intangible fixed Assets	(419)	(427)
Amortisation of Intangible fixed Assets on sale	(59)	(24)
Decrease/(Increase) in stock	(40)	214
Decrease/(Increase) in trade and other debtors	(199)	288
Decrease/(Increase) in trade and other creditors	(34)	(42)
Pension costs less contributions payable	576	(85)
Carrying amount of tangible fixed asset disposals		
Adjustments for investing or financing activities:		
Proceeds from the sale of tangible fixed assets	46	
Net Cash generated from operating activities	<u>5,186</u>	<u>5,856</u>

The notes on pages 26 to 57 form an integral part of these accounts

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2016****Legal Status**

Axiom Housing Association Limited is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 [Companies Act 2006] and is registered with the Homes and Communities Agency as a Private Registered Provider of Social Housing. The registered office is: Axiom House, Cottesmore Close, Netherton, Peterborough, England, PE3 9TP.

The group comprises the following entities:

Name	Incorporation	Registered/Non-registered
Axiom Housing Association Ltd	Co-operative and Community Benefit Societies Act 2014	Registered
Axiom Care Ltd	Companies Act 2006	Non-registered

1. PRINCIPLE 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. The Group is required under the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969 to prepare consolidated Group accounts.

The financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The accounts are prepared on the historical cost basis of accounting.

The Group's financial statements have been prepared in compliance with FRS 102 as it applies for the first time to the financial statements of the Group for the year ended 31 March 2016.

The Group transitioned from previous UK GAAP to FRS 102 as at 1 April 2014. An explanation of how the transition to FRS 102 has affected the reported financial position and performance, as well as the exemptions taken on transition, is given in note 30.

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 FRS 102:

- No cash flow statement has been presented for the parent company,
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the group as a whole, and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole.

Basis of consolidation

Axiom Housing Association is required by statute to prepare Group accounts. The wholly owned subsidiary, Axiom Care Ltd, provides relief by way of services to people in need of care and support. The Group financial statements have been prepared by consolidating its results from 1 April to 31 December 2015, after which Axiom Care Ltd ceased trading and all contracts novated to Axiom Housing Association Ltd.

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. Government's announcements in July 2015 impacting on the future income of the Group have led to a reassessment of the Group's business plan as well as an assessment of imminent or likely future breach in borrowing covenants. No significant concerns have been noted and we consider it appropriate to continue to prepare the financial statements on a going concern basis.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

1. PRINCIPLE ACCOUNTING POLICIES (continued)

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.

- a. **Development expenditure.** The Group capitalises development expenditure in accordance with the accounting policy described on page 27-28. 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.
- b. **Categorisation of housing properties** The Group has undertaken a detailed review of the intended use of all housing properties and has determined that all units are held for social benefit. There are no investment properties.
- c. **Impairment.** The Group has identified a cash generating unit for impairment assessment purposes at a property scheme level.

Other key sources of estimation and assumptions:

- a. **Tangible fixed assets.** 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.
- b. **Pension and other post-employment benefits.** The cost of defined benefit pension plans and other post-employment benefits are 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.
- c. **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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

1. PRINCIPLE ACCOUNTING POLICIES (continued)

During the year the government announced a change in rent policy which resulted in a material impact on the net income expected to be collected in the future for housing properties and the Group have assessed that this represents a trigger for impairment review.

The Group performed impairment tests based on a value in use calculation using depreciated replacement cost. The depreciated replacement cost is based on:

- the replacement cost per the insurance schedule (depreciated), or for specialised accommodation
- the application of the square meterage of the property multiplied by recent construction rates for a similar property type (general needs, sheltered, supported), depreciated by splitting into components and applying existing policy

Following the assessment of impairment no impairment losses were identified in the reporting period.

Merger accounting

Where merger accounting is used, the investment is recorded in the association's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid. In the Group's financial statements, merged subsidiary undertakings are treated as if they had already been a member of the group. The results of such a subsidiary are included for the whole period in the year it joins the group. The corresponding figures for the previous year include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the association as consideration as if they had always been in issue.

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.

Support income and costs including Supporting People income and costs

Supporting People contract income received from Administering Authorities is accounted for as Supporting People contract income in the Turnover as per note 2. 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 3 and matched against the relevant costs.

A charge for support services is made to residents of sheltered schemes if they have opted in.

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.

Where periodic expenditure is required, a provision ("Reserve fund") 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 long term creditors.

1. PRINCIPLE ACCOUNTING POLICIES (continued)

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

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.

Value Added Tax

The Association is only able to reclaim a small percentage of the value added tax that it incurs. This irrecoverable tax is a cost to the Association and consequently all figures within these financial statements are inclusive of VAT.

Tangible fixed assets and depreciation

Housing properties

Tangible fixed assets are stated at cost, less accumulated depreciation. Donated land/assets or assets acquired at below market value from a government source, i.e. local authority, are included as a liability in the Statement of Financial Position at the fair value less consideration paid.

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 association depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories. UELs for identified components are as follows:

	Years
Boilers	15
Kitchens, Windows, Lifts	20
Bathroom, Doors	30
Electrics	40
Roofs	80
Structure	120

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:

1. PRINCIPLE ACCOUNTING POLICIES (continued)

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

	Years
Computers & Office equipment	3-10
Maintenance & laundry equipment, communal furniture	5-15
Motor vehicles	25% reducing balance

Low cost and 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 Account.

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 and hire purchase

Where assets are financed by hire purchase contracts and leasing agreements that give rights approximating to ownership (finance leases), they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as obligations to the lessor in creditors. They are depreciated over the shorter of the lease term and their economic useful lives.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit and loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Other leases are treated as operating leases and payments are charged to the Statement of Comprehensive Income on a straight line basis over the term of the lease.

Reverse premiums and similar incentives received on leases to enter into operating lease agreements are released to Statement of Comprehensive Income over the term of the lease.

Current asset investments

Current asset investments include cash and cash equivalents invested for periods of more than 24 hours. They are recognised initially at cost and subsequently at fair value at the reporting date. Any change in valuation between reporting dates is recognised in the statement of comprehensive income.

1. PRINCIPLE ACCOUNTING POLICIES (continued)

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

Stock and properties held for sale

Stock of materials are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

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 one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Deferred Capital Grant

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. Social Housing Grant (SHG) received for items of cost written off in the Statement of Comprehensive Income Account is included as part of Turnover.

When SHG in respect of housing properties in the course of construction exceeds the total cost to date of those housing properties, the excess is shown as a current liability.

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. 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.

Non-monetary government grant

On disposal, assets for which non-monetary government grants are held as liabilities in the Statement of Financial Position, the unamortised amount in creditors is derecognised and recognised as income in the Statement of Comprehensive Income.

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 one year. Recycling capital grant can be abated when sale proceeds are less than the original cost.

Employee Benefits

A liability is recognised to the extent of any employee benefits including unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods.

1. PRINCIPLE ACCOUNTING POLICIES (continued)

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

This is measured at the undiscounted cost to the employees of the future holiday entitlement and 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 3.02 at 31 March 2014, 1.92 at 31 March 2015 and 2.06 at 31 March 2016. The unwinding of the discount is recognised as a finance cost in the Statements of Comprehensive Income in the period incurred.

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.

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,
- 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:

- (a) The best evidence of fair value is a quoted price in an active market.
- (b) 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.
- (c) 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.

Impairment of Financial Assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

1. PRINCIPLE ACCOUNTING POLICIES (continued)

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

The following financial instruments are assessed individually for impairment:

- (a) All equity instruments regardless of significance; and
- (b) Other financial assets that are individually significant.

Other financial instruments are assessed for impairment either individually or grouped on the basis of similar credit risk characteristics.

An impairment loss is measured as follows on the following instruments measured at cost or amortised cost:

- (a) For an instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.
- (b) For an instrument measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive for the asset if it were to be sold at the reporting date.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The reversal cannot result in a carrying amount (net of any allowance account) which exceeds what the carrying amount would have been had the impairment not previously been recognised. The amount of the reversal is recognised in profit or loss immediately.

AXIOM HOUSING GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued) YEAR ENDED 31 MARCH 2016

2 TURNOVER, OPERATING COSTS AND SURPLUS FOR THE YEAR

(a) Group

	2016				2015 Restated			
	Turnover £000	Cost of Sales £000	Operating Costs £000	Operating Surplus £000	Turnover £000	Cost of Sales £000	Operating Costs £000	Operating Surplus £000
Social housing lettings (notes 3a and 3b)	13,836	-	(10,874)	2,962	13,193	-	(9,626)	3,567
Other Social Housing Activities								
Shared ownership property sales	96	(104)	-	(8)	59	(72)	-	(13)
Supporting people contract income	1,781	-	(1,440)	341	1,684	-	(1,334)	350
Activities other than Social Housing								
Development services	-	-	(10)	(10)	-	-	(10)	(10)
Managed associations	14	-	(24)	(10)	12	-	(7)	5
Axiom Academy	85	-	(140)	(55)	101	-	(149)	(48)
Axiom Care	1,247	-	(1,311)	(64)	498	(451)	(148)	(101)
Miscellaneous Grants	28	-	(26)	2	96	-	(85)	11
Total	17,087	(104)	(13,825)	3,158	15,643	(523)	(11,359)	3,761

See note 3 for a detailed analysis of income and expenditure from social housing lettings

AXIOM HOUSING GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 MARCH 2016

2 TURNOVER, OPERATING COSTS AND SURPLUS FOR THE YEAR

(b) Association

	-----2016-----				-----2015 Restated-----			
	Turnover £000	Cost of Sales £000	Operating Costs £000	Operating Surplus £000	Turnover £000	Cost of Sales £000	Operating Costs £000	Operating Surplus £000
Social housing lettings (note 3)	13,836	-	(10,911)	2,925	13,193	-	(9,626)	3,567
Other Social Housing Activities								
Shared ownership property sales	96	(104)	-	(8)	59	(72)	-	(13)
Supporting people contract income	1,781	-	(1,440)	341	1,684	-	(1,335)	349
Activities other than Social Housing								
Development services	-	-	(10)	(10)	-	-	(10)	(10)
Managed associations	14	-	(24)	(10)	12	-	(7)	5
Axiom Academy	95	-	(139)	(44)	101	-	(148)	(47)
Axiom Care	401	-	(393)	8	-	-	-	-
Miscellaneous Grants	28	-	(26)	2	96	-	(85)	11
Total	16,251	(104)	(12,943)	3,204	15,145	(72)	(11,211)	3,862

See note 3 for a detailed analysis of income and expenditure from social housing lettings

NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016
3 INCOME AND EXPENDITURE FROM SOCIAL HOUSING LETTINGS
(a) Group

	General Needs Housing	Supported Housing and Housing for Older People	Shared Ownership	2016 £000	Restated 2015 £000
	£000	£000	£000		
Income					
Rent receivable net of identifiable service charge	6,651	3,549	63	10,263	9,800
Service charge income	378	2,681	35	3,094	2,934
Charges for Support Services	1	59	-	60	52
Grant Amortisation	235	177	7	419	407
	<u>7,265</u>	<u>6,466</u>	<u>105</u>	<u>13,836</u>	<u>13,193</u>
Operating Expenditure					
Management	1,065	1,031	-	2,096	1,369
Service charge costs	1,174	3,036	14	4,224	3,917
Routine maintenance	715	352	-	1,067	1,036
Planned maintenance	683	483	6	1,172	1,178
Major repairs expenditure	154	98	-	252	107
Bad debts	37	37	1	75	111
Depreciation of housing properties	1,279	691	18	1,988	1,908
	<u>5,107</u>	<u>5,728</u>	<u>39</u>	<u>10,874</u>	<u>9,626</u>
Operating surplus on lettings	2,158	738	66	2,962	3,567
(b) Association					
Intra Group Service charge costs	-	(37)	-	(37)	-
	<u>2,158</u>	<u>701</u>	<u>66</u>	<u>2,925</u>	<u>3567</u>
Void Losses	(23)	(159)	-	(182)	(167)

AXIOM HOUSING GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued) YEAR ENDED 31 MARCH 2016

4 ACCOMODATION OWNED, MANAGED AND IN DEVELOPMENT

	-----2016-----		-----2015-----	
	No. of Properties Owned Managed		No. of Properties Owned Managed	
Social Housing				
Under development at the end of the year:				
General needs housing social rent	1	1	9	9
General needs housing affordable rent	-	-	-	-
Supported Housing	-	-	15	15
Housing for Older People	-	-	-	-
Shared Ownership	-	-	3	3
	<u>1</u>	<u>1</u>	<u>27</u>	<u>27</u>
Under management at the end of the year:				
General needs housing social rent	1,312	1,312	1,362	1,362
Affordable rent	86	86	45	45
Intermediate Rent	9	9	0	0
Supported Housing	237	254	225	249
Housing for Older People	510	510	507	507
Shared Ownership (<100%)	44	44	37	37
Shared Ownership (100%)/Leaseholders	47	47	46	46
Staff accommodation	0	0	4	4
	<u>2,245</u>	<u>2,262</u>	<u>2,226</u>	<u>2,250</u>

5 ACCOMODATION MANAGED BY OTHERS

The Association owns property managed by other bodies as follows:

	2016	2015
	No. of properties	No. of properties
Thera Trust	1	1

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

6 GAIN/(LOSS) ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT (FIXED ASSETS)

	Shared Ownership Staircasing Sales £000	Other Properties £000	2016 Total £000	Restated 2015 Total £000
Proceeds of sales	46	591	637	331
Cost of sales	(28)	(189)	(217)	(91)
Surplus	18	402	420	240
Capital Grant recycled (Note 23)	-	125	125	59

7 INTEREST AND FINANCING COSTS

	GROUP		ASSOCIATION	
	2016	Restated 2015	2016	Restated 2015
	£000	£000	£000	£000
On loans repayable in five years	145	100	145	100
On loans wholly or partly repayable in more than five years	2,528	2,695	2,528	2,695
Costs associated with financing	68	2	68	5
Deferred Benefit Pension Charge	41	68	41	68
	2,782	2,865	2,782	2,868
Less: Interest capitalised on housing properties under construction	(38)	(96)	(38)	(96)
	2,744	2,769	2,744	2,772

The weighted average interest on borrowings of 4.85% (2015: 5.2%) was used for calculating capitalised finance costs.

8 INTEREST RECEIVABLE

	GROUP		ASSOCIATION	
	2016	Restated 2015	2016	Restated 2015
	£000	£000	£000	£000
Interest receivable from term deposits, bank deposits and building society accounts	0	1	7	4

AXIOM HOUSING GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued) YEAR ENDED 31 MARCH 2016

9 TRANSFER OF ENGAGEMENT

Axiom Care Assets and Liabilities transferred to Axiom Housing Association Ltd on 13 January 2016 for no consideration.

	£000
Fixed Assets – IT Equipment	3
Sales Ledger Debtors	201
Prepayments and Accrued Income	20
Total Assets	224
Bank overdraft	(6)
Trade Creditors	(15)
Taxation and Social Security	(14)
Accruals and Deferred Income	(191)
Long Term Loan	(270)
Total Liabilities	(496)
Total transfer	(272)

	2016	2015
	£000	£000

10 OPERATING SURPLUS FOR THE YEAR

Operating Surplus for the year is stated after charging:

Auditor's remuneration (excluding VAT):		
Audit of the group financial statements	12	11
Audit of Subsidiaries	1	1
Fees Payable to the company's auditor and its associates for other services to the group		
Taxation compliance services	-	1
Service charge certification	3	2
Operating lease rentals		
Land and Buildings	17	25
Office Equipment	25	35
Depreciation of housing properties	1,788	1,790
Depreciation of other Fixed Assets	372	318
Surplus on sale of other fixed assets	(1)	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016

11 TAX ON SURPLUS/(DEFICIT) ON ORDINARY ACTIVITIES

The Association and Group has charitable status and is therefore exempt from corporation tax under Part 11 of the Corporation Tax Act 2010 to the extent that income arises from exempt sources and is applied to the Association's Charitable status.

	2016	2015
	£000	£000
12 DIRECTOR'S RENUMERATION		
The aggregate emoluments paid to or receivable by non-executive Directors and former non-executive Directors	9	-
	—	—
The aggregate emoluments paid to or receivable by executive Directors and former executive Directors	306	283
	—	—
The emoluments paid to the highest paid director excluding pension Contributions	107	99
	—	—
The aggregate amount of Directors or past Directors pensions, excluding Amounts payable under a property funded pension scheme	24	22
	—	—
Total expenses reimbursed to non-executive directors not chargeable to UK Income tax	7	5
	—	—

The Chief Executive is an ordinary member of The Social Housing Pension Scheme. The pension scheme is a final salary 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 Axiom Housing of £8.2k (2015: £7.6k) was paid in addition to the personal contributions of the Chief Executive.

Directors (key management personnel) are defined as members of the Board, the Chief Executive and other members of the Senior Management Team.

AXIOM HOUSING GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued) YEAR ENDED 31 MARCH 2016 13 EMPLOYEE INFORMATION

	GROUP		ASSOCIATION	
	2016	2015	2016	2015
The average number of persons employed during the year expressed in full time equivalents (37 hours per week) was:				
Office Staff	59	52	57	47
Wardens, Support Workers, Caretakers and Cleaners	95	91	95	91
Care workers	62	21	20	-
Maintenance Staff	16	16	16	16
	232	180	188	154

	GROUP		ASSOCIATION	
	2016	Restated 2015	2016	Restated 2015
	£000	£000	£000	£000
Staff costs (for the other persons):				
Wages & Salaries	5,342	4,430	4,492	3,892
Social Security costs	366	324	334	294
Other Pension costs	1,005	298	1,005	298
	6,713	5,052	5,831	4,484

Included within 2016 figure is £56,774 relating to staff redundancies (2015: £52,000)

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

	2016 No.	2015 No.
£60,000-£70,000	1	1
£70,000-£80,000	-	-
£80,000-£90,000	-	1
£90,000-£100,000	2	1
£100,000-£110,000	1	1

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016****14 PENSION OBLIGATIONS**

The company participates in the Social Housing Pension Scheme (SHPS), the Pensions Trust Growth Plan (PTGP) and the Pension Trust defined contribution scheme (PTDC). SHPS and PTGP ("The Schemes") are multi-employer schemes which provides benefits to some 500 non-associated employers. The schemes are defined benefit schemes in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the schemes as defined contribution schemes.

The SHPS defined benefit (DB) scheme is now closed and employees have transferred to the DB CARE scheme in accordance with their wishes. All new employees of the Association are auto-enrolled in the DC scheme. Membership and costs of each scheme are summarised in section 14c of this note.

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

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

14a SHPS DISCLOSURE NOTE

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

Deficit contributions

Tier 1 From 1 April 2016 to 30 September 2020:	£40.6m per annum (payable monthly and increasing by 4.7% each year on 1 st April)
--	--

Tier 2 From 1 April 2016 to 30 September 2023:	£28.6m per annum (payable monthly and increasing by 4.7% each year on 1 st April)
--	--

Tier 3 From 1 April 2016 to 30 September 2026:	£32.7m per annum (payable monthly and increasing by 3.0% each year on 1 st April)
--	--

Tier 4 From 1 April 2016 to 30 September 2026:	£31.7m per annum (payable monthly and increasing by 3.0% each year on 1 st April)
--	--

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

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

PRESENT VALUES OF PROVISION

	31 March 2016 (£000s)	31 March 2015 (£000s)	31 March 2014 (£000s)
Present value of provision	2,868	2,295	2,379

RECONCILIATION OF OPENING AND CLOSING PROVISIONS

	Period Ending 31 March 2016 (£000s)	Period Ending 31 March 2015 (£000s)
Provision at start of period	2,295	2,379
Unwinding of the discount factor (interest expense)	41	68
Deficit contribution paid	(268)	(257)
Remeasurements - impact of any change in assumptions	(17)	106
Remeasurements - amendments to the contribution schedule	817	-
Provision at end of period	2,868	2,295

INCOME AND EXPENDITURE IMPACT

	Period Ending 31 March 2016 (£000s)	Period Ending 31 March 2015 (£000s)
Interest expense	41	68
Remeasurements – impact of any change in assumptions	(17)	106
Remeasurements – amendments to the contribution schedule	817	-
Contributions paid in respect of future service*	*	*
Costs recognised in income and expenditure account	*	*

*includes defined contribution schemes and future service contributions (i.e. excluding any deficit reduction payments) to defined benefit schemes which are treated as defined contribution schemes. To be completed by the company.

ASSUMPTIONS

	31 March 2016 % per annum	31 March 2015 % per annum	31 March 2014 % per annum
Rate of discount	2.06	1.92	3.02

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

14b PTGP DISCLOSURE NOTE

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

Deficit contributions

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

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

Deficit contributions

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

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

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

PRESENT VALUES OF PROVISION

	31 March 2016 (£s)	31 March 2015 (£s)	31 March 2014 (£s)
Present value of provision	19,658	15,433	16,175

RECONCILIATION OF OPENING AND CLOSING PROVISIONS

	Period Ending 31 March 2016 (£s)	Period Ending 31 March 2015 (£s)
Provision at start of period	15,433	16,175
Unwinding of the discount factor (interest expense)	252	428
Deficit contribution paid	(1,862)	(1,807)
Remeasurements - impact of any change in assumptions	(307)	637
Remeasurements - amendments to the contribution schedule	6,142	-
Provision at end of period	19,658	15,433

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

INCOME AND EXPENDITURE IMPACT

	Period Ending 31 March 2016 (£s)	Period Ending 31 March 2015 (£s)
Interest expense	252	428
Remeasurements – impact of any change in assumptions	(307)	637
Remeasurements – amendments to the contribution schedule	6,142	-
Contributions paid in respect of future service*	*	*
Costs recognised in income and expenditure account	*	*

*includes defined contribution schemes and future service contributions (i.e. excluding any deficit reduction payments) to defined benefit schemes which are treated as defined contribution schemes. To be completed by the company.

ASSUMPTIONS

	31 March 2016 % per annum	31 March 2015 % per annum	31 March 2014 % per annum
Rate of discount	2.07	1.74	2.82

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

14c SUMMARY

The association has a contractual obligation under an agreement to pay additional deficit payments to SHPS as outlined in the deficit contributions schedules above.

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.

	SHPS		PTGP	
	2016	2015	2016	2015
	£000	£000	£000	£000
Provision at start of the year	2,295	2,379	15	16
Additional liabilities in the year	817	-	6	-
Interest for the year	41	67	1	1
Impact of change in assumptions	(17)	106	-	-
Released to expenditure in the year	(268)	(257)	(2)	(2)
Provision at end of year	2,868	2,295	20	15

During the year ended 31 March 2016 the association received notification of changes to the additional deficit payment to SHPS, this resulted in an additional liability of £817k at 31 March 2016.

The Association has been notified by the Pensions Trust of the estimated employer debt on withdrawal from SHPS based on the financial position of the Scheme as at 30 September 2015. As of this date the estimated employer debt was £15.2 million.

AXIOM HOUSING GROUP
**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**
**15 TANGIBLE FIXED ASSETS
(a) Housing properties**
Group and association

Cost	Completed Schemes Lettings £000	Under Construction Lettings £000	Completed Schemes S/Ownership £000	Under Construction S/Ownership £000	Total £000
At 1 April 2015	120,361	1,620	2,261	-	124,242
Additions	1,721	1,587	18	-	3,326
Transfers to Completed	2,313	(2,695)	382	-	-
Disposals	(712)	-	(146)	-	(858)
At 31 March 2016	123,683	512	2,515	-	126,710
Depreciation					
At 1 April 2015	10,883	-	78	-	10,961
Prior Year Adjustment	7,332	-	37	-	7,369
Restated at 1 April 2015	18,215	-	115	-	18,330
Charge for the year	1,749	-	39	-	1,788
Eliminated on disposals	(445)	-	(18)	-	(463)
At 31 March 2016	19,519	-	136	-	19,655
Net book value At 31 March 2016	104,164	512	2,379	-	107,055
Restated At 1 April 2015	102,146	1,620	2,146	-	105,912
Housing properties comprise:					Restated 2015 £000
				2016 £000	
Freeholds				107,055	105,912
Long leaseholds				-	-
				107,055	105,912
Works to existing Housing Properties					
Total expenditure on works to existing housing properties:					
- amounts capitalised				1,810	1,610
- amounts charged to Income and Expenditure account				1,424	1,304
				3,234	2,914

Interest Capitalised in 2016 is £37,913 (2015: £96,287) and the interest rate charged is 4.85% (2015: 5.2%)

AXIOM HOUSING GROUP

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

15 TANGIBLE FIXED ASSETS

(b) **Other Fixed Assets**

Group	Freehold Premises £000	Motor Vehicles £000	Computers And Office Equipment £000	Maintenance Equipment, Communal Furniture & Laundry Equipment £000	Total £000
Cost					
At 1 April 2015	1,995	154	1,657	1,435	5,241
Additions	32	48	303	313	696
Disposals	-	(21)	(9)	(1)	(31)
At 31 March 2016	2,027	181	1,951	1,747	5,906
Depreciation					
At 1 April 2015	55	85	1,183	1,203	2,526
Charge for the year	36	24	192	120	372
Disposals	-	(21)	(9)	-	(30)
At 31 March 2016	91	88	1,366	1,323	2,868
Net book value					
At 31 March 2016	1,936	93	585	424	3,038
At 31 March 2015	1,940	69	474	232	2,715

AXIOM HOUSING GROUP

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

15 TANGIBLE FIXED ASSETS

(b) Other Fixed Assets

Association	Freehold Premises £000	Motor Vehicles £000	Computers and Office Equipment £000	Maintenance Equipment, Communal Furniture & Laundry Equipment £000	Total £000
Cost					
At 1 April 2015	1,995	154	1,652	1,435	5,236
Additions	32	48	308	313	701
Disposals	-	(21)	(9)	(1)	(31)
At 31 March 2016	2,027	181	1,951	1,747	5,906
Depreciation					
At 1 April 2015	55	85	1,182	1,203	2,525
Charge for the year	36	24	193	120	373
Disposals	-	(21)	(9)	-	(30)
At 31 March 2016	91	88	1,366	1,323	2,868
Net book value					
At 31 March 2016	1,936	93	585	424	3,038
At 31 March 2015	1,940	69	470	232	2,711

AXIOM HOUSING GROUP

NOTES TO THE FINANCIAL STATEMENTS (continued) YEAR ENDED 31 MARCH 2016

16 STOCK

	GROUP		ASSOCIATION	
	2016	Restated 2015	2016	Restated 2015
	£000	£000	£000	£000
Properties held for sale:				
Shared Ownership properties				
Completed	66	76	66	76
Work in Progress	-	-	-	-
Properties for Outright Sale				
Completed	64	14	64	14
Work in Progress	-	-	-	-
	<u>130</u>	<u>90</u>	<u>130</u>	<u>90</u>

Stocks with a net book value of £nil (2015: £nil) have been pledged as security for liabilities of the Group.

17 TRADE AND OTHER DEBTORS

	GROUP		ASSOCIATION	
	2016	Restated 2015	2016	Restated 2015
	£000	£000	£000	£000
Rent Arrears	471	407	471	407
Less: Provision for Bad Debts	(156)	(171)	(156)	(171)
Less: Adjustment for net present value for arrears with repayment schedules	-	-	-	-
Social Housing grant receivable	-	-	-	-
Other Debtors	1	-	1	222
Prepayments and accrued income	540	818	540	769
	<u>856</u>	<u>1,054</u>	<u>856</u>	<u>1,227</u>

Debtors are all due within one year

18 INVESTMENTS

Axiom Care Ltd (formerly Axiom Crossroads Care Ltd) is, a charitable company limited by guarantee formed on 7 November 2011 to deliver care. As at 1 April 2014 the company was a joint venture between the Association and West Anglia Crossroads Caring for Carers (trading as Carers Trust Cambridgeshire). On 28 May 2014 the Association entered into a joint venture termination agreement with Carers Trust Cambridgeshire that transferred ownership and control of the charity to the Association. This was followed by a transfer of business from Axiom Care Ltd to the Association in January 2016 (see note 27).

As at 31 March 2015 Axiom Care Ltd had ceased trading and the Association had written off all investments in the company as goodwill.

AXIOM HOUSING GROUP**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016****19 CASH AND CASH EQUIVALENTS**

	GROUP		ASSOCIATION	
	2016	2015	2016	2015
	£000	£000	£000	£000
Cash at Bank	545	616	54	606
	54	616	54	606

In the above are balances totalling £164k (2015: £138k) which are held in trust for Shared Ownership Leaseholders.

20 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP		ASSOCIATION	
	2016	Restated 2015	2016	Restated 2015
	£000	£000	£000	£000
Loans and overdraft	12	6	12	6
Housing Loans	932	499	932	499
Trade Creditors	638	767	638	763
Rent and service charges paid in advance	292	325	292	325
Service charge balances held on behalf of leaseholders	211	178	211	178
Other taxation and social security payable	98	77	98	79
Accruals and deferred income	1,328	1,701	1,328	1,643
SHPS pension agreement plan (note 14c)	356	270	356	270
Deferred Capital Grant (Note 22)	456	420	456	420
Recycled Capital Grant Fund (Note 23)	213	115	213	115
Other Creditors	118	112	118	112
	4,654	4,470	4,654	4,410

AXIOM HOUSING GROUP

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

21 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	GROUP		ASSOCIATION	
	2016	Restated 2015	2016	Restated 2015
	£000	£000	£000	£000
Loans	52,671	52,780	52,671	52,780
Deferred Capital grant (Note 22)	44,960	45,151	44,960	45,151
Recycled Capital Grant Fund (Note 23)	186	157	186	157
SHPS pension agreement plan	2,530	2,040	2,530	2,040
	100,347	100,128	100,347	100,128
Analysis of debt maturity:				
Housing loans repayable by instalments:				
Within one year	932	499	932	499
In one year or more but less than two years	936	802	936	802
In two years or more but less than five years	4,488	8,471	4,488	8,471
In five years or more	23,111	22,273	23,111	22,273
	29,467	32,045	29,467	32,045
Housing loans not repayable by instalments:				
Within one year	-	-	-	-
In one year or more but less than two years	-	-	-	-
In two years or more but less than five years	3,000	-	3,000	-
In five years or more	21,000	21,000	21,000	21,000
Add: Premium on issue	863	937	863	937
Less: Loan issue costs	(728)	(704)	(728)	(704)
Total Loans	53,602	53,278	53,602	53,278

All housing loans are secured by fixed charges on the Association's assets and are repayable at varying rates of interest.

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

21 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

The interest rate profile of the Association at 31 March 2016 was:

	Total	Variable Rate	Fixed Rate	Weighted Average Rate	Weighted Average Term
	£000	£000	£000	%	Years
Instalment loans	30,671	10,253	20,418	4.6%	18.66
Non-Instalment loans	24,000	3,000	21,000	5.2%	8.63
	54,671	13,253	41,418	4.9%	14.26

At 31 March 2016 the Group has the following borrowing facilities;

	£000
Undrawn committed facilities	30,250
Total Undrawn facilities	30,250

22 DEFERRED CAPITAL GRANT

	GROUP		ASSOCIATION	
	2016	Restated 2015	2016	Restated 2015
	£000	£000	£000	£000
At the start of the year	53,828	52,608	53,828	52,608
Amortised in Prior year	(8,257)	(7,875)	(8,257)	(7,875)
Grant received in year	324	1,288	324	1,288
Released to income in the year	(419)	(425)	(419)	(425)
Disposals	(60)	(25)	(60)	(25)
At the end of the year	45,416	45,571	45,416	45,571
Amount due to be released <1 Year	456	420	456	420
Amount due to be released >1 Year	44,960	45,151	44,960	45,151
	45,416	45,571	45,416	45,571
Capital Grant at Cost				
Social Housing Grant	46,386	46,187	46,386	46,187
Other grant	7,995	7,995	7,995	7,995
Total Cumulative grant at cost	54,381	54,182	54,381	54,182

AXIOM HOUSING GROUP

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016****23 RECYCLED CAPITAL GRANT FUND**

	2016	HCA	2015
	£000		£000
At the start of the year	272		338
Inputs: Grants recycled	125		59
Interest accrued	2		-
Recycling: New Builds	-		(125)
Major repairs	-		-
Repayment of grant to the HCA	-		-
	<hr/>		<hr/>
At the end of the year	399		272
	<hr/>		<hr/>
Amount three years or older where Repayment may be required	115		10
	<hr/>		<hr/>

24 NON-EQUITY SHARE CAPITAL

	2016	2015
	£000	£000
Group and Association		
Allotted and fully paid	20	21
At the start of the year	21	20
Issued during the year	-	1
Cancelled during the year	(1)	-
	<hr/>	<hr/>
At the end of the year	20	21
	<hr/>	<hr/>

The par value of each share is £1. The shares do not have a right to any dividend or distribution in a winding up, and are not redeemable. Each share has full voting rights. All shares are fully paid.

NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016

25 CAPITAL COMMITMENTS

	2016	2015
	£000	£000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	57	1,107
Capital expenditure that has been authorised by the Board of Management but has not yet been contracted for	16,820	15,818
Association and Group Total	<u>16,877</u>	<u>16,925</u>
 The Association expects to finance the above expenditure by:		
Social Housing Grant	4,070	3,980
Loans and cash reserves	11,625	12,787
First Tranche Shared Ownership Receipts	1,182	158
	<u>16,877</u>	<u>16,925</u>

The above figures include the full cost of shared ownership properties contracted for.

	2016	2015
	£000	£000
Capital commitments will be incurred over the next;		
In one year or more but less than two years	5,823	1,107
In two years or more but less than five years	11,054	15,818
In five years or more	-	-
	<u>16,877</u>	<u>16,925</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

26 OPERATING LEASES

	GROUP		ASSOCIATION	
	2016	2015	2016	2015
	£000	£000	£000	£000
Land and Buildings				
Within one year	15	17	15	17
In one year or more but less than two years	3	5	3	5
In two years or more but less than five years	-	3	-	3
In five years or more	-	-	-	-
Others				
Within one year	10	10	10	10
In one year or more but less than two years	9	10	9	10
In two years or more but less than five years	6	15	6	15
In five years or more	-	-	-	-
	43	60	43	60

The lease agreements do not include any contingent rent or restrictions.

27 RELATED PARTIES

Mrs C Wood, Mr M Cowdell and Mr B Webster were members of the Board of Management for all of the year, and tenants of the Association. They each hold a standard tenancy agreement and cannot use their position to their advantage. They were all existing tenants before serving on the Board. Rent charged to the Tenant Board member was £13,914 (2015: £13,490). There are no arrears on their tenancies at the reporting period end (2015: £Nil).

Related party transactions

Cleaning services were provided to Axiom Housing Association Sheltered and Extra Care schemes by Axiom Care Ltd. Axiom Academy, a department within Axiom Housing Association had provided training services to Axiom Care staff.

	2016	2015
	£000	£000
Receivable (training services)	10	20
Receivable	(34)	(36)
	(24)	(16)

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016****28 SUBSIDIARY UNDERTAKINGS**

The Association has two subsidiary undertakings.

Axiom Homeless Action Ltd is a company limited by guarantee and a registered charity. It operates by receiving donations and making grant payments to projects or activities in the area of the Association's operations connected with the alleviation of homelessness.

Axiom Homeless Action Ltd had net outgoing resources in its year to 31 March 2016 of £2,180 (2015: £3,934) and had net assets of £17,550 (2015: £19,730) at that date. At 31 March 2016 there was a balance due to the Association from Axiom Homeless Action of £1,217 (2015: Nil).

These results have not been consolidated into the Group accounts on the basis of immateriality.

On 28 May 2014, the Association acquired the remaining controlling interest in its joint venture subsidiary Axiom Care Ltd (formerly Axiom Crossroads Care Ltd) and on 13 January 2016 all of the assets, liabilities and trading activities of the company transferred to the Association under a business transfer agreement, after which Axiom Care Ltd ceased trading. The results of Axiom Care Ltd have been consolidated into the Group accounts and included in the results of the Association from 13 January 2016.

29 ASSOCIATE UNDERTAKINGS

Axiom Housing Association are shareholders of Pondersbridge Management Limited (holding 16 ordinary shares of the 44 ordinary shares in issue) and provides management services including the company secretarial and accounting functions. No fee is charged to Pondersbridge Management Limited for this service. Consolidated accounts have not been prepared on the basis of immateriality.

Financial results of Pondersbridge Management Limited for the financial year to 30 September 2015 stated turnover as £19,657, loss before tax of £5,143, taxation £0 and loss after tax of £5,143.

Current assets were £16,395 and liabilities due within one year were £10,911. Shareholders' funds were £5,484 as at this date.

30 EXCEPTIONAL ITEM

On 28 May 2014 Axiom Housing Association Limited acquired the remainder of the controlling interest in Axiom Care Ltd (formerly Axiom Crossroads Care Ltd) from its joint venture company, Carers Trust Cambridgeshire for a consideration of £40,000. The joint venture termination agreement included a repayment of £19,510 of excess working capital loan and £10,000 for ongoing support and services linked to the continued affiliation of the company to Carers Trust UK, in return for which all further outstanding liabilities were waived.

	2016	2015
	£	£
Association		
Paid to Carers Trust	-	(40)
Legal and Bank fees	-	(11)
	<u>-</u>	<u>(51)</u>
Axiom Crossroads Care Ltd.	-	101
Group	<u>-</u>	<u>50</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)
YEAR ENDED 31 MARCH 2016**

31 FIRST TIME ADOPTION OF FRS 102

Group	Note	Reserves as at Transition date 1 Apr 2014 £000	Surplus Year ended 31 Mar 2015 £000	Reserves as at 31 Mar 2015 £000
As previously stated under former UK GAAP		6,240	968	7,208
Transitional adjustments				
Increase in depreciation of housing properties	a	(7,129)	(310)	(7,439)
Increase in amortisation of grants to housing properties	b	7,875	416	8,291
Increase in surplus on sale of properties		-	22	22
Inclusion of holiday pay accrual	c	(9)	2	(7)
Inclusion of SHPS deficit pension liability	d	(2,370)	84	(2,286)
As stated in accordance with FRS 102		4,607	1,182	5,789

- a. FRS 102 requires that capital grant previously deducted from the cost of fixed assets, is treated as creditors where the fixed assets are carried at cost. The effect compared to current UK GAAP is an increase to the carrying cost of housing properties resulting in an increase in the depreciation at transition of £7,129k and a decrease in the surplus for the year ended 31 March 2015 of £310k.
- b. FRS 102 requires that government capital grant previously deducted from the carrying cost of housing properties is treated as a deferred capital grant creditor and released to the statement of comprehensive income over the useful life of the associated assets. The effect compared to current UK GAAP is an increase in income recognised on transition of £7,875k, and £416k increase in surplus for the year ended 31 March 2015.
- c. FRS 102 requires that the cost of unused entitlement and short term employee benefits is measured and recognised in the reporting period. The effect is that unused holiday entitlement has now been recognised as an accrual at the reporting period date. This has resulted in a decrease of reserves at transition of £10k and an increase in the surplus for the year ended 31 March 2015 of £2k.
- d. FRS 102 requires that a liability is recognised for the contributions that arise from an agreement to fund a deficit in a multi-employer pension scheme. The effect is that a liability for the SHPS payment plan has been recognised at the present value of the contributions payable using the discount rate specified in note 14. This has resulted in a decrease in reserves of £2,370k at transition and an increase in the surplus in the year ended 31 March 2015 of £84k.

Part 2

FRIENDSHIP CARE AND HOUSING LIMITED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 MARCH, 2017

FRIENDSHIP CARE AND HOUSING LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

Co-operative and Community Benefit Society Registration Number: 31247R

FRIENDSHIP CARE AND HOUSING LIMITED

CONTENTS

	Page No.
Board Members, Executive Officers and Principal Advisors	1
Strategic Report	2-5
Report of the Independent Auditors	6
Statement of Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Reserves	9
Statement of Cash Flows	10
Notes to the Financial Statements	11 - 31

FRIENDSHIP CARE AND HOUSING LIMITED

BOARD MEMBERS, EXECUTIVE OFFICERS AND PRINCIPAL ADVISORS

Board Members:

Ernie Hendricks (Chair - Resigned 01/11/2016)
Stephen Wenham (Chair – Appointed Chair 01/11/2016)
Karen Preece
Derek Doran (Resigned 16/02/2017)
Peter Oliver
Julie Doyle – Executive Member
Lynn Stubbs – Executive Member

Executive Officers:

Julie Doyle
Rob Griffiths
Ian Jackson
Lynn Stubbs
Sharon Guest
Jonathan Driffill

Registered Head Office:

50 Newhall Hill
Birmingham
B1 3JN

Principal Bankers:

Lloyds Bank
3rd Floor
25 Gresham Street
London
EC2V 7HN

Auditors:

Beever and Struthers
Chartered Accountants and Statutory Auditor
St George's House
215 - 219 Chester Road
Manchester M15 4JE

Solicitors:

Trowers & Hamlin
3 Bunhill
London
EC1Y 8YZ

Registered with the Homes and Community Agency No: 4654

Introduction

The Board of Friendship Care and Housing Limited is pleased to present its report and audited financial statements for the year ended 31 March 2017. Friendship Care and Housing is part of the Longhurst Group of companies and further detail about the organisation's performance, finances and future plans and priorities can be found in the Group's audited consolidated financial statements for the 2016/17 financial year.

Friendship Care and Housing is a successful and thriving social care and housing business that manages around 4,500 affordable homes. Friendship Care and Housing is part of the Longhurst Group of companies, a leading housing provider of affordable housing, care and support services across the Midlands and surrounding areas, with almost 19,500 homes in management.

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 difference to people's lives.

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

In it together – We stand together as one team with one vision to make a difference to people's lives.

Heartfelt service – Everything we do shows we care deeply about our customers and colleagues.

Own it – We do what we say we do to the best of our ability and with pride and passion.

Push the boundaries – We strive for excellence constantly looking for fresh ways of doing things.

Fun and fair – We work hard, enjoy it and treat everybody equally with respect and honesty.

We have weathered the storm of the first year of rent cuts but threats to our income streams still exist through further rent reductions and welfare cuts. During the year we have made further improvements to our core operating performance whilst also continuing to provide high quality services to our customers. Key to our ongoing success is our connectivity with our customers who play a key role in shaping and developing local services through well-established customer forums and networks.

Our Group development programme continues to make a positive difference to the housing crisis through the delivery of much needed new homes for rent and shared ownership. In total the Group delivered 400 new homes during the 2016/17 financial year.

We have continued to invest in a range of services to support our customers. Our money advice service continues to assist our tenants to manage challenging financial situations and help them to sustain their tenancies. Support and advice is also available on jobs and benefits, tackling fuel poverty and meeting crises through hardship funds and support for food banks.

The 2017 General Election, resulting hung parliament and Brexit negotiations are likely to bring more changes and challenges for our business and the wider sector. We are well prepared to cope with future challenges and are committed to maintaining high quality services and providing new homes. Our financial plans enable us to make the required investment to existing homes across our operating areas, as well as develop new, or acquire existing affordable units to meet local housing needs. Underpinning this investment is our commitment to maintain our position as a strong, efficient landlord that goes beyond the basics – providing extra services that engage, support and develop people with a clear focus on achieving value for money in all that we do.

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 the 1st 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 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.

FRIENDSHIP CARE AND HOUSING LIMITED
STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2017

Compliance with Governance Code

Friendship Care and Housing 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*'. Friendship Care and Housing has undertaken a detailed self-assessment against the Code during the year and complies with the provisions of the Code.

Compliance with Governance and Financial Viability Standard

The Board has taken reasonable steps to ensure compliance with the requirements of the Governance and Financial Viability Standard. There have been no serious or material breaches of the law or the Standard as would require notification to the Homes and Communities Agency in accordance with the Governance and Regulatory Standard.

Board Membership and Remuneration

The co-terminous Board brings together the Boards of all three Group member companies, L&H Homes, Spire Homes and Friendship Care and Housing. The table below identifies members from the previous Friendship Care and Housing Board, as well as the members of the new Homes Board. From 1 January 2016, remuneration of Homes Board members was for the role of Board members of L&H Homes, Spire Homes and Friendship Care and Housing, the remuneration shown is the total paid to each member.

Board Member	Appointed Date	Resignation Date	Remuneration
Stephen Wenham (Homes Board Chair)	1 January 2016	-	£9,083
Karen Preece	1 January 2016	-	£7,000
Peter Oliver	21 March 2016	-	£7,583
Julie Doyle	1 January 2016	-	Executive Officer
Lynn Stubbs	1 January 2016	-	Executive Officer
Ernest Hendricks (Previous Chair)	1 January 2016	1 November 2016	£7,045
Derek Doran	1 January 2016	16 February 2017	£7,000

Statement of the Board's Responsibilities in Respect of the Financial Statements

The Board is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of its income and expenditure for that period. In preparing these financial statements the Board is required to;

1. Select suitable accounting policies and then apply them consistently.
2. Make judgements and estimates that are reasonable and prudent.
3. State whether applicable accounting standards have been followed.
4. Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Association 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 Association and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. In determining how amounts are presented within items in the Statement of Comprehensive Income and the Statement of Financial Position, the Board has regard to the substance of the reported transaction or arrangement, in accordance with the generally accepted accounting principles or practice. The Board is also responsible for safeguarding the assets of the Association and hence taking reasonable steps for the prevention and detection of fraud and other irregularities, by establishing and maintaining a satisfactory system of control over the Association'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 auditors are unaware. The Directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any audit information and to establish that the Association's auditors are aware of that information.

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 Board's responsibility to establish and maintain appropriate systems of internal control for Friendship Care and Housing. The Group Board has overall responsibility for ensuring that the appropriate level of internal control is in place across 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 & Risk Committee.

The Homes Board, Group Board and the Audit & 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 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 & 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 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 others.
- vii) The Audit & 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 Group's strategic risk register and risk assurance framework for each key business area across the Group.

Statement on Internal Controls (continued)

- viii) A group-wide Asset & Liability register.
- ix) A Group-wide Finance & Treasury Committee which meets four times a year focussing 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 & 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. In reviewing the Association's compliance with all relevant laws and regulations, no breaches were identified.

Value for Money Assessment

The Association has not produced a separate individual value for money self-assessment for the year ending 31st March 2017. The Longhurst Group consolidated value for money self-assessment incorporates the results and activities of the association, along with other members of the Longhurst Group. A full copy of the Group value for money self-assessment can be found at www.longhurst-group.org.uk/value-for-money.

Auditors

In accordance with the Co-operative and Community Benefit Societies Act 2014 a resolution to re-appoint the Association's auditors, Beever and Struthers, will be proposed at the Annual General Meeting.

The financial statements were approved and authorised for issue by the Board on 20 July 2017 and signed on its behalf by:

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Ms R Challinor
Company Secretary
20 July 2017

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF FRIENDSHIP CARE AND HOUSING LIMITED

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

This report is made solely to the Association's members, as a body, in accordance with Section 87 (2) of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Board and the Auditor

As explained more fully in the Statement of Board's Responsibilities set out on page 3, the Board is responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

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

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

Beever and Struthers
Statutory Auditor
St George's House, 215-219 Chester Road
Manchester, M15 4JE

Date: 20 July 2017

FRIENDSHIP CARE AND HOUSING LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
STATEMENT OF COMPREHENSIVE INCOME

	Notes	31 March 2017 £'000	31 March 2016 £'000
Turnover	2	28,582	28,028
Operating expenditure	2	<u>(20,579)</u>	<u>(22,053)</u>
Operating surplus		8,003	5,975
Gain on disposal of property, plant and equipment (fixed assets)	6	177	28
Interest receivable		10	16
Interest and financing costs	7	<u>(3,799)</u>	<u>(4,058)</u>
Surplus for the year	8	4,391	1,961
Actuarial (loss)/gain in respect of pension schemes		<u>(198)</u>	<u>104</u>
Total comprehensive income for the year		<u>4,193</u>	<u>2,065</u>

The financial statements on pages 7 to 31 were approved and authorised for issue by the Board on 20 July 2017 and were signed on its behalf by:

Board Member:

Board Member:

Secretary:

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FRIENDSHIP CARE AND HOUSING LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
STATEMENT OF FINANCIAL POSITION

	Notes	Year Ended 31 March 2017 £000	Year Ended 31 March 2016 £000
Fixed assets			
Tangible fixed assets	13	<u>184,923</u>	<u>184,974</u>
Current assets			
Trade and other debtors	14	2,200	2,461
Cash and cash equivalents	15	<u>4,110</u>	<u>4,069</u>
		<u>6,310</u>	<u>6,530</u>
Less: Creditors: amounts falling due within one year	16	(6,989)	(7,019)
Net Current (Liabilities)		<u>(679)</u>	<u>(489)</u>
Total Assets less current liabilities		184,244	184,485
Creditors: amounts falling due after more than one year	17a	(141,855)	(146,444)
Provisions for liabilities			
Pension provision	12	<u>(1,398)</u>	<u>(1,243)</u>
Total net assets		<u>40,991</u>	<u>36,798</u>
Reserves			
Non-equity share capital	21	-	-
Income and expenditure reserve		39,991	35,798
Restricted reserve		1,000	1,000
Total reserves		<u>40,991</u>	<u>36,798</u>

The financial statements on pages 7 to 31 were approved and authorised for issue by the Board on 20 July 2017 and were signed on its behalf by:

Board Member:

Board Member:

Secretary:

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The notes on pages 11 to 31 form an integral part of these accounts.

FRIENDSHIP CARE AND HOUSING LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
STATEMENT OF CHANGES IN RESERVES

	Income and Expenditure Reserve £'000	Restricted Reserve £'000	Total £,000
Balance at 31 March 2015	33,733	1,000	34,733
Surplus from Statement of Comprehensive Income	2,065	-	2,065
Balance at 31 March 2016	35,798	1,000	36,798
Surplus from Statement of Comprehensive Income	4,193	-	4,193
Balance at 31 March 2017	39,991	1,000	40,991

The notes on pages 11 to 31 form an integral part of these accounts.

FRIENDSHIP CARE AND HOUSING LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
STATEMENT OF CASH FLOWS

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Net cash generated from operating activities (see Note i)	11,011	8,126
Cash flow from investing activities		
Purchase of tangible fixed assets	(4,860)	(4,467)
Proceeds from sale of tangible fixed assets	848	590
Interest received	<u>9</u>	<u>15</u>
	(4,003)	(3,862)
Cash flow from financing activities		
Interest paid	(3,479)	(3,874)
Issue of ordinary shares	-	-
New secured loans	-	-
Repayment of borrowings	(3,488)	(169)
Capital element of finance lease rental payments	-	-
Withdrawal from deposits	<u>-</u>	<u>-</u>
	(6,967)	4,043
Net change in cash and cash equivalents	41	221
Cash and cash equivalents at beginning of the year	<u>4,069</u>	<u>3,848</u>
Cash and cash equivalents at end of the year	<u><u>4,110</u></u>	<u><u>4,069</u></u>
Note i	Year ended	Year ended
	31 March	31 March
	2017	2016
	£'000	£'000
Cash flow from operating activities		
Surplus for the year	4,391	1,961
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	3,094	3,064
Amortisation of intangible assets	(722)	(708)
Impairment Charges	80	-
Decrease in trade and other debtors	261	(299)
Increase in trade and other creditors	505	(1,076)
Pension costs less contributions payable	(210)	1,170
Adjustments for investing or financing activities:		
Gain on disposal of tangible fixed assets	(177)	(28)
Interest payable	3,799	4,058
Interest received	<u>(10)</u>	<u>(16)</u>
Net cash generated from operating activities	<u><u>11,011</u></u>	<u><u>8,126</u></u>

The notes on pages 11 to 31 form an integral part of these accounts.

LEGAL STATUS

Friendship Care and Housing Limited is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Homes and Communities Agency as a Private Registered Provider of Social Housing. The registered office is 50 Newhall Hill, Birmingham, B1 3JN.

1. PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The 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. Friendship Care and Housing Limited is a Public Benefit entity and the financial statements have been prepared in compliance with FRS102.

The financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2016. The accounts are prepared on the historical cost basis of accounting and are presented in sterling £ (rounded to the nearest £'000).

Going concern

The 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 association capitalises development expenditure in accordance with the accounting policy described on page 14. 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 Association has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the association has considered if the asset is held for social benefit or to earn commercial rentals.
- **Impairment.** The association has identified a cash generating for impairment assessment purposes at a property scheme level.

1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

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.
- **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 29.
- **Impairment of non-financial assets.** During the year a new scheme development which was approaching 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 guidance in the 2014 SORP, the Board considered that 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.

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.

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 2. 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 3 and matched against the relevant costs.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Service charges

Service charge income and costs are recognised on an accruals basis. The association 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 long term 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.

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. Donated land/assets or assets acquired at below market value from a government source, i.e. local authority, are included as a liability in the Statement of Financial Position at the fair value less consideration paid. Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion of construction. For shared ownership properties, the properties are classified as complete once the final property within a scheme has been sold. 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 association depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories. UELs for identified components are as follows:

	Years
• Structure	120
• Roof	60
• Heating	15
• Windows	30
• Electricals	30
• Bathroom	30
• Kitchen	20
• Lifts	15
• Doors	30

1. PRINCIPAL ACCOUNTING POLICIES (continued)

The Association depreciates housing properties held on long 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 of Cost
• Freehold Offices	1%
• Furniture & Office Equipment	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 association 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 association.

In both cases, the assets and associated liabilities are included in the Statement of Financial Position.

Leasing

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

Current asset investments

Current asset investments include cash and cash equivalents recognised at cost.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one 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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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.

Financial instruments held by the Association 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.

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 received for items of cost written off in the Statement of Comprehensive Income Account is included as part of Turnover.

When Social Housing Grant (SHG) in respect of housing properties in the course of construction exceeds the total cost to date of those housing properties, the excess is shown as a current liability.

SHG must be recycled by the association 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 and Greater London Authority. 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 one 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.

Restricted Reserve

Friendship Care & Housing have a restricted reserve. This purpose of this reserve is to contribute towards major repair costs, however there are no restrictions upon its use.

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.

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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 association has a participating interest.

Contributions payable under an agreement with The Social Housing Pension Scheme to fund past deficits are recognised as a liability in the 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% at 31 March 2016 and 1.33% 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.

2. TURNOVER, COST OF SALES, OPERATING EXPENDITURE AND OPERATING SURPLUS

	Turnover	2017 Operating expenditure	Operating Surplus/ (deficit)
	£'000	£'000	£'000
Social Housing Lettings (Note 3)	25,485	17,371	8,114
Other Social Housing Activities			
Supporting people contract income	1,461	1,580	(119)
Development services	10	75	(65)
Managed operations	107	134	(27)
Non-Social Housing Activities			
Community Based Activities	1,474	1,419	55
Other	45	-	45
	<u>3097</u>	<u>3,208</u>	<u>(111)</u>
Total	<u>28582</u>	<u>20,579</u>	<u>8,003</u>

	Turnover	2016 Operating expenditure	Operating Surplus/ (deficit)
	£'000	£'000	£'000
Social Housing Lettings (Note 3)	25,241	19,151	6,090
Other Social Housing Activities			
Supporting people contract income	1508	1,505	3
Development services	29	75	(46)
Managed operations	95	139	(44)
Non-Social Housing Activities			
Community Based Activities	1,137	1,156	(19)
Other	18	27	(9)
	<u>2,787</u>	<u>2,902</u>	<u>(115)</u>
Total	<u>28,028</u>	<u>22,053</u>	<u>5,975</u>

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

3. TURNOVER AND OPERATING EXPENDITURE FROM SOCIAL HOUSING LETTINGS

	General Housing	Supported Housing and Housing for Older People	Low cost Home Ownership	Care	Total 2017	Total 2016
	£'000	£'000	£'000	£'000	£'000	£'000
INCOME						
Rent receivable net of identifiable service charge and net of voids	19,216	211	324	57	19,808	20,276
Service charge income	647	819	41	593	2,100	1,590
Amortised government grants	649	26	20	27	722	708
Other grants	-	-	-	2,843	2,843	2,658
Other income from Social Housing Lettings	-	-	-	12	12	9
TOTAL TURNOVER FROM SOCIAL HOUSING LETTINGS	20,512	1,056	385	3,532	25,485	25,241
OPERATING EXPENDITURE						
Management	3,615	298	119	663	4,695	5,818
Service charge costs	1,130	494	3	3,051	4,678	4,317
Routine maintenance	3,002	15	-	13	3,030	3,500
Planned maintenance	1,298	49	-	56	1,403	1,733
Major repairs expenditure	431	18	-	13	462	683
Bad debts	68	2	(7)	(12)	51	160
Depreciation of Housing Properties	2,736	56	51	73	2,916	2,737
Lease amortisation	-	-	-	-	-	150
Property lease costs	56	-	-	-	56	53
Impairment of housing properties	80	-	-	-	80	-
Operating expenditure on Social Housing Lettings	12,416	932	166	3,857	17,371	19,151
OPERATING SURPLUS / (DEFICIT) ON SOCIAL HOUSING LETTINGS	8,096	124	219	(325)	8,114	6,090
Void Losses	99	76	1	113	289	280

4. ACCOMODATION OWNED, MANAGED AND IN DEVELOPMENT

	2017		2016	
	Owned	Managed	Owned	Managed
Social Housing				
Under development at end of year:				
General needs housing social rent	-	-	13	-
Under management at end of year:				
General needs housing	4,022	18	4,037	18
Affordable	38	-	29	-
Supported housing and housing for older people	81	-	79	-
Low-cost home ownership	142	-	147	-
Leasehold Properties	137	-	137	-
Residential Care Homes	79	-	93	-
Total	4,499	18	4,535	18

5. ACCOMMODATION MANAGED BY OTHERS

Friendship Care and Housing owns property managed by other bodies.

	2017	2016
	No. of properties	No. of properties
General Needs	<u>41</u>	<u>41</u>

6. GAIN ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT (FIXED ASSETS)

	RTB & Voluntary Sales	Shared Ownership Staircasing sales	Total 2017	Total 2016
	£'000	£'000	£'000	£'000
Proceeds of sales	453	395	848	590
Less: Costs of sales	(351)	(320)	(671)	(562)
Surplus	<u>102</u>	<u>75</u>	<u>177</u>	<u>28</u>
Capital grant recycled (Note 19)	52	66	118	37
Disposal proceeds fund (Note 20)	-	-	-	-
	<u>52</u>	<u>66</u>	<u>118</u>	<u>37</u>

7. INTEREST AND FINANCING COSTS

	Total	
	2017	2016
	£'000	£'000
Deferred benefit pension charge	138	109
On loans repayable within five years	824	654
On loans wholly or partly repayable in more than five years	2,523	3,225
Costs associated with financing	<u>363</u>	<u>70</u>
	3,848	4,058
Less: Interest capitalised on housing properties under construction	<u>(49)</u>	<u>-</u>
	<u>3,799</u>	<u>4,058</u>

8. SURPLUS ON ORDINARY ACTIVITIES

	Total	Total
	2017	2016
	£'000	£'000
The operating surplus is stated after charging/(crediting):-		
Auditors remuneration (excluding VAT):		
Audit of the financial statements	17	15
Operating lease rentals:		
– Vehicles	128	154
– Land and buildings	56	55
– Office equipment	11	10
Depreciation of housing properties	2,916	2,887
Depreciation of other fixed assets	178	177
Surplus on sale of other fixed assets	(177)	(28)
Amortisation of government grants	722	708

9. TAX ON SURPLUS ON ORDINARY ACTIVITIES

The Association is registered as a Charitable Co-operative and Community Benefit Society and as such is exempt from UK Corporation Tax on its charitable activities.

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

10. KEY MANAGEMENT PERSONNEL REMUNERATION

	2017	2016
	£'000	£'000
The aggregate emoluments paid to or receivable by non executive Directors and former non-executive Directors	38	34
	<hr/>	<hr/>
The aggregate emoluments paid to or receivable by executive Directors and former executive Directors	912	144
	<hr/>	<hr/>
The emoluments paid to the highest paid Director excluding pension contributions Chief Executive-2017:Ms J Doyle (2016: Mr M Askey)	200	75
	<hr/>	<hr/>
The aggregate amount of Directors or past Directors' pensions, excluding amounts payable under a properly funded pension scheme	-	5

Directors (Key management personnel) are defined as the Chief Executive and other members of the Group Executive Team. Members of the 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). The prior year comparative included Key Management Personnel employed solely by Friendship Care & Housing as this was prior to the restructuring of the senior team across the Group.

The Chief Executive (Ms J Doyle) is an ordinary member of the pension scheme. The pension scheme is a Care 1/60th 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 £24,182 was paid in addition to the personal contributions of the Chief Executive.

11. EMPLOYEE INFORMATION

	2017	2016
	No.	No.
The average number of persons employed during the year expressed in full time equivalents (36.25 hours per week) was:		
Office staff	68	79
Care Scheme staff, wardens, caretakers and cleaners	208	194
	<hr/> 276 <hr/>	<hr/> 273 <hr/>
Staff costs (for the above persons)	£'000	£'000
Wages and salaries	6,973	6,583
Social Security costs	479	440
Pension	405	1,911
	<hr/> 7,857 <hr/>	<hr/> 8,934 <hr/>

11. EMPLOYEE INFORMATION (continued)

Aggregate number of full time equivalent staff whose remuneration exceeded £60,000 in the period:	<u>No of Staff</u>	<u>No of Staff</u>
£60,000 - £70,000	1	2
£70,000 - £80,000	1	1
£80,000 - £90,000	1	-

12. PENSION OBLIGATIONS

Friendship Care and Housing Limited participates three schemes, the Social Housing Pension Scheme (SHPS), the Pensions Trust Growth Plan (PTGP) and the West Midlands Pension Fund, a Local Government Pension Scheme (LGPS).

Social Housing Pension Scheme and Pensions Trust Growth Plan

Friendship Care and Housing 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. Friendship Care and Housing has elected to operate a final salary with a 1/60 accrual rate and the career average re-valued 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 re-valued earnings structure is the only option available. During the year under review, Friendship Care and Housing paid contributions at the rate of 6.45% for the final salary scheme and 6.65% for the career average scheme, plus a monthly lump sum to fund past deficit amounts. Contributions by members varied between 8.45% and 14.55% depending on their age and which scheme they are in. At the balance sheet date there were 67 (2016: 81) active members of the scheme employed by Friendship Care and Housing 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.

The Trustee commissions an actuarial valuation of the scheme every three years. The main purpose of the valuation is to determine the financial position of the scheme in order to determine the 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 £3,123m, liabilities were £4,446m, revealing a shortfall of assets compared with the value of liabilities of £1,323m.

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 Friendship Care and Housing as at 30 September 2016 has been calculated as £38,514,249.39.

Social Housing Pension Scheme and Pensions Trust Growth Plan

Friendship Care and Housing participates in the Pension Trust's multi-employer 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. Friendship Care and Housing paid contributions at the rate of 0% during the accounting period. Members paid contributions at varying rates during the accounting period. As at the balance sheet date, there was one active member of the plan employed by Friendship Care and Housing. Friendship Care and Housing continues to offer membership of the plan to its employees.

The estimated amount of employer debt on withdrawal liability for Friendship Care and Housing as at 30 September 2016 has been calculated as £88,138.

12. PENSION OBLIGATIONS (continued)

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.

	2017	2016
	£	£
At start of the year	4,931	3,620
Additional liabilities in the year	137	1,637
Interest for the year	95	66
Released to expenditure in the year	(560)	(392)
	4,603	4,931

During the year ended 31 March 2017 no additional payments to reduce the deficit have been agreed with SHPS (2016 - £1,669k).

Local Government Pension Scheme

The West Midlands Pension Fund, a Local Government Pension Scheme is a funded defined-benefit 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% 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
	years	years
<i>Retiring today</i>		
Males	21.8	23.0
Females	24.2	25.7
<i>Retiring in 20 years</i>		
Males	23.9	25.3
Females	26.5	28.0

12. PENSION OBLIGATIONS (continued)

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

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

Amount 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	At 31 March 2016
	£'000	£'000
Surplus/(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	-	-
(Deficit)/Surplus in scheme at 31 March	<u>(1,398)</u>	<u>(1,243)</u>

Movement in surplus/(deficit) during year

	At 31 March 2017	At 31 March 2016
	£'000	£'000
Surplus/(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	-	-
(Deficit)/Surplus in scheme at 31 March	<u>(1,398)</u>	<u>(1,243)</u>

12. PENSION OBLIGATIONS (continued)

Local Government Pension Scheme (continued)

Asset and Liability Reconciliation	At 31 March 2017 £'000	At 31 March 2016 £'000
Reconciliation of liabilities		
Opening defined benefit obligation	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	-	-
Closed defined benefit obligation	<u>4,918</u>	<u>4,072</u>
Reconciliation of assets		
Opening fair value of Fund Assets	2,829	2,926
Interest on assets	98	92
Return on assets 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	(163)	(179)
Closing fair value of Fund assets	<u>3,520</u>	<u>2,829</u>

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

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

13. TANGIBLE FIXED ASSETS

	Other Fixed Assets						
	Social Housing Properties For Letting Completed	Social Housing Properties for letting Under Construction	Low cost home ownership Properties Completed	Total Housing properties	Freehold offices	Furniture and Office Equipment	Total Tangible Fixed assets
COST	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At start of the year	198,329	1,175	7,110	206,614	1,798	1,053	209,465
Additions to properties	5	702	-	707	-	111	1,815
Works to existing properties	2,914	-	-	2,914	-	-	2,914
Completed in year	868	(1,865)	-	(997)	997	-	-
Components Replaced	(629)	-	-	(629)	-	-	(629)
Disposals	(245)	-	(421)	(666)	-	(118)	(784)
At end of the year	<u>201,242</u>	<u>12</u>	<u>6,689</u>	<u>207,943</u>	<u>2,795</u>	<u>1,046</u>	<u>211,784</u>
DEPRECIATION AND IMPAIRMENT							
At start of the year	22,977	-	466	23,443	433	615	24,491
Charge for the year	2,512	-	45	2,557	18	160	2,735
Components Replaced	(270)	-	-	(270)	-	-	(270)
Disposals	(34)	-	(23)	(57)	-	(118)	(175)
Impairment	80	-	-	80	-	-	80
At end of the year	<u>25,265</u>	<u>-</u>	<u>488</u>	<u>25,753</u>	<u>451</u>	<u>657</u>	<u>26,861</u>
NET BOOK VALUE AT END OF THE YEAR	<u>175,977</u>	<u>12</u>	<u>6,201</u>	<u>182,190</u>	<u>2,344</u>	<u>389</u>	<u>184,923</u>
Housing Properties comprise:						2017	2016
						£'000	£'000
Freeholds						182,190	183,170
Long leaseholds						-	-
						<u>182,190</u>	<u>183,170</u>

Cost of properties includes £10k (2016: £29K) for direct administrative costs capitalised during the year.

Works to existing properties in the year:	2017	2016
	£'000	£'000
Components capitalised	2,914	2,978
Amounts charged to expenditure	462	683

The aggregate amount of interest and finance costs included in the cost of housing properties is £106k (2016: £57k).

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

14. TRADE AND OTHER DEBTORS

	2017 £'000	2016 £'000
Rent arrears	783	1,369
Less: provision for bad debts	(351)	(477)
Other debtors	455	499
Prepayment and accrued income	627	485
Intercompany Debtors	686	585
Total	<u>2,200</u>	<u>2,461</u>

15. CASH AND CASH EQUIVALENTS

	2017 £'000	2016 £'000
Cash and cash equivalents	<u>4,110</u>	<u>4,069</u>
	<u>4,110</u>	<u>4,069</u>

In the above are balances totalling £424k (2016: £419k) which are held in trust for leaseholders

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £'000	2016 £'000
Loans (Note 17b)	1,973	2,182
Funders Interest	493	625
Trade creditors	191	495
Amounts owed to group undertakings	67	51
Rents and service charges paid in advance	867	588
Service charge balances held on behalf of leaseholders	463	405
Other taxation and social security payable	217	209
Accruals and deferred income	1,210	888
SHPS pension agreement plan (Note 12)	580	560
Deferred Capital Grant (Note 18)	706	707
Recycled Capital Grant Fund (Note 19)	-	37
Disposal Proceeds Fund (Note 20)	109	-
Other creditors	113	272
	<u>6,989</u>	<u>7,019</u>

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

17(a). CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2017	2016
	£'000	£'000
Loans (Note 17b)	73,474	76,700
Deferred Capital Grant (Note 18)	64,357	65,264
Recycled capital grant fund (Note 19)	-	-
SHPS pension agreement plan (Note 12)	4,023	4,370
Disposal proceeds fund (Note 20)	<u>1</u>	<u>110</u>
	<u>141,855</u>	<u>146,444</u>

17(b). DEBT ANALYSIS

	2017	2016
	£'000	£'000
Loans repayable by instalments:		
Within one year	1,973	182
In one year or more but less than two years	2,794	2,138
In two years or more and less than five years	8,670	9,085
In five years or more	54,988	58,508
Loans not repayable by instalments:		
Within one year	-	2,000
In one year or more but less than two years	-	-
In two years or more and less than five years	5,500	-
In five years or more	2,000	7,500
Less: loan issue costs	<u>(478)</u>	<u>(531)</u>
Total loans	<u>75,447</u>	<u>78,882</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 of interest at 31 March 2017 was 4.349% (2016: 4.882%).

18. DEFERRED CAPITAL GRANT

	2017	2016
	£'000	£'000
At start of the year	65,971	66,993
Grant received in the year	-	-
Grant disposed in the year	(240)	(343)
Amortised in the year	(706)	(708)
Amortised Written Back	<u>38</u>	<u>29</u>
At the end of the year	<u>65,063</u>	<u>65,971</u>
	£'000	£'000
Amount due to be released < 1 year	706	707
Amount due to be released > 1 year	<u>64,357</u>	<u>65,264</u>
	<u>65,063</u>	<u>65,971</u>

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

19. RECYCLED CAPITAL GRANT FUND

	2017	2016
	£'000	£'000
At the start of the year	37	239
Inputs: Grants recycled	118	37
Interest accrued	-	-
Recycling: New build	-	-
Major repairs	(155)	(239)
At the end of the year	<u>-</u>	<u>37</u>
	<u>-</u>	<u>-</u>
Amount three years or older where repayment may be required This is grant from the HCA.	<u>-</u>	<u>-</u>

20. DISPOSAL PROCEEDS FUND

	2017	2016
	£'000	£'000
Opening balance	110	109
Inputs to DPF: Funds recycled	-	-
Interest accrued	-	1
Use of funds: Major repairs and works to existing stock	<u>-</u>	<u>-</u>
Repayment of funds to the HCA	-	-
Closing balance	<u>110</u>	<u>110</u>
Amounts three years old or older where repayment may be required.	<u>-</u>	<u>-</u>

21. NON-EQUITY SHARE CAPITAL

	2017	2016
	£	£
Allotted Issued and Fully Paid		
At the start of the year	74	74
Issued during the year	-	-
At the end of the year	<u>74</u>	<u>74</u>

The par value of each share is £1. The shares do not have a right to any dividend or distribution in a winding-up, and are not redeemable. Each share has full voting rights. All shares are fully paid.

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

22. CAPITAL COMMITMENTS

	2017	2016
	£'000	£'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	13	656
Capital expenditure that has been authorised by the Board but has not yet been contracted for	-	-
	<u>13</u>	<u>656</u>
These commitments to be financed with:		
Committed loan facilities	13	656
	<u>13</u>	<u>656</u>

The above figures include the full cost of shared ownership properties contracted for.

23. OPERATING LEASES

Friendship Care and Housing holds properties and office equipment under non-cancellable operating leases. At the end of the year Friendship Care and Housing commitments of total future minimum lease payments as follows:

	2017	2016
	£'000	£'000
Leases expiring:		
Land and buildings:		
Not later than one year	38	138
Later than one year and not later than five years	110	224
Later than five years	-	-
Others:		
Not later than one year	94	116
Later than one year and not later than five years	112	215
Later than five years	<u>-</u>	<u>-</u>
	<u>354</u>	<u>693</u>

24. CONTINGENT LIABILITY

Friendship Care and Housing does not have any contingent liabilities at the Statement of Financial Position date.

25. GRANT AND FINANCIAL ASSISTANCE

	2017	2016
	£'000	£'000
The total accumulated SHG received or receivable at 31 March:		
Held as deferred capital grant	65,063	65,971
Revenue grant recognised as income	<u>19,834</u>	<u>19,129</u>
	<u>84,897</u>	<u>85,100</u>

26. RELATED PARTIES

Ultimate Parent Undertaking

The ultimate parent undertaking in which the results of Friendship Care & Housing Limited are consolidated is Longhurst Group Limited, a company registered in England. The consolidated accounts of Longhurst Group Limited are available to the public and are available from the registered head office, 50 Newhall Hill, Birmingham, B1 3JN.

Transactions with Regulated Group Members

Friendship Care & Housing Limited has taken advantage of the exemption conferred to it in FRS102 Section 33 to disclose transactions with other regulated members of Longhurst Group Limited.

Transactions with Non-Regulated Group Members

During 2016/2017 Friendship Care & Housing transacted with one non-regulated businesses that is a direct subsidiary of Longhurst Group Ltd. Libra (LG) Treasury PLC pays all non-Group loan costs on behalf of Friendship Care & Housing, with these costs being recharged to Friendship Care & Housing at cost only.

Other

Together with Longhurst and Havelok Homes and Spire Homes, Friendship Care & Housing is a founder member 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 a founder member Friendship Care & Housing has a place on the Board and its liabilities are limited to a £1 share. We have signed a Members' Agreement and the Articles of Association.

27. FINANCIAL INSTRUMENTS

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

	2017	2016
	£'000	£'000
(a) Financial assets that are debt instruments measured at amortised cost:		
Cash at bank and in hand	4,110	4,069
Trade debtors	432	892
Other debtors	455	499
Accrued income	211	44
(b) Financial liabilities at amortised cost:		
Loans	75,447	78,882
Finance leases	-	-
Trade creditors	191	495
Accruals	1,210	888
Other creditors	113	272
Recycled capital grant fund	-	37
Deferred capital grant fund	65,063	65,971

FRIENDSHIP CARE AND HOUSING LIMITED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 MARCH, 2016

FRIENDSHIP CARE AND HOUSING LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

Co-operative and Community Benefit Society Registration Number: 31247R

FRIENDSHIP CARE AND HOUSING LIMITED

CONTENTS

	Page No.
Board Members, Executive Officers and Principal Advisors	1
Strategic Report	2-5
Report of the Independent Auditors	6
Consolidated Statement of Comprehensive Income	7
Consolidated Statement of Changes in Reserves	8
Consolidated Statement of Financial Position	9
Consolidated Statement of Cash Flows	10
Notes to the Financial Statements	11 - 34

FRIENDSHIP CARE AND HOUSING LIMITED

BOARD MEMBERS, EXECUTIVE OFFICERS AND PRINCIPAL ADVISORS

Board Members:

Ernie Hendricks (Chair)
Bob Hide (Vice Chair) – (resigned 31.12.2015)
Surinder Guru – (resigned 31.12.2015)
Anne Hill – (resigned 15.09.2015)
Mansour Dhifallah – (resigned 31.12.2015)
Andy Lymer – (resigned 31.12.2015)
Pearl McCauley – (resigned 15.09.2015)
Val Saddington – (resigned 31.12.2015)
Deborah Walthorne – (resigned 15.09.2015)
Gillian Fellows MBE – (resigned 31.12.2015)
Karen Preece
Stephen Wenham - (appointed 01.01.2016)
Derek Doran - (appointed 01.01.2016)
Peter Oliver - (appointed 01.03.2016)
Julie Doyle – Executive Member - (appointed 01.01.2016)
Lynn Stubbs – Executive Member - (appointed 01.01.2016)

Executive Officers:

Jonathan Driffill (resigned 31.10.2015)
Mark Askey

Registered Head Office:

50 Newhall Hill
Birmingham
B1 3JN

Principle Bankers:

Lloyds Bank
3rd Floor
25 Gresham Street
London
EC2V 7HN

Auditors:

Beever and Struthers
Chartered Accountants and Statutory Auditor
St George's House
215 - 219 Chester Road
Manchester M15 4JE

Solicitors:

Trowers & Hamlin
3 Bunhill
London
EC1Y 8YZ

Registered with the Homes and Community Agency No: 4654

Introduction

The Board of Friendship Care and Housing Limited is pleased to present its report and audited financial statements for the year ended 31 March 2016. Friendship Care and Housing is part of the Longhurst Group of companies and further detail about the organisation's performance, finances and future plans and priorities can be found in the Group's audited consolidated financial statements for the 2015/16 financial year.

Friendship Care and Housing is a successful and thriving social care and housing business that manages around 4,500 affordable homes and provides care and support services to more than 800 people. We work across the Midlands to help people live fuller lives. Friendship Care and Housing is part of the Longhurst Group of companies, a leading housing provider of affordable housing, care and support services across the Midlands and surrounding areas, with almost 19,000 homes in management.

This year marks an important milestone in the history of Friendship Care and Housing as we reach our sixtieth year of operation. We are immensely proud of the huge contribution we have made to the lives of our customers and the wider community through the provision of high quality homes and care and support services. We are passionate about what we do and the social value we deliver. Equality is central to our work: recognising that all people are of equal worth; tackling discrimination and promoting diversity in all our activities.

Neighbourhood regeneration remains an important part of our work. Over the past year we have continued to work with local people to improve opportunities and facilities in their area and support them through the tough economic climate. This will remain a key priority for the year ahead as we develop a Group-wide Social Value Strategy to maximise our contribution to the health and wellbeing of our customers and local communities.

We are absolutely committed to our Care and Support Services. We realise that the key to continued success is to offer high quality and superb value for money and convincing commissioners and funders that we provide exceptional services. This is only achieved by employing exceptional people so we invest heavily in our staff. Over the past year we have secured new contracts and retained existing ones, testament to our reputation for excellence. Given the increasingly challenging care and support environment we are developing a Group-wide Care and Support Strategy to guide our work and set parameters for future growth of this business area.

Whilst the current economic climate and political uncertainty is likely to bring more change and challenges to the sector, we are well prepared. Over the past year we have been planning for future success through a Group wide governance and structures review. Our financial plans enable us to invest in existing homes, provide care and support services to increasing numbers of people and develop new affordable homes to meet housing needs. Underpinning this investment is our commitment to maintain our position as a strong, efficient landlord that goes beyond the basics – providing extra services that engage and support people and enrich communities.

Corporate Governance

Maintaining a healthy Board and committee structure is vital to both Friendship Care and Housing and the wider Longhurst Group; this ensures that we take strong decisions and manage anticipated business risks effectively. Following a comprehensive review of our governance arrangements across the Group, a new streamlined governance structure came into effect on 1st January 2016. The new structure accommodates our ambition to grow and supports greater efficiency, as well as ensuring we are fit for purpose and ready to meet the demands of the sector now and in the future.

The new governance structure incorporates a co-terminous Board, known as the Homes Board, which brings together the Boards of all three Group member companies, Friendship Care and Housing, Spire Homes and Longhurst and Havelok Homes. 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. As the Group moves forward with its ambition of creating a unified team with one vision, the co-terminous Homes Board will play a key role in championing this approach.

FRIENDSHIP CARE AND HOUSING LIMITED
STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2016

Compliance with Governance Code

Friendship Care and Housing 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*'. Friendship Care and Housing 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 with the Code, namely:

Code Provision	Reasoned Statement of Non-Compliance
<p>D2</p> <p>Maximum tenure must be agreed for all non-executives which must in total be nine 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</p>	<p>During the year some Board Members length of service exceeded 9 years' tenure; these members were retained to ensure continuity during a period of governance change for the Group and all these relevant members stood down during the year.</p>

Compliance with Governance and Financial Viability Standard

The Board has taken reasonable steps to ensure compliance with the requirements of the Governance and Financial Viability Standard. There have been no serious or material breaches of the law or the Standard as would require notification to the Homes and Communities Agency in accordance with the Governance and Regulatory Standard.

Board Membership and Remuneration

The new 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 table below identifies members from the previous L&H Homes Board, as well as the members of the new Homes Board. From 1 January 2016, remuneration of Homes Board members was for the role of Board members of L&H Homes, Spire Homes and Friendship Care and Housing, the remuneration shown is the total paid to each member.

Board Member	Appointed Date	Resignation Date	Remuneration
Ernest Hendricks (Homes Board Chair)	-	-	£11,078
Karen Preece	-	-	£4,294
Derek Doran	1 January 2016	-	£1,750
Peter Oliver	1 March 2016	-	£583
Stephen Wenham	1 January 2016	-	£1,750
Julie Doyle	1 January 2016	-	Executive Officer
Lynn Stubbs	1 January 2016	-	Executive Officer
Deborah Walthorne	-	30 September 2015	£2,545
Pearl McCauley	-	30 September 2015	£1,696
Anne Hill	-	30 September 2015	£1,696
Bob Hide	-	31 December 2015	£3,817
Surinder Guru	-	31 December 2015	£2,545
Mansour Dhifallah	-	31 December 2015	£2,545
Andy Lymer	-	31 December 2015	£2,545
Gillian Fellows MBE	-	31 December 2015	£3,817
Val Saddington	-	31 December 2015	£2,545

Statement of the Board's Responsibilities in Respect of the Financial Statements

The Board is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of its income and expenditure for that period. In preparing these financial statements the Board is required to;

1. Select suitable accounting policies and then apply them consistently.
2. Make judgements and estimates that are reasonable and prudent.
3. State whether applicable accounting standards have been followed.
4. Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Association 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 Association and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. In determining how amounts are presented within items in the Statement of Comprehensive Income and the Statement of Financial Position, the Board has regard to the substance of the reported transaction or arrangement, in accordance with the generally accepted accounting principles or practice. The Board is also responsible for safeguarding the assets of the Association and hence taking reasonable steps for the prevention and detection of fraud and other irregularities, by establishing and maintaining a satisfactory system of control over the Association'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 auditors are unaware. The Directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any audit information and the establish that the Association's auditors are aware of that information.

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 Board's responsibility to establish and maintain appropriate systems of internal control for Friendship Care and Housing. The Group Board has overall responsibility for ensuring that the appropriate level of internal control is in place across 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 & Risk Committee.

The Friendship Care and Housing Board, Group Board and the Audit & 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 appointed as Internal Auditors at the beginning of the 2012/13 financial year. The focus of internal audit work in 2015/16 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 rules relating to the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of the Company's assets.
- ii) The 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

Statement on Internal Controls (continued)

Governance Policy of the Company. The Audit Committee has reviewed the fraud register on a quarterly basis during 2015/16. There were no matters which were required to be reported to the HCA.

- iii) The 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.
- v) The Group Board has approved a Group-wide contingency plan. The contingency plan was developed in recognition of the changing nature of the risks faced by our business and the sector as a whole. The contingency plan supplements the work undertaken on risk management and incorporates additional stress testing on the Business 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 others.
- vii) The Audit 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) The establishment of a group-wide Asset & Liability register.
- ix) A Group-wide Finance & Treasury Committee which meets four times a year focussing 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 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. In reviewing the Association's compliance with all relevant laws and regulations, the Directors have identified a minor breach with respect to the procurement of services covered by EU procurement rules. Controls have been reviewed and strengthened to ensure compliance in the future.

Strategic Report

The Association 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 Operating Financial Review the information required by schedule 7 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.

The financial statements were approved and authorised for issue by the Board on 19 July 2016 and signed on its behalf by:

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**Jonathan Driffill
Company Secretary
19 July 2016**

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF FRIENDSHIP CARE AND HOUSING LIMITED

We have audited the financial statements of Friendship Care and Housing Limited for the year ended 31 March 2016 on pages 7 to 34. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). This report is made solely to the Association's members, as a body, in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Board and the Auditor

As explained more fully in the Statement of Board's Responsibilities set out on page 3, the Board is responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Association's affairs as at 31 March 2016 and of the Group's surplus/deficit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

In our opinion the information given in the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements;

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 require 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; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Beever and Struthers
Chartered Accountants and Statutory Auditor
St George's House, 215-219 Chester Road
Manchester, M15 4JE

Date: 19 July 2016

FRIENDSHIP CARE AND HOUSING LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
STATEMENT OF COMPREHENSIVE INCOME

	Notes	31 March 2016 £'000	Restated 31 March 2015 £'000
Turnover	2	28,028	27,847
Cost of Sales	2	-	(392)
Operating expenditure	2	(22,053)	(20,788)
Operating surplus		5,975	6,667
Gain on disposal of property, plant and equipment (fixed assets)	6	28	124
Interest receivable		16	3
Interest and financing costs	7	(4,058)	(4,060)
Surplus for the year	8	1,961	2,734
Actuarial gain/(loss) in respect of pension schemes		104	(254)
Total comprehensive income for the year		2,065	2,480

The financial statements on pages 7 to 34 were approved and authorised for issue by the Board on 19 July 2016 and were signed on its behalf by:

Board Member:

Board Member:

Secretary:

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FRIENDSHIP CARE AND HOUSING LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
STATEMENT OF FINANCIAL POSITION

	Notes	Year Ended 31 March 2016 £000	Restated Year Ended 31 March 2015 £000
Fixed assets			
Tangible fixed assets	13	<u>184,974</u>	<u>184,394</u>
Current assets			
Trade and other debtors	14	2,461	2,171
Cash and cash equivalents	15	<u>4,069</u>	<u>3,848</u>
		<u>6,530</u>	<u>6,019</u>
Less: Creditors: amounts falling due within one year	16	(7,019)	(5,728)
Net Current Assets/(Liabilities)		<u>(498)</u>	<u>291</u>
Total Assets less current liabilities		184,485	184,685
Creditors: amounts falling due after more than one year	17	(146,444)	(148,573)
Provisions for liabilities			
Pension provision	12	<u>(1,243)</u>	<u>(1,379)</u>
Total net assets		<u>36,798</u>	<u>34,733</u>
Reserves			
Non-equity share capital	21	-	-
Income and expenditure reserve		35,798	33,733
Restricted reserve		1,000	1,000
Total reserves		<u>36,798</u>	<u>34,733</u>

The financial statements on pages 7 to 34 were approved and authorised for issue by the Board on 19 July 2016 and were signed on its behalf by:

Board Member:

Board Member:

Secretary:

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The notes on pages 11 to 34 form an integral part of these accounts.

FRIENDSHIP CARE AND HOUSING LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
STATEMENT OF CHANGES IN RESERVES

	Income and Expenditure Reserve £'000	Restricted Reserve £'000	Total £,000
Balance at 1 April 2014	23,021	1,000	24,021
Prior Year Adjustment (Note 27)	8,232	-	8,232
Balance at 1 April 2014	<u>31,253</u>	<u>1,000</u>	<u>32,253</u>
Surplus as stated at 31 March 2015	2,096	-	2,096
Prior Year Adjustment (Note 27)	384	-	384
Restated Surplus from Statement of Comprehensive Income	<u>2,480</u>	<u>1,000</u>	<u>3,480</u>
Balance at 31 March 2015	33,733	-	33,733
Surplus from Statement of Comprehensive Income	2,065	-	2,065
Balance at 31 March 2016	<u><u>35,798</u></u>	<u><u>1,000</u></u>	<u><u>36,798</u></u>

The notes on pages 11 to 34 form an integral part of these accounts.

FRIENDSHIP CARE AND HOUSING LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
STATEMENT OF CASH FLOWS

	Year ended 31 March 2016 £'000	Restated Year ended 31 March 2015 £'000
Net cash generated from operating activities (see Note i)	8,126	10,008
Cash flow from investing activities		
Purchase of tangible fixed assets	(4,467)	(5,462)
Proceeds from sale of tangible fixed assets	590	657
Interest received	15	20
	<u>(3,862)</u>	<u>(4,785)</u>
Cash flow from financing activities		
Interest paid	(3,874)	(3,883)
Issue of ordinary shares	-	-
New secured loans	-	2,000
Repayment of borrowings	(169)	(183)
Capital element of finance lease rental payments	-	-
Withdrawal from deposits	-	-
	<u>(4,043)</u>	<u>(2,066)</u>
Net change in cash and cash equivalents	221	3,157
Cash and cash equivalents at beginning of the year	3,848	691
Cash and cash equivalents at end of the year	4,069	3,848
Note i	Year ended	Year ended
	31 March	31 March
	2016	2015
	£'000	£'000
Cash flow from operating activities		
Surplus/(deficit)for the year	1,961	2,734
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	3,064	2,904
Amortisation of intangible assets	(708)	(708)
Decrease in stock	-	349
Increase in trade and other debtors	(299)	643
Decrease in trade and other creditors	(1,076)	350
Pension costs less contributions payable	1,170	(197)
Adjustments for investing or financing activities:		
Proceeds from the sale of tangible fixed assets	(28)	(124)
Interest payable	4,058	4,060
Interest received	(16)	(3)
	<u>8,126</u>	<u>10,008</u>
Net cash generated from operating activities	8,126	10,008

The notes on pages 11 to 34 form an integral part of these accounts.

LEGAL STATUS

Friendship Care and Housing Limited is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Homes and Communities Agency as a Private Registered Provider of Social Housing. The registered office is **50 Newhall Hill, Birmingham, B1 3JN**.

1. PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The 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. Friendship Care and Housing Limited is a Public Benefit entity and has applied the Public Benefit entity section of FRS 102.

The financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The accounts are prepared on the historical cost basis of accounting and are presented in sterling £.

The financial statements have been prepared in compliance with FRS102 as it applies for the first time to the financial statements for the year ended 31 March 2016.

The Association transitioned from previous UK GAAP to FRS102 as at 1 April 2014. An explanation of how the transition to FRS102 has affected the reported financial position and performance, as well as the exemptions taken on transition, is given in note 27.

Going concern

The financial statements have been prepared on a going concern basis which assumes an ability to continue operating for the foreseeable future. Government's announcements in July 2015 impacting on the future income of the association have led to a reassessment of the business plan as well as an assessment of imminent or likely future breach in borrowing covenants. No significant concerns have been noted and we consider it appropriate to continue to prepare the financial statements on a going concern basis.

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 association capitalises development expenditure in accordance with the accounting policy described on page 14. 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 Association has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the association has considered if the asset is held for social benefit or to earn commercial rentals.
- **Impairment.** The association has identified a cash generating for impairment assessment purposes at a property scheme level.

1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

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.
- **Pension and other post-employment benefits.** The cost of defined benefit pension plans and other post-employment benefits are 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 29.
- **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 the government announced a change in rent policy which resulted in a material impact on the net income expected to be collected in the future for housing properties and the association have assessed that this represents a trigger for impairment review.

Following a trigger for impairment, the association perform impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from sales transactions in an arm's length transaction on similar cash generating units (properties) or observable market prices less incremental costs for disposing of the properties. The value in use calculation is based on either a depreciated replacement cost or a discounted cash flow model. The depreciated replacement cost is based on available data of the cost of constructing or acquiring replacement properties to provide the same level of service potential to the Association as the existing property. The cash flows are derived from the business plan for the next 30 years and do not include restructuring activities that the association is not yet permitted to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Following the assessment of impairment, no impairment losses 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.

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 2. 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 3 and matched against the relevant costs.

Service charges

Service charge income and costs are recognised on an accruals basis. The association 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 long term 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.

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

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Tangible fixed assets and depreciation

Housing properties

Tangible fixed assets are stated at cost, less accumulated depreciation. Donated land/assets or assets acquired at below market value from a government source, i.e. local authority, are included as a liability in the Statement of Financial Position at the fair value less consideration paid. Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion of construction. For shared ownership properties, the properties are classified as complete once the final property within a scheme has been sold. 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 association depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories. UELs for identified components are as follows:

	Years
• Structure	120
• Roof	60
• Heating	15
• Windows	30
• Electricals	30
• Bathroom	30
• Kitchen	20
• Lifts	15
• Doors	30

The association depreciates housing properties held on long 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 of Cost
• Freehold Offices	1%
• Furniture & Office Equipment	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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Property managed by agents

Where the association 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 Account.

Where the agency carries the majority of the financial risk, income includes only that which relates solely to the association.

In both cases, the assets and associated liabilities are included in the Statement of Financial Position.

Leasing

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

Current asset investments

Current asset investments include cash and cash equivalents recognised at cost.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one 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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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 received for items of cost written off in the Statement of Comprehensive Income Account is included as part of Turnover.

When Social Housing Grant (SHG) in respect of housing properties in the course of construction exceeds the total cost to date of those housing properties, the excess is shown as a current liability.

SHG must be recycled by the association 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 and Greater London Authority. 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 one 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 association has a participating interest.

Contributions payable under an agreement with SHPS to fund past deficits are recognised as a liability in the financial statements calculated by the repayments known, discounted to the net present value at the year ended using a market rate discount factor of 3.02% at 31 March 2014, 1.92% at 31 March 2015 and 2.06% at 31 March 2016. The unwinding of the discount is recognised as a finance cost in the Statements of Comprehensive Income in the period incurred.

2. TURNOVER, COST OF SALES, OPERATING EXPENDITURE AND OPERATING SURPLUS

	Turnover	2016		Operating Surplus/ (deficit) £'000
		Cost of sales	Operating expenditure	
	£'000	£'000	£'000	£'000
SOCIAL HOUSING LETTINGS (Note 3)	25,241	-	19,151	6,090
OTHER SOCIAL HOUSING ACTIVITIES				
First tranche low cost home ownership sales	-	-	-	-
Supporting people contract income	1,508	-	1,505	3
Development services	29	-	75	(46)
Managed operations	95	-	139	(44)
ACTIVITIES OTHER THAN SOCIAL HOUSING				
Community Based Activities	1,137	-	1,156	(19)
Other	18	-	27	(9)
TOTAL	28,028	-	22,053	5,975
Restated Year Ended <u>2015</u>				
	Turnover	Cost of sales	Operating expenditure	Operating Surplus/ (deficit) £'000
	£'000	£'000	£'000	£'000
SOCIAL HOUSING LETTINGS (Note 3)	24,538	-	17,845	6,693
OTHER SOCIAL HOUSING ACTIVITIES				
First tranche low cost home ownership sales	438	392	-	46
Supporting people contract income	1,497	-	1,668	(171)
Development services	-	-	-	-
Managed operations	114	-	61	53
ACTIVITIES OTHER THAN SOCIAL HOUSING				
Community Based Activities	1,260	-	1,214	46
Other	-	-	-	-
TOTAL	27,847	392	20,788	6,667

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

3. TURNOVER AND OPERATING EXPENDITURE

	General Housing	Supported Housing and Housing for Older People	Low cost Home Ownership	Care	Total 2016	Restated Total 2015
	£'000	£'000	£'000	£'000	£'000	£'000
INCOME						
Rent receivable net of identifiable service charge	19,224	560	321	171	20,276	19,416
Service charge income	622	480	39	449	1,590	1,372
Amortised government grants	634	26	21	27	708	709
Other grants	-	-	-	2,658	2,658	2,738
Other income from Social Housing Lettings	-	-	-	9	9	303
TURNOVER FROM SOCIAL HOUSING LETTINGS	20,480	1,066	381	3,314	25,241	24,538
OPERATING EXPENDITURE						
Management	4,487	352	136	843	5,818	6,312
Service charge costs	1,141	441	2	2,733	4,317	4,042
Routine maintenance	3,468	15	-	17	3,500	3,121
Planned maintenance	1,600	55	-	78	1,733	1,399
Major repairs expenditure	645	22	-	16	683	182
Bad debts	95	33	-	32	160	7
Depreciation of Housing Properties	2,557	52	51	77	2,737	2,692
Lease amortisation	150	-	-	-	150	53
Property lease costs	53	-	-	-	53	37
Operating expenditure on Social Housing Lettings	14,196	970	189	3,796	19,151	17,845
OPERATING SURPLUS / (DEFICIT) ON SOCIAL HOUSING LETTINGS	6,284	96	192	(482)	6,090	6,693
Void Losses	96	34	-	150	280	273

4. ACCOMODATION OWNED, MANAGED AND IN DEVELOPMENT

	2016		2015	
	No. of properties Owned	Managed	No. of properties Owned	Managed
Social Housing				
Under development at end of year:				
General needs housing social rent	13	-	-	-
Under management at end of year:				
General needs housing	4,066	18	4,030	24
Supported housing and housing for older people	130	-	130	-
Low-cost home ownership	147	-	152	-
Leasehold Properties	137	-	137	-
Residential Care Homes	42	-	42	-
Total	4,535	18	4,491	24

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

5. ACCOMMODATION MANAGED BY OTHERS

Friendship Care and Housing owns property managed by other bodies.

	2016 No. of properties	2015 No. of properties
General Needs	41	41
	<u>41</u>	<u>41</u>

6. GAIN ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT (FIXED ASSETS)

	RTB & Voluntary Sales	Shared Ownership Staircasing sales	Total 2016	Restated Total 2015
	£'000	£'000	£'000	£'000
Proceeds of sales	420	170	590	657
Less: Costs of sales	<u>(521)</u>	<u>(41)</u>	<u>(562)</u>	<u>(533)</u>
Surplus	<u>(101)</u>	<u>129</u>	<u>28</u>	<u>124</u>
Capital grant recycled (Note 20)	31	6	37	43
Disposal proceeds fund (Note 21)	<u>-</u>	<u>-</u>	<u>-</u>	<u>109</u>
	<u><u>31</u></u>	<u><u>6</u></u>	<u><u>37</u></u>	<u><u>152</u></u>

7. INTEREST AND FINANCING COSTS

	2016 £'000	Restated 2015 £'000
Deferred benefit pension charge	109	146
On loans repayable within five years	654	510
On loans wholly or partly repayable in more than five years	3,225	3,363
Costs associated with financing	<u>70</u>	<u>41</u>
Less: Interest capitalised on housing properties under construction	<u>-</u>	<u>-</u>
	<u><u>4,058</u></u>	<u><u>4,060</u></u>

No interest was capitalised during 2015/2016 or 2014/2015.

8. SURPLUS ON ORDINARY ACTIVITIES

	2016	Restated
	£'000	2015
		£'000
The operating surplus is stated after charging/(crediting):-		
Auditors remuneration (excluding VAT):		
Audit of the financial statements	15	13
Operating lease rentals:		
– Vehicles	154	153
– Land and buildings	55	53
– Office equipment	10	-
Depreciation of housing properties	2,887	2,745
Depreciation of other fixed assets	177	211
Surplus on sale of other fixed assets	(28)	(124)

9. TAX ON SURPLUS ON ORDINARY ACTIVITIES

The Association is registered as a Charitable Co-operative and Community Benefit Society and as such is exempt from UK Corporation Tax.

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

10. DIRECTORS' REMUNERATION

	2016 £'000	2015 £'000
The aggregate emoluments paid to or receivable by non executive Directors and former non-executive Directors	34	49
	_____	_____
The aggregate emoluments paid to or receivable by executive Directors and former executive Directors	144	201
	_____	_____
The emoluments paid to the highest paid Director excluding pension contributions	75	116
	_____	_____
The aggregate amount of Directors or past Directors' pensions, excluding amounts payable under a properly funded pension scheme	5	9
	_____	_____
	-	-
The aggregate amount of any consideration payable to Directors for loss of office.	_____	_____

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

11. EMPLOYEE INFORMATION

	2016	2015
	No.	No.
The average number of persons employed during the year expressed in full time equivalents (37.5 hours per week) was:		
Office staff	79	80
Care Scheme staff, wardens, caretakers and cleaners	194	178
	<u>273</u>	<u>258</u>
Staff costs (for the above persons)	£'000	£'000
Wages and salaries	6,583	6,965
Social Security costs	440	453
Pension	<u>1,911</u>	<u>571</u>
	<u>8,934</u>	<u>7,989</u>
Aggregate number of full time equivalent staff whose remuneration exceeded £60,000 in the period:	<u>No of Staff</u>	<u>No of Staff</u>
£60,000 - £70,000	2	1
£70,000 - £80,000	1	1
£100,000 - £110,000	-	1
£140,000 - £150,000	-	1

12. PENSION OBLIGATIONS

Friendship Care and Housing Limited participates three schemes, the Social Housing Pension Scheme (SHPS), the Pensions Trust Growth Plan (PTGP) and the West Midlands Pension Fund, a Local Government Pension Scheme (LGPS).

Social Housing Pension Scheme and Pensions Trust Growth Plan

Friendship Care and Housing 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. Friendship Care and Housing has elected to operate a final salary with a 1/60 accrual rate and the career average re-valued 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 re-valued earnings structure is the only option available. During the year under review, Friendship Care and Housing paid contributions at the rate of 7.35% for the final salary scheme and 8.05% for the career average scheme, plus a monthly lump sum to fund past deficit amounts. Contributions by members varied between 8.45% and 12.45% depending on their age and which scheme they are in. At the balance sheet date there were 81 (2015: 106) active members of the scheme employed by Friendship Care and Housing 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.

12. PENSION OBLIGATIONS

The Trustee commissions an actuarial valuation of the scheme every three years. The main purpose of the valuation is to determine the financial position of the scheme in order to determine the 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 £3,123m, liabilities were £4,446m, revealing a shortfall of assets compared with the value of liabilities of £1,323m.

Following a change in legislation in September 2005, 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 Friendship Care and Housing as at 30 September 2015 has been calculated as £29,749,922.

Social Housing Pension Scheme and Pensions Trust Growth Plan

Friendship Care and Housing participates in the Pension Trust's multi-employer 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. Friendship Care and Housing paid contributions at the rate of 0% during the accounting period. Members paid contributions at varying rates during the accounting period. As at the balance sheet date, there was one active member of the plan employed by Friendship Care and Housing. Friendship Care and Housing continues to offer membership of the plan to its employees.

The estimated amount of employer debt on withdrawal liability for Friendship Care and Housing as at 30 September 2015 has been calculated as £71,752.

SHPS deficit payment agreement

The association has a contractual obligation under an agreement to pay additional deficit payments to SHPS of £152,320 per annum for 10 years to 2026/2027.

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.

	2016	2015
	£	£
At start of the year	3,620	3,711
Additional liabilities in the year	1,637	180
Interest for the year	66	106
Released to expenditure in the year	(392)	(377)
	4,931	3,620

During the year ended 31 March 2016 the association received notification of changes to the additional deficit payment to SHPS, this resulted in an additional liability of £1,637k at 31 March 2016.

12. PENSION OBLIGATIONS (continued)

Local Government Pension Scheme

The West Midlands Pension Fund, a Local Government Pension Scheme is a funded defined-benefit scheme, with the assets held in separate funds administered by West Midlands Local Authority. The total contributions made for the year ended 31 March 2016 were £93k (2015: £190k), of which employer's contributions totalled £90k (2015: £181k) and employees' contributions totalled £3k (2015: £9k). The agreed contribution rates for future years are 19.4% for employers.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2015 updated to 31 March 2016 by a qualified independent actuary.

	At 31 March 2016	At 31 March 2015
Rate of increase in salaries	3.75%	3.75%
Rate of increase for pensions in payment / inflation	2.00%	2.00%
Discount rate for scheme liabilities	3.50%	3.20%
Inflation assumption (CPI)	2.00%	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 2016	At 31 March 2015
	years	years
<i>Retiring today</i>		
Males	23.0	23.0
Females	25.7	25.6
<i>Retiring in 20 years</i>		
Males	25.3	25.2
Females	28.0	28.0

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

	At 31 March 2016	At 31 March
	£'000	2015
Contributions by employer including unfunded	90	181
Total operating charge	90	181

Analysis of pension finance income / (costs)

Interest on assets	92	115
Interest costs	(135)	(160)
Amounts charged/credited to financing costs	(43)	(45)

Amount of gains and losses recognised in the Statement of Comprehensive Income

Actuarial gains/(losses) on pension scheme assets	(102)	285
Actuarial gains/(losses) on scheme liabilities	206	(538)
Actuarial gain/(loss) recognised	104	(253)

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

12. PENSION OBLIGATIONS (continued)

Local Government Pension Scheme (continued)

Movement in surplus/(deficit) during year	At 31 March 2016	At 31 March 2015
	£'000	£'000
Surplus/(deficit) in scheme at 1 April	(1,379)	(1,141)
Movement in year:		
Employer service cost (net of employee contributions)	(15)	30
Employer contributions	90	(181)
Past service cost	-	-
Net interest/return on assets	(43)	45
Re-measurements	104	253
Curtailments and settlements	-	91
(Deficit)/Surplus in scheme at 31 March	<u>(1,243)</u>	<u>(1,379)</u>
Asset and Liability Reconciliation	At 31 March 2016	At 31 March 2015
	£'000	£'000
Reconciliation of liabilities		
Opening defined benefit obligation	4,305	3,829
Current service cost	14	30
Interest Cost	135	160
Contributions by Scheme participants	3	9
Change in financial assumptions	(206)	538
Estimated benefits paid net of transfers in	(179)	(352)
Past Service cost	-	-
Past service costs, including curtailments	-	91
Closed defined benefit obligation	<u>4,072</u>	<u>4,305</u>
Reconciliation of assets		
Opening fair value of Fund Assets	2,926	2,688
Interest on assets	92	115
Return on assets less interest	(102)	285
Administration expenses	(1)	-
Contributions by employer including unfunded	90	181
Contributions by Fund participants	3	9
Estimated benefits paid plus unfunded net of transfers in	(179)	(352)
Closing fair value of Fund assets	<u>2,829</u>	<u>2,926</u>

The total return on the fund assets for the year to 31 March 2016 is (£10k): (2015: (£400k))

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

13. TANGIBLE FIXED ASSETS

	Other Fixed Assets						
	Social Housing Properties For Letting Completed	Social Housing Properties for letting Under Construction	Low cost home ownership Properties Completed	Total Housing properties	Freehold offices	Furniture and Office Equipment	Restated Total Tangible Fixed assets
COST	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At start of the year	196,764	142	7,135	204,041	1,798	2,868	208,707
Additions to properties	77	1,033	2	1,112	-	167	1,279
Works to existing properties	2,978			2,978			2,978
Components Replaced	(461)	-	-	(461)	-	-	(461)
Disposals	(1,031)	-	(27)	(1,058)	-	(1,982)	(3,040)
At end of the year	<u>198,327</u>	<u>1,175</u>	<u>7,110</u>	<u>206,612</u>	<u>1,798</u>	<u>1,053</u>	<u>209,463</u>
DEPRECIATION AND IMPAIRMENT							
At start of the year	21,039	-	422	21,461	420	2,432	24,313
Charge for the year	2,348	-	46	2,394	12	165	2,571
Components Replaced	(176)	-	-	(176)	-	-	(176)
Disposals	(235)	-	(2)	(237)	-	(1,982)	(2,219)
At end of the year	<u>22,976</u>	<u>-</u>	<u>466</u>	<u>23,442</u>	<u>432</u>	<u>615</u>	<u>24,489</u>
NET BOOK VALUE AT END OF THE YEAR	<u>175,351</u>	<u>1,175</u>	<u>6,644</u>	<u>183,170</u>	<u>1,366</u>	<u>438</u>	<u>184,974</u>
Housing Properties comprise:						2016	2015
Freeholds						£'000	£'000
Long leaseholds						183,170	182,447
						-	133
						<u>183,710</u>	<u>182,580</u>
Works to existing properties in the year:						2016	2015
Components capitalised						£'000	£'000
Amounts charged to expenditure						2,978	2,621
						683	182

14. TRADE AND OTHER DEBTORS

	2016	2015
	£'000	£'000
Rent arrears	1,369	1,186
Less: provision for bad debts	(477)	(464)
Other debtors	499	393
Prepayment and accrued income	485	471
Intercompany Debtors	18	9
Total	<u>1,894</u>	<u>1,595</u>

Amounts falling due after one year

Intercompany debtors	567	576
Total Debtors	<u>2,461</u>	<u>2,171</u>

15. CASH AND CASH EQUIVALENTS

	2016	2015
	£'000	£'000
Cash and cash equivalents	<u>4,069</u>	<u>3,848</u>
	4,069	3,848

In the above are totalling £419k (2015: £419k) which are held in trust for leaseholders

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	Restated 2015
	£'000	£'000
Loans (Note 17)	2,182	169
Funders Interest	625	620
Trade creditors	495	199
Amounts owed to group undertakings	51	85
Rents and service charges paid in advance	588	668
Service charge balances held on behalf of leaseholders	405	423
Other taxation and social security payable	209	216
Accruals and deferred income	888	1,873
SHPS pension agreement plan (Note 12)	560	392
Deferred Capital Grant (Note 18)	707	707
Recycled Capital Grant Fund (Note 19)	37	151
Other creditors	272	225
	<u>7,019</u>	<u>5,728</u>

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

17(a). CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2016	2015
	£'000	£'000
Loans (Note 17b)	76,700	78,862
Deferred Capital Grant (Note 18)	65,264	66,286
Recycled capital grant fund (Note 19)	-	88
SHPS pension agreement plan (Note 12)	4,370	3,228
Disposal proceeds fund (Note 20)	110	109
	<u>146,444</u>	<u>148,573</u>

17(b). DEBT ANALYSIS

	2016	2015
	£'000	£'000
Loans repayable by instalments:		
Within one year	182	169
In one year or more but less than two years	2,138	182
In two years or more and less than five years	9,085	8,134
In five years or more	58,508	61,597
Loans not repayable by instalments:		
Within one year	2,000	-
In one year or more but less than two years	-	2,000
In two years or more and less than five years	-	-
In five years or more	7,500	7,500
Less: loan issue costs	<u>(531)</u>	<u>(551)</u>
Total loans	<u>78,882</u>	<u>79,031</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 of interest at 31 March 2016 was 4.882% (2015: 4.862%).

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

18. DEFERRED CAPITAL GRANT

	2016	2015
	£'000	£'000
At start of the year	66,993	67,119
Grant received in the year	-	1,310
Grant disposed in the year	(343)	(762)
Amortised in the year	(708)	(708)
Amortised Written Back	29	34
Released to income in the year		
At the end of the year	<u>65,971</u>	<u>66,993</u>
	£'000	£'000
Amount due to be released < 1 year	707	707
Amount due to be released > 1 year	<u>65,264</u>	<u>66,286</u>
	<u>65,971</u>	<u>66,993</u>

19. RECYCLED CAPITAL GRANT FUND

	2016	2015
	£'000	£'000
At the start of the year	239	1,636
Inputs:		
Grants recycled	37	43
Interest accrued	-	2
Recycling:		
New build	-	(340)
Major repairs	(239)	(1,102)
At the end of the year	<u>37</u>	<u>239</u>
	-	-
Amount three years or older where repayment may be required		
This is grant from the HCA.		

20. DISPOSAL PROCEEDS FUND

	2016	2015
	£'000	£'000
At start of year:		
Funds recycled	109	34
Net PRTB receipts	-	109
Interest accrued	1	-
Use of funds:		
Major repairs and works to existing stock	<u>-</u>	<u>(34)</u>
At end of year	<u>110</u>	<u>109</u>
Amounts three years old or older where repayment may be required.	<u>-</u>	<u>-</u>

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

21. NON-EQUITY SHARE CAPITAL	2016	2015
	£'000	£'000
Allotted Issued and Fully Paid		
At the start of the year	74	74
Issued during the year	-	-
At the end of the year	<u>74</u>	<u>74</u>

The par value of each share is £1. The shares do not have a right to any dividend or distribution in a winding-up, and are not redeemable. Each share has full voting rights. All shares are fully paid.

22. CAPITAL COMMITMENTS

	2016	2015
	£'000	£'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	656	-
Capital expenditure that has been authorised by the Board but has not yet been contracted for	-	-
	<u>656</u>	<u>-</u>
These commitments to be financed with:		
Committed loan facilities	656	
	<u>656</u>	<u>-</u>

The above figures include the full cost of shared ownership properties contracted for.

23. OPERATING LEASES

Friendship Care and Housing holds properties and office equipment under non-cancellable operating leases. At the end of the year Friendship Care and Housing commitments of future minimum lease payments as follows:

	2016	Restated
	£'000	2015
		£'000
Land and buildings:		
Within one year	138	168
In two to five years	224	360
Over five years	-	
Others:		
Within one year	116	117
In two to five years	215	180
Over five years	-	-
	<u>693</u>	<u>825</u>

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

23. OPERATING LEASES

Friendship Care and Housing holds properties and office equipment under non-cancellable operating leases. At the end of the year Friendship Care and Housing commitments of future minimum lease payments as follows:

	2016	Restated
	£'000	2015
		£'000
Land and buildings:		
Within one year	138	168
In two to five years	224	360
Over five years	-	
Others:		
Within one year	116	117
In two to five years	215	180
Over five years	-	-
	693	825
	<u> </u>	<u> </u>

24. CONTINGENT LIABILITY

Friendship Care and Housing does not have any contingent liability as the balance sheet date.

25. GRANT AND FINANCIAL ASSISTANCE

	2016	2015
	£'000	£'000
The total accumulated SHG received or receivable at 31 March:		
Held as deferred capital grant	65,971	66,993
Revenue grant recognised as income	19,129	18,421
	85,100	85,414

26. RELATED PARTIES

Ultimate Parent Undertaking

The ultimate parent undertaking in which the results of Friendship Care & Housing Limited are consolidated is Longhurst Group Limited, a company registered in England. The consolidated accounts of Longhurst Group Limited are available to the public and are available from the registered head office, 50 Newhall Hill, Birmingham, B1 3JN.

Tenant Board Members

Friendship Care & Housing had transactions with four tenant board members during the year, these being Pearl McCauley, Val Saddington, Mansour Dhifallah and Gillian Fellows. Tenant board members hold tenancy agreements on normal terms. The combined transactions of all members are shown in the table below. All rent and service charges were charged in line with standard policies, as was the reimbursement of expenses. All tenant board members held their position for all of the financial year ended 31 March 2015 and all members resigned on 31 December 2015, as part of the group wide governance review, with the exception of Pearl McCauley who resigned on 30 September 2015.

Year Ended 31.03.2015

Rent charged	£18,634
Service costs charged	£455
Expenses reclaimed	£398
Period end account balance	£337 in credit

Transactions with Regulated Group Members

Friendship Care & Housing Limited has taken advantage of the exemption conferred to it in FRS102 Related Party Disclosures, not to disclose transactions with other regulated members of Longhurst Group Limited.

Transactions with Non-Regulated Group Members

During 2015/2016 Friendship Care & Housing transacted with one non-regulated businesses that is a direct subsidiary of Longhurst Group Ltd. Libra (LG) Treasury PLC pays all non-Group loan costs on behalf of Friendship Care & Housing, with these costs being recharged to Friendship Care & Housing at cost only.

Other

Together with Longhurst and Havelok Homes and Spire Homes, Friendship Care & Housing is a founder member 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 a founder member Friendship Care & Housing have a place on the Board and our liabilities are limited to a £1 share. We have signed a Members' Agreement and the Articles of Association.

FRIENDSHIP CARE AND HOUSING LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

27. FIRST TIME ADOPTION OF FRS 102

On adoption of FRS 102 the Association has restated the comparatives, the impact on reserves is as follows:

	Note	Reserves as at transition date 1 April 2014 £'000	Surplus Year ended 31 March 2015 £'000	Reserves as at 31 March 2015 £'000
As previously stated under former UK GAAP		24,021	2,096	26,117
Transitional adjustments				
Increase in depreciation of housing properties	a	(5,769)	(381)	(6,150)
Increase in amortisation of grants relating to housing properties	b	17,712	674	18,386
Inclusion of SHPS pension deficit payment liability	c	(3,711)	-	(3,711)
Change to measurement of net finance cost on defined benefit pension schemes	d	-	(106)	(106)
Pension deficit adjustments	e	-	197	197
		<u>32,253</u>	<u>2,480</u>	<u>34,733</u>
As stated in accordance with FRS 102		<u>32,253</u>	<u>2,480</u>	<u>34,733</u>

Explanation of changes to previously reported profit and equity:

- FRS102 requires that capital grant previously deducted from the cost of fixed assets, is treated as creditors where the fixed assets are carried at cost. The effect compared to current UK GAAP is an increase to the carrying cost of housing properties resulting in an increase in the depreciation at transition of £5,769k and a decrease in the surplus for the year ended 31 March 2015 of £381k.
- FRS102 requires that government capital grant previously deducted from the carrying cost of housing properties is treated as a deferred capital grant creditor and released to the statement of comprehensive income over the useful life of the associated assets. The effect compared to current UK GAAP is an increase in income recognised on transition of £17,712k, and £674k increase in surplus for the year ended 31 March 2015.
- FRS102 requires that a liability is recognised for the contributions that arise from an agreement to fund a deficit in a multi-employer pension scheme. The effect is that a liability for the SHPS payment plan has been recognised at the present value of the contributions payable using the discount rate specified in note 12. This has resulted in a decrease in reserves of £3,711k at transition.
- FRS102 requires the recognition in profit or loss of a net interest cost (or income) on defined benefit pension schemes. This is calculated by multiplying the net pension liability (or asset) by the market yields on high quality corporate bonds. The effect of this, when compared to previous UK GAAP, has been to reduce reported profits for the year ended 31 December 2015 by £106k.
- FRS102 requires that pension deficit contributions are offset against the pension deficit liability and the contributions removed from the Statement of Comprehensive Income, the result of this is to increase the surplus for the year ended 31 March 2015 by £197k.
- No holiday pay accrual was made as part of the restatement of the 2015 figures as this was not material. A holiday pay accrual, in line with the accounting policies has been made for 2016.

Part 3

LONGHURST & HAVELOK HOMES LIMITED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 MARCH, 2017

LONGHURST AND HAVELOK HOMES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

CO-OPERATIVE AND COMMUNITY BENEFIT SOCIETY NO. 30779R

CONTENTS

	Page No.
Board Members, Executive Officers and Principal Advisors	1
Strategic Report	2-5
Report of the Independent Auditors	6
Statement of Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Reserves	9
Statement of Cash Flows	10
Notes to the Financial Statements	11 - 29

LONGHURST AND HAVELOK HOMES LTD

BOARD MEMBERS, EXECUTIVE OFFICERS AND PRINCIPAL ADVISORS

Board Members:

Ernie Hendricks (Chair – Resigned 01/11/2016)
Stephen Wenham (Chair – Appointed Chair 01/11/2016)
Karen Preece
Derek Doran (Resigned 16/02/2017)
Peter Oliver
Julie Doyle – Executive Member
Lynn Stubbs – Executive Member

Executive Officers:

Julie Doyle
Rob Griffiths
Ian Jackson
Lynn Stubbs
Sharon Guest
Jonathan Driffill

Registered Head Office:

Leverett House
Gilbert Drive
Endeavour Park
Boston
Lincolnshire
PE21 7TQ

Principal Bankers:

Lloyds Bank
3rd Floor
25 Gresham Street
London
EC2V 7HN

Auditors:

Beever and Struthers
Chartered Accountants and Statutory Auditor
St George's House
215 - 219 Chester Road
Manchester M15 4JE

Solicitors:

Trowers & Hamlin
3 Bunhill Row
London
EC1Y 8YZ

Registered with the Homes and Community Agency No: L4542

Introduction

The Board of Longhurst and Havelok Homes Limited is pleased to present its report and audited financial statements for the year ended 31 March 2017. L&H Homes is part of the Longhurst Group of companies and further detail about the organisation's performance, finances and future plans and priorities can be found in the Group's audited consolidated financial statements for the 2016/17 financial year.

Longhurst and Havelok (L&H) Homes is a dynamic housing and care provider, owning and managing close to 9,500 homes across the East and West Midlands, East of England and Yorkshire and Humberside. L&H Homes is part of the Longhurst Group of companies, a leading housing provider of affordable housing, care and support services across the Midlands and surrounding areas, with almost 19,500 homes in management.

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 difference to people's lives.

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

In it together – We stand together as one team with one vision to make a difference to people's lives.

Heartfelt service – Everything we do shows we care deeply about our customers and colleagues.

Own it – We do what we say we do to the best of our ability and with pride and passion.

Push the boundaries – We strive for excellence constantly looking for fresh ways of doing things.

Fun and fair – We work hard, enjoy it and treat everybody equally with respect and honesty.

We have weathered the storm of the first year of rent cuts but threats to our income streams still exist through further rent reductions and welfare cuts. During the year we have made further improvements to our core operating performance whilst also continuing to provide high quality services to our customers. Key to our ongoing success is our connectivity with our customers who play a key role in shaping and developing local services through well-established customer forums and networks.

Our development programme continues to make a positive difference to the housing crisis through the delivery of much needed new homes for rent and shared ownership. In total the Group delivered 400 new homes during the 2016/17 financial year.

We have continued to invest in a range of services to support our customers. Our money advice service continues to assist our tenants to manage challenging financial situations and help them to sustain their tenancies. Support and advice is also available on jobs and benefits, tackling fuel poverty and meeting crises through hardship funds and support for food banks.

The 2017 General Election, resulting hung parliament and Brexit negotiations are likely to bring more changes and challenges for our business and the wider sector. We are well prepared to cope with future challenges and are committed to maintaining high quality services and providing new homes. Our financial plans enable us to make the required investment to existing homes across our operating areas, as well as develop new, or acquire existing affordable units to meet local housing needs. Underpinning this investment is our commitment to maintain our position as a strong, efficient landlord that goes beyond the basics – providing extra services that engage, support and develop people with a clear focus on achieving value for money in all that we do.

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 the 1st 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 Code

L&H Homes 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*'. L&H Homes has undertaken a detailed self-assessment against the Code during the year and complies with the provisions of the Code.

Compliance with Governance and Financial Viability Standard

The Board has taken reasonable steps to ensure compliance with the requirements of the Governance and Financial Viability Standard. There have been no serious or material breaches of the law or the Standard as would require notification to the Homes and Communities Agency in accordance with the Governance and Regulatory Standard.

Board Membership and Remuneration

The co-terminous Board brings together the Boards of all three Group member companies, L&H Homes, Spire Homes and Friendship Care and Housing. The table below identifies members from the previous L&H Homes Board, as well as the members of the new Homes Board. From 1 January 2016, remuneration of Homes Board members was for the role of Board members of L&H Homes, Spire Homes and Friendship Care and Housing, the remuneration shown is the total paid to each member.

Board Member	Appointed Date	Resignation Date	Remuneration
Stephen Wenham (Homes Board Chair)	1 January 2016	-	£9,083
Karen Preece	1 January 2016	-	£7,000
Peter Oliver	21 March 2016	-	£7,583
Julie Doyle	1 January 2016	-	Executive Officer
Lynn Stubbs	1 January 2016	-	Executive Officer
Ernest Hendricks (Previous Chair)	1 January 2016	1 November 2016	£7,045
Derek Doran	1 January 2016	16 February 2017	£7,000

Statement of the Board's Responsibilities in Respect of the Financial Statements

The Board is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of its income and expenditure for that period. In preparing these financial statements the Board is required to;

1. Select suitable accounting policies and then apply them consistently.
2. Make judgements and estimates that are reasonable and prudent.
3. State whether applicable accounting standards have been followed.
4. Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Association 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 Association and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. In determining how amounts are presented within items in the Statement of Comprehensive Income and the Statement of Financial Position, the Board has regard to the substance of the reported transaction or arrangement, in accordance with the generally accepted accounting principles or practice. The Board is also responsible for safeguarding the assets of the Association and hence taking reasonable steps for the prevention and detection of fraud and other irregularities, by establishing and maintaining a satisfactory system of control over the Association'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 auditors are unaware. The Directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any audit information and to establish that the Association's auditors are aware of that information.

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 Board's responsibility to establish and maintain appropriate systems of internal control for L&H Homes. The Group Board has overall responsibility for ensuring that the appropriate level of internal control is in place across 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 & Risk Committee.

The L&H Homes Board, Group Board and the Audit & 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 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 & 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 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 others.
- vii) The Audit & 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 Group's strategic risk register and risk assurance framework for each key business area across the Group.

Statement on Internal Controls (continued)

- viii) A group-wide Asset & Liability register.
- ix) A Group-wide Finance & Treasury Committee which meets four times a year focussing 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 & 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. In reviewing the Association's compliance with all relevant laws and regulations, no breaches were identified.

Value for Money Assessment

The Association has not produced a separate individual value for money self-assessment for the year ending 31st March 2017. The Longhurst Group consolidated value for money self-assessment incorporates the results and activities of the association, along with other members of the Longhurst Group. A full copy of the Group value for money self-assessment can be found at www.longhurst-group.org.uk/value-for-money.

Auditors

In accordance with the Co-operative and Community Benefit Societies Act 2014 a resolution to re-appoint the Association's auditors, Beever and Struthers, will be proposed at the Annual General Meeting.

The financial statements were approved and authorised for issue by the Board on 20 July 2017 and signed on its behalf by:

.....

Ms R Challinor
Company Secretary
20 July 2017

**REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF LONGHURST AND HAVELOK HOMES LTD**

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

This report is made solely to the Association's members, as a body, in accordance with Section 87 (2) of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Board and the Auditor

As explained more fully in the Statement of Board's Responsibilities set out on page 3, the Board is responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

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

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

Beever and Struthers
Statutory Auditor
St George's House, 215-219 Chester Road
Manchester, M15 4JE

Date: 20 July 2017

LONGHURST AND HAVELOK HOMES LTD
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 March 2017	Year ended 31 March 2016
		£'000	£'000
Turnover	2	45,167	48,400
Cost of Sales	2	(3,081)	(7,440)
Operating expenditure	2	(23,757)	(25,686)
Operating surplus		<u>18,329</u>	<u>15,274</u>
Surplus/(loss) on disposal of property, plant and equipment	6	1,048	(648)
Interest receivable		436	115
Interest and financing costs	7	(10,584)	(11,495)
Increase in valuation of investment properties	14	18	119
Surplus		<u>9,247</u>	<u>3,365</u>
Total comprehensive income for the year		<u><u>9,247</u></u>	<u><u>3,365</u></u>

The financial statements on pages 7 to 29 were approved and authorised for issue by the Board on 20 July 2017 and were signed on its behalf by:

Board Member:

Board Member:

Secretary:

.....

.....

.....

The results relate wholly to continuing activities and the notes on pages 11 to 29 form an integral part of these accounts.

LONGHURST AND HAVELOK HOMES LTD
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
 STATEMENT OF FINANCIAL POSITION

	Notes	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Fixed assets			
Tangible fixed assets	13	414,891	406,481
Investment properties	14	5,448	5,461
		<u>420,339</u>	<u>411,942</u>
Current assets			
Stock	15	4,000	1,649
Trade and other debtors	16	2,033	1,270
Cash and cash equivalents	17	3,707	4,247
		<u>9,740</u>	<u>7,166</u>
Less: Creditors: amounts falling due within one year	18	(12,186)	(16,113)
Net current (liabilities)		<u>(2,446)</u>	<u>(8,947)</u>
Total assets less current liabilities		417,893	402,995
Creditors: amounts falling due after more than one year	19a	<u>(351,078)</u>	<u>(345,427)</u>
Total net assets		<u>66,815</u>	<u>57,568</u>
Reserves			
Non-equity share capital	23		
Income and expenditure reserve		<u>66,815</u>	<u>57,568</u>
Total reserves		<u>66,815</u>	<u>57,568</u>

The financial statements on pages 7 to 29 were approved and authorised for issue by the Board on 20 July 2017 and were signed on its behalf by:

Board Member:

Board Member:

Secretary:

.....

.....

.....

The notes on pages 11 to 29 form an integral part of these accounts.

LONGHURST AND HAVELOK HOMES LTD
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
STATEMENT OF CHANGES IN RESERVES

	Income and expenditure reserve £'000
Balance at 31 March 2015	54,203
Surplus from Statement of Comprehensive Income	3,365
Balance at 31 March 2016	<u>57,568</u>
Surplus from Statement of Comprehensive Income	9,247
Balance at 31 March 2017	<u>66,815</u>

The notes on pages 11 to 29 form an integral part of these accounts.

LONGHURST AND HAVELOK HOMES LTD
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
 STATEMENT OF CASH FLOWS

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Net cash generated from operating activities (see Note i)	19,185	26,666
Cash flow from investing activities		
Purchase of tangible fixed assets	(18,804)	(15,236)
Proceeds from sale of tangible fixed assets	4,070	3,093
Grants received	90	353
Interest received	436	15
	<u>(14,208)</u>	<u>(11,775)</u>
Cash flow from financing activities		
Interest paid	(10,848)	(11,499)
New secured loans	9,500	1,500
Repayment of borrowings	(4,169)	(3,836)
	<u>(5,517)</u>	<u>(13,835)</u>
Net change in cash and cash equivalents	(540)	1,056
Cash and cash equivalents at beginning of the year	<u>4,247</u>	<u>3,191</u>
Cash and cash equivalents at end of the year	<u>3,707</u>	<u>4,247</u>

Note i	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Cash flow from operating activities		
Surplus for the year	9,247	3,365
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	5,482	5,396
Amortisation of government grant	(1,383)	(1,421)
Decrease/(increase) in stock	(2,351)	3,477
Decrease in trade and other debtors	(763)	1,059
Increase/(decrease) in trade and other creditors	311	1,699
Pension costs less contributions payable	(440)	1,183
Adjustments for investing or financing activities:		
Gain on disposal of tangible fixed assets	(1,048)	647
Movement on valuation of investment properties	(18)	(119)
Interest payable	10,584	11,495
Interest received	(436)	(115)
	<u>19,185</u>	<u>26,666</u>
Net cash generated from operating activities	<u>19,185</u>	<u>26,666</u>

The notes on pages 11 to 29 form an integral part of these accounts.

LEGAL STATUS

Longhurst and Havelok Homes Limited is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Homes and Communities Agency as a Private Registered Provider of Social Housing. The registered office is **Leverett House, Gilbert Drive, Boston, Lincolnshire, PE21 7TQ**.

1. PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The 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. L&H Homes is a Public Benefit Entity and the financial statements have been prepared in compliance with FRS 102.

The financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The accounts are prepared on the historical cost basis of accounting as modified by the revaluation of investment properties and are presented in sterling £, rounded to the nearest £'000.

Going concern

The 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 association capitalises development expenditure in accordance with the accounting policy described on page 14. 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 association has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the association has considered if the asset is held for social benefit or to earn commercial rentals. The association has determined that market rented property are investment properties.
- **Impairment.** The Group has identified a cash generating unit for impairment assessment purposes at a property scheme level.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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 association carries its investment property at fair value, with changes in fair value being recognised in profit and loss. The association 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 there was no trigger for impairment.

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 2. 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 3 and matched against the relevant costs.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Service charges

Service charge income and costs are recognised on an accruals basis. The Association 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.

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 association depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories.

UELs for identified components are as follows:

	Years
• Structure	120
• Roof	60
• Heating	15
• Windows	30
• Electricals	30
• Bathrooms	30
• Kitchen	20
• Lifts	15
• Doors	30

1. PRINCIPAL ACCOUNTING POLICIES (continued)

The Association depreciates housing properties held on long 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 useful life 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 Association 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 Association. In both cases, the assets and associated liabilities are included in the Statement of Financial Position.

Leasing and hire purchase

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 Association. 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.

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 one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

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 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 one year.

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 The Social Housing Pension Scheme 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% at 31 March 2016 and 1.33% for 31 March 2017. The unwinding of the discount is recognised as a finance cost in the Statements of Comprehensive Income in the period incurred.

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.

Financial instruments held by the Association 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.

2. TURNOVER, COST OF SALES, OPERATING EXPENDITURE AND OPERATING SURPLUS/(DEFICIT)

	Turnover	2017		Operating Surplus /(Deficit) £'000
		Cost of sales £'000	Operating expenditure £'000	
Social Housing Lettings (Note 3a)	36,036	-	(20,048)	15,988
Other Social Housing Activities				
First tranche low cost home ownership sales	4,512	(3,081)	-	1,431
Floating Support/Supporting People Contract	1,219	-	(908)	311
Development services	591	-	(671)	(80)
Managed operations	2,110	-	(2,041)	69
Other Activities	334	-	(48)	286
Non-Social Housing Activities				
Lettings (Note 3b)	365	-	(41)	324
	<u>9,131</u>	<u>(3,081)</u>	<u>(3,709)</u>	<u>2,341</u>
Total	<u>45,167</u>	<u>(3,081)</u>	<u>(23,757)</u>	<u>18,329</u>
	Turnover	2016		Operating Surplus /(Deficit) £'000
	£'000	Cost of sales £'000	Operating expenditure £'000	£'000
Social Housing Lettings (Note 3a)	35,238	-	(21,995)	13,243
Other Social Housing Activities				
First tranche low cost home ownership sales	8,930	(7,440)	-	1,490
Floating Support/Supporting People Contract	998	-	(858)	140
Development services	351	-	(470)	(119)
Managed operations	2,102	-	(2,244)	(142)
Other Activities	443	-	(83)	360
Non-Social Housing Activities				
Lettings (Note 3b)	338	-	(36)	302
	<u>13,162</u>	<u>(7,440)</u>	<u>(3,691)</u>	<u>2,031</u>
Total	<u>48,400</u>	<u>(7,440)</u>	<u>(25,686)</u>	<u>15,274</u>

3(a) TURNOVER AND OPERATING EXPENDITURE FROM SOCIAL HOUSING LETTINGS

	General Needs	Supported Housing and Housing for Older People	Low cost Home Ownership	Residential Care	Total 2017	Total 2016
	£'000	£'000	£'000	£'000	£'000	£'000
Income						
Rent receivable net of identifiable service charge and voids	27,060	1,835	1,912	1,146	31,953	31,209
Service charge income	1,206	524	78	-	1,808	1,731
Amortised government grants	1,202	79	90	12	1,383	1,421
Other income from Social Housing Lettings	-	-	153	739	892	877
Total Turnover from Social Housing Lettings	<u>29,468</u>	<u>2,438</u>	<u>2,233</u>	<u>1,897</u>	<u>36,036</u>	<u>35,238</u>
Operating Expenditure						
Management	3,766	236	487	196	4,685	6,457
Service charge costs	1,422	556	79	1,971	4,028	3,727
Routine maintenance	3,427	258	12	27	3,724	3,956
Planned maintenance	1,398	183	5	65	1,651	1,994
Major repairs expenditure	346	117	4	1	468	439
Bad debts	155	16	(2)	(3)	166	140
Depreciation of housing properties	4,813	266	222	16	5,317	5,221
Other Costs	9	-	-	-	9	61
Operating expenditure on Social Housing Lettings	<u>15,336</u>	<u>1,632</u>	<u>807</u>	<u>2,273</u>	<u>20,048</u>	<u>21,995</u>
Operating surplus/(deficit) on Social Housing Lettings	<u>14,132</u>	<u>806</u>	<u>1,426</u>	<u>(376)</u>	<u>15,988</u>	<u>13,243</u>
Void losses	<u>130</u>	<u>57</u>	<u>(2)</u>	<u>103</u>	<u>288</u>	<u>608</u>

3(b) TURNOVER FROM ACTIVITIES OTHER THAN SOCIAL HOUSING

	2017 £'000	2016 £'000
Lettings		
Market Rent	<u>365</u>	<u>338</u>
	<u>365</u>	<u>338</u>

4. ACCOMODATION OWNED, MANAGED AND IN DEVELOPMENT

	2017		2016	
	No. of units Owned	Managed	No. of units Owned	Managed
Total Units Under Development				
General needs - social rent	22	-	-	-
General needs – affordable rent	39	-	13	-
General needs – intermediate rent	215	-	200	-
Low cost home ownership	175	-	98	-
Deferred equity	-	-	10	-
	<u>451</u>	<u>-</u>	<u>321</u>	<u>-</u>
Social Housing Completed Units				
General needs	5,894	169	5,871	169
Affordable Rent	230	-	191	-
Supported housing and housing for older people	467	-	467	-
Low-cost home ownership	974	35	945	37
Care homes	77	-	74	-
Leasehold schemes for the elderly	944	155	940	155
	<u>8,586</u>	<u>359</u>	<u>8,488</u>	<u>361</u>
	<u>9,037</u>	<u>359</u>	<u>8,809</u>	<u>361</u>
Non-Social Housing Completed Units				
Market rented	47	-	47	-
	<u>9,084</u>	<u>359</u>	<u>8,856</u>	<u>361</u>

5. ACCOMMODATION MANAGED BY OTHERS

	2017	2016
L&H Homes own property managed by other bodies.	No. of properties	No. of properties
Market rent	47	47
Supported and housing for older people	44	44
Intermediate rent	1	1
Care homes	5	5
	<u>97</u>	<u>97</u>

6. GAIN/(LOSS) ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

	S/O Staircasing	RTB & Voluntary Sales	Total 2017	Total 2016
	£'000	£'000	£'000	£'000
Proceeds of sales	3,325	790	4,115	3,093
Less: Cost of sales	<u>(2,421)</u>	<u>(646)</u>	<u>(3,067)</u>	<u>(3,741)</u>
Surplus/(Loss)	<u>904</u>	<u>144</u>	<u>1,048</u>	<u>(648)</u>
Capital grant recycled (Note 21)	477	397	874	568
Disposal Proceeds Fund (Note 22)	<u>-</u>	<u>35</u>	<u>35</u>	<u>-</u>

7. INTEREST AND FINANCING COSTS

	2017 £'000	2016 £'000
Deferred benefit pension charge	97	68
On loans repayable within five years	3,198	3,239
On loans wholly or partly repayable in more than five years	7,295	8,266
Costs associated with financing	489	697
Less: Interest capitalised on properties under construction	<u>(495)</u>	<u>(775)</u>
	<u>10,584</u>	<u>11,495</u>

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

8. SURPLUS ON ORDINARY ACTIVITIES

	2017 £'000	2016 £'000
The operating surplus is stated after charging/(crediting):		
Auditors remuneration (excluding VAT)	25	18
Fees to the company's auditor for other services to the association	-	-
Service charge certification	17	13
Operating lease rental - vehicles	164	210
Operating lease rental - office equipment	11	4
Depreciation of housing properties	5,317	5,221
Depreciation of other fixed assets	165	175
Surplus on sale of other fixed assets	1,048	(648)
Amortisation of government grants	<u>(1,383)</u>	<u>(1,421)</u>

9. TAXATION

The Association is registered as a Charitable Co-operative and Community Benefit Society and as such is exempt from UK Corporation Tax on its charitable activities.

10. KEY MANAGEMENT PERSONNEL REMUNERATION

	2016	2015
	£'000	£'000
Total emoluments paid to non-executive Directors	38	28
Total emoluments paid to executive Directors	912	215
Remuneration of the highest paid Director (excluding pension contributions) Chief Executive – 2017: Ms J. Doyle (2016: Mr M Hardy)	200	78
Total amount of Directors pension contributions excluding amounts under a properly funded pension scheme	-	14
Total amount of consideration payable to Directors for loss of office.	-	183

Directors (Key Management Personnel) are defined as 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). The prior year comparative included Key Management Personnel employed solely by L&H Homes as this was prior to the restructuring of the senior team across the Group.

The Chief Executive (Ms J Doyle) is an ordinary member of the pension scheme. The pension scheme is a Care 1/60th 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 £24,182 was paid in addition to the personal contributions of the Chief Executive.

11. EMPLOYEE INFORMATION

The average number of full time equivalent staff (36.25 hours per week) was:	2017	2016
Office staff	92	101
Site based staff	<u>148</u>	<u>136</u>
	<u>240</u>	<u>237</u>
Staff Costs (for the above persons)	£'000	£'000
Salaries	5,137	5,247
Social Security	349	315
Pension	<u>290</u>	<u>1,891</u>
	<u>5,776</u>	<u>7,453</u>

11. EMPLOYEE INFORMATION (CONTINUED)

Number of employees with remuneration above £60,000 in the period	2017	2016
£60,000 - £70,000	1	-
£70,000 - £80,000	1	-
£80,000 - £90,000	-	1
£110,000 - £120,000	-	1
£130,000 - £140,000	-	-
£150,000 - £160,000	-	-
£160,000 - £170,000	-	1

12. PENSION OBLIGATIONS

Social Housing Pension Scheme and Pensions Trust

Longhurst and Havelok Homes Limited 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 and Havelok Homes has elected to operate a final salary with a 1/60 accrual rate and the career average re-valued 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 re-valued earnings structure is the only option available. During the year under review, Longhurst and Havelok Homes paid contributions at the rate of 6.45% for the final salary scheme and 6.65% for the career average scheme, plus a monthly lump sum to fund past deficit amounts. Contributions by members varied between 8.45% and 14.55% depending on their age and which scheme they are in. At the balance sheet date there were 66 active members of the scheme employed by Longhurst and Havelok Homes 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 three 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 £3,123m, liabilities were £4,446m, revealing a shortfall of assets compared with the value of liabilities of £1,323m.

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 and Havelok Homes as at 30 September 2016 has been calculated as £39,832,731.

12. PENSION OBLIGATIONS (continued)

Social Housing Pension Scheme and Pensions Trust Growth Plan

Longhurst and Havelok Homes Limited participates in the Pension Trust's multi-employer 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 and Havelok Homes paid contributions at the rate of 0% during the accounting period. Members paid contributions at varying rates during the accounting period. As at the balance sheet date, there were no active member of the plan employed by Longhurst and Havelok Homes. Longhurst and Havelok Homes continues to offer membership of the plan to its employees.

The Trustee commissions an actuarial valuation of the growth plan every three 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 £230.6m, equivalent to a funding level of 79.6%. The estimated amount of employer debt on withdrawal liability for Longhurst and Havelok Homes as at 30 September 2016 has been calculated as £76,351.

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.

	2017	2016
	£'000	£'000
At start of the year	4,996	3,745
Additional liabilities in the year	136	1,595
Interest for the year	97	68
Released to expenditure in the year	<u>(576)</u>	<u>(412)</u>
	<u>4,653</u>	<u>4,996</u>

During the year ended 31 March 2017 no additional payments to reduce the deficit have been agreed with SHPS (2016 - £1,626k).

LONGHURST AND HAVELOK HOMES LTD
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

13. TANGIBLE FIXED ASSETS

	Housing Properties				Other Fixed Assets				
	Social Housing Properties For Letting Completed	Social Housing Properties for letting Under Construction	Low cost home ownership Properties Completed	Low cost home ownership Properties Under Construction	Total Housing properties	Freehold offices	Long Leasehold Property	Furniture and Office Equipment	Total Fixed assets
Cost:	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At start of the year	391,155	3,267	42,135	5,465	442,022	8,788	1,221	701	452,732
Additions to properties acquired	(3)	11,245	722	2,559	14,523	-	-	53	14,576
Works to existing properties	3,274	-	-	-	3,274	117	-	-	3,391
Schemes completed	5,478	(4,747)	2,884	(3,615)	-	-	-	-	-
Components Replaced	(940)	-	-	-	(940)	-	-	-	(940)
Disposals	(2,421)	-	(1,945)	-	(4,366)	-	-	(141)	(4,507)
At end of the year	<u>396,543</u>	<u>9,765</u>	<u>43,796</u>	<u>4,409</u>	<u>454,513</u>	<u>8,905</u>	<u>1,221</u>	<u>613</u>	<u>465,252</u>
Depreciation and Impairment:									
At start of the year	43,074	-	1,705	-	44,779	834	227	411	46,251
Charge for the year	4,732	-	222	-	4,954	58	8	99	5,119
Components Replaced	(577)	-	-	-	(577)	-	-	-	(577)
Disposals	(200)	-	(91)	-	(291)	-	-	(141)	(432)
At end of the year	<u>47,029</u>	<u>-</u>	<u>1,836</u>	<u>-</u>	<u>48,865</u>	<u>892</u>	<u>235</u>	<u>369</u>	<u>50,361</u>
Net book value at the end of the year	<u>349,514</u>	<u>9,765</u>	<u>41,960</u>	<u>4,409</u>	<u>405,648</u>	<u>8,013</u>	<u>986</u>	<u>244</u>	<u>414,891</u>
Net book value at the start of the year	<u>348,081</u>	<u>3,267</u>	<u>40,430</u>	<u>5,465</u>	<u>397,243</u>	<u>7,954</u>	<u>994</u>	<u>290</u>	<u>406,481</u>
Housing Properties comprise								2017	2016
Long leaseholds								£'000	£'000
								405,648	397,243
Cost of properties includes £591k (2016: £350k) for direct administrative costs capitalised during the year									
								2017	2016
								£'000	£'000
Works to existing properties in the year									
Components capitalised								3,274	4,066
Amounts charged to expenditure								468	439

The aggregate amount of interest and finance costs included in the cost of housing properties is £8,629k (2016: £8,134k)

14. INVESTMENT PROPERTIES HELD FOR LETTING

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

Investment properties were valued at 31 March 2017 using Savills Rental Automated Valuation Model which operates in accordance with the Royal Institute of Chartered Surveyors Valuation Standards.

15. STOCK

Properties held for sale	2017	2016
	£'000	£'000
Completed	1,127	982
Under construction	<u>2,873</u>	<u>667</u>
	<u>4,000</u>	<u>1,649</u>

16. TRADE DEBTORS

Amounts falling due within one year	2017	2016
	£'000	£'000
Rent arrears	1,242	1,500
Less: provision for bad debts	(594)	(722)
Other debtors	42	53
Prepayments and accrued income	532	341
Social Housing Grant Receivable	29	-
Intercompany debtors	<u>782</u>	<u>98</u>
	<u>2,033</u>	<u>1,270</u>

17. CASH AND CASH EQUIVALENTS

	2017	2016
	£'000	£'000
Cash and cash equivalents	<u>3,707</u>	<u>4,247</u>
	<u>3,707</u>	<u>4,247</u>

In the above are balances totalling £2,423k (2016: £2,459k) which are held in trust for leaseholders.

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £'000	2016 £'000
Loans (note 19b)	1,694	5,118
Interest Payable	240	539
Trade creditors	325	841
Amounts owed to group undertakings	1,988	2,043
Rents and service charges paid in advance	820	613
Service charge balances held on behalf of leaseholders	2,361	2,333
Other taxation and social security payable	187	177
Accruals and deferred income	1,711	1,650
SHPS pension agreement plan (note 12)	599	577
Deferred Capital Grant (note 20)	1,383	1,386
Recycled Capital Grant Fund (note 21)	827	783
Other creditors	51	53
	<u>12,186</u>	<u>16,113</u>

19a. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2017 £'000	2016 £'000
Loans (note 19b)	204,282	196,846
Deferred Capital Grant (note 20)	141,465	142,546
Recycled Capital Grant Fund (note 21)	1,277	1,616
SHPS pension agreement plan (note 12)	4,054	4,419
	<u>351,078</u>	<u>345,427</u>

19(b). DEBT ANALYSIS

	2017 £'000	2016 £'000
Loans repayable by instalments:		
Within one year	1,694	1,718
In one year or more but less than two years	1,707	1,676
In two years or more and less than five years	13,351	5,054
In five years or more	27,775	28,968
Loans not repayable by instalments:		
Within one year	-	3,400
In one year or more but less than two years	-	39,407
In two years or more and less than five years	46,365	6,500
In five years or more	118,243	118,240
Less: loan issue costs	<u>(3,159)</u>	<u>(2,999)</u>
Total loans	<u>205,976</u>	<u>201,964</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 5.066% (2016: 5.61%).

20. DEFERRED CAPITAL GRANT

	2017 £'000	2016 £'000
At start of the year	143,932	143,831
Received in the year	119	1,678
Disposed of in the year	(1,161)	(867)
Amortised in the year	(1,383)	(1,386)
Amortised grant written back on sale	134	85
Transferred from RCGF and DPF	<u>1,207</u>	<u>591</u>
At the end of the year	<u>142,848</u>	<u>143,932</u>
	£'000	£'000
Amount due to be released < 1 year	1,383	1,386
Amount due to be released > 1 year	<u>141,465</u>	<u>142,546</u>
	<u>142,848</u>	<u>143,932</u>

21. RECYCLED CAPITAL GRANT FUND

	2017 £'000	2016 £'000
At start of the year	2,399	2,416
Grants recycled	874	568
Interest accrued	3	6
Recycled on new build properties	(1,172)	(591)
At the end of the year	<u>2,104</u>	<u>2,399</u>
	£'000	£'000
Amount due to be released < 1 year	827	783
Amount due to be released > 1 year	<u>1,277</u>	<u>1,616</u>
	<u>2,104</u>	<u>2,399</u>

This grant is from the HCA. There is no grant which is three years or older and may be required to be repaid.

22. DISPOSAL PROCEEDS FUND

	2017 £'000	2016 £'000
Opening balance	-	-
Inputs to DPF Net PRTB receipts	35	-
Use/allocation of funds Major repairs and works to existing stock	(35)	=
Repayments of funds to HCA	=	=
Closing balance	=	=
Amounts 3 years old or older where repayment may be required.	=	=

23. NON-EQUITY SHARE CAPITAL

	2017	2016
	£	£
Allotted Issued and Fully Paid		
At the start of the year	39	39
Issued during the year	-	-
At the end of the year	<u>39</u>	<u>39</u>

The par value of each share is £1. The shares do not have a right to any dividend or distribution in a winding-up, and are not redeemable. Each share has full voting rights. All shares are fully paid.

24. CAPITAL COMMITMENTS

	2017	2016
	£'000	£'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	26,440	23,746
Capital expenditure that has been authorised by the Board but has not yet been contracted for	<u>14,743</u>	<u>12,135</u>
	<u>41,183</u>	<u>35,881</u>
L&H Homes expects these commitments to be financed with:		
Social housing grant	338	259
Proceeds from the sale of properties	15,494	10,498
Committed loan facilities	<u>25,351</u>	<u>25,124</u>
	<u>41,183</u>	<u>35,881</u>

The above figures include the full cost of shared ownership properties contracted for.

25. OPERATING LEASES

Longhurst & Havelok Homes Ltd holds office equipment and vehicles under non-cancellable operating leases. At the end of the year the L&H Homes had commitments of future minimum lease payments as follows:

	2017	2016
	£'000	£'000
Leases expiring:		
Not later than one year	132	128
Later than one year and not later than five years	142	196
Later than five years	-	-
	<u>274</u>	<u>324</u>

26. CONTINGENT LIABILITY

There are no contingent liabilities at the Statement of Financial Position date; 31st March 2017.

27. GRANT AND FINANCIAL ASSISTANCE

	2017 £'000	2016 £'000
The total accumulated SHG received or receivable at 31 March:		
Held as deferred capital grant	142,849	143,932
Revenue grant recognised as income	<u>25,680</u>	<u>24,373</u>
	<u>168,529</u>	<u>168,305</u>

28. RELATED PARTIES

Ultimate Parent Undertaking

The ultimate parent undertaking in which the results of Longhurst and Havelok Homes Limited are consolidated is Longhurst Group Limited, a company registered in England. The consolidated accounts of Longhurst Group Limited are available to the public and are available from the registered head office, 50 Newhall Hill, Birmingham, B1 3JN.

Tenant Board Members

L&H Homes had no tenant Board Members for the year ended 31 March 2017 and 2016.

Transactions with Regulated Group Members

L&H Homes Limited has taken advantage of the exemption conferred to it in FRS102 section 33, not to disclose transactions with other regulated members of Longhurst Group Limited.

Transactions with Non-Regulated Group Members

During 2016/2017 L&H Homes transacted with two non-regulated businesses that are direct subsidiaries of Longhurst Group Ltd. Libra (LG) Treasury PLC act as bond issuer and loans manager for the group bank loan facilities, of which L&H Homes are a borrower to both. The majority of interest costs incurred by L&H Homes relate to loans that reside within or are managed by Libra. The set up costs and interest costs associated with these loans have been recharged to L&H Homes at cost only.

Other

Together with Friendship Care & Housing and Spire Homes, L&H Homes is a founder member 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 a founder member L&H Homes has a place on the Board and its liabilities are limited to a £1 share. We have signed a Members' Agreement and the Articles of Association.

Jubilee Teetotal Homes Ruskington

Longhurst Homes (now L&H Homes) was appointed as sole trustee of Jubilee Teetotal Homes Ruskington in May 1998, providing housing and property management services. Jubilee Teetotal Homes Ruskington is a registered charity which exists to provide housing for retired people in Ruskington, Lincolnshire. The results are not included in L&H Homes results, but are consolidated into the Longhurst Group accounts. The results of the charity are as follows:

	31.03.2017 £'000	31.03.2016 £'000
Net Current Assets	57	56
Annual Surplus	-	-

29. FINANCIAL INSTRUMENTS

The Association's financial instruments may be analysed as follows:	2017	2016
	£'000	£'000
Financial assets		
(a) Financial assets that are debt instruments measured at amortised cost:		
Cash at bank and in hand	3,707	4,247
Trade debtors	648	778
Other debtors	42	53
Accrued income	92	14
(b) Financial liabilities at amortised cost:		
Loans	205,976	201,964
Finance leases	-	-
Trade creditors	325	841
Accruals	1,711	1,650
Other creditors	51	53
Recycled capital grant fund	2,104	2,399
Deferred capital grant fund	142,848	143,932

LONGHURST & HAVELOK HOMES LIMITED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 MARCH, 2016

LONGHURST AND HAVELOK HOMES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

CO-OPERATIVE AND COMMUNITY BENEFIT SOCIETY NO. 30779R

CONTENTS

	Page No.
Board Members, Executive Officers and Principal Advisors	1
Strategic Report	2-5
Report of the Independent Auditors	6
Statement of Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Reserves	9
Statement of Cash Flows	10
Notes to the Financial Statements	11 - 33

LONGHURST AND HAVELOK HOMES LTD

BOARD MEMBERS, EXECUTIVE OFFICERS AND PRINCIPAL ADVISORS

Board Members:

Ernest Hendricks (Chair) – (appointed 01.01.2016)
Sidney McFarlane MBE (Chair) – (resigned 31.12.2015)
Keith Laidler (Vice Chair) – (resigned 31.12.2015)
Brendan Haigh – (resigned 31.12.2015)
Kevin Lockyer – (resigned 31.12.2015)
Brenda Owen – (resigned 01.07.2015)
Linda Scott – (resigned 31.12.2015)
Kathleen Skelton – (resigned 31.12.2015)
Garry Snelson – (resigned 31.12.2015)
Patricia Stanley – (resigned 31.12.2015)
Rosemary Woodland – (resigned 31.12.2015)
Stephen Wenham
Derek Doran - (appointed 01.01.2016)
Peter Oliver - (appointed 01.03.2016)
Karen Preece – (appointed 01.01.2016)
Julie Doyle – Executive Member - (appointed 01.01.2016)
Lynn Stubbs – Executive Member - (appointed 01.01.2016)

Executive Officers:

Mr M A Hardy BA (Hons) MBA FCIH – resigned 31.05.2015
Mrs A Ray BA (Hons) MCIH DMS
Mrs S Leivers – resigned 31.01.2016
Mr R Barr – resigned 15.07.2015

Registered Head Office:

Leverett House
Gilbert Drive
Endeavour Park
Boston
Lincolnshire
PE21 7TQ

Principle Bankers:

Lloyds Bank
3rd Floor
25 Gresham Street
London
EC2V 7HN

Auditors:

Beever and Struthers
Chartered Accountants and Statutory Auditor
St George's House
215 - 219 Chester Road
Manchester M15 4JE

Solicitors:

Trowers & Hamlin
3 Bunhill Row
London
EC1Y 8YZ

Registered with the Homes and Community Agency No: L4542

Introduction

The Board of Longhurst and Havelok Homes Limited is pleased to present its report and audited financial statements for the year ended 31 March 2016. L&H Homes is part of the Longhurst Group of companies and further detail about the organisation's performance, finances and future plans and priorities can be found in the Group's audited consolidated financial statements for the 2015/16 financial year.

Longhurst & Havelok (L&H) Homes is a dynamic housing and care provider, owning and managing over 9,200 homes across the East and West Midlands, East of England and Yorkshire and Humberside. L&H Homes is part of the Longhurst Group of companies, a leading housing provider of affordable housing, care and support services across the Midlands and surrounding areas, with almost 19,000 homes in management.

Central to the work of L&H Homes is a passion for excellence and making a difference to the lives of customers and local communities. Despite the challenges faced by the sector and major threats to income streams from rent reductions and welfare cuts, we have continued to deliver high quality homes and housing and support services. Throughout the year, our overall performance and satisfaction levels have remained strong, with an emphasis upon driving efficiency and improved services. Key to our success is our connectivity with our customers who play a key role in shaping and developing local services through well-established customer forums and networks.

Over the past year, we have continued to invest substantially in the development of new homes for rent and for sale in our strategic growth areas and in the best locations in our wide operational area to achieve sales of new affordable homes. We have developed 182 new homes during the last financial year and have increased our portfolio of market rent, shared ownership and outright sale properties to provide greater choice and enable cross subsidy to support the development of affordable homes.

Our customers have also continued to benefit from a range of support services to help them to improve their quality of life and support them through the tough economic climate. This will remain a key priority for the year ahead as we develop a Group-wide Social Value Strategy to maximise our contribution to the health and wellbeing of our customers and local communities.

Whilst the current economic climate and political uncertainty is likely to bring more change and challenges to the sector, we are well prepared. Over the past year we have been planning for future success through a Group wide governance and structures review. Our financial plans enable us to make the required investment to existing homes across our operating areas, as well develop new, or acquire existing affordable units to meet local housing needs. Underpinning this investment is our commitment to maintain our position as a strong, efficient landlord that goes beyond the basics – providing extra services that engage, support and develop people with a clear focus on achieving value for money in all that we do.

Corporate Governance

Maintaining a healthy Board and committee structure is vital to both L&H Homes and the wider Longhurst Group; this ensures that we take strong decisions and manage anticipated business risks effectively. Following a comprehensive review of our governance arrangements across the Group, a new streamlined governance structure came into effect on 1st January 2016. The new structure accommodates our ambition to grow and supports greater efficiency, as well as ensuring we are fit for purpose and ready to meet the demands of the sector now and in the future.

The new 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. As the Group moves forward with its ambition of creating a unified team with one vision, the co-terminous Homes Board will play a key role in championing this approach.

Compliance with Governance Code

L&H Homes 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*'. L&H Homes 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 with the Code, namely:

Code Provision	Reasoned Statement of Non-Compliance
<p>D2</p> <p>Maximum tenure must be agreed for all non-executives which must in total be nine 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</p>	<p>During the year some Board Members length of service exceeded 9 years' tenure; these members were retained to ensure continuity during a period of governance change for the Group and all these relevant members stood down during the year.</p>

Compliance with Governance and Financial Viability Standard

The Board has taken reasonable steps to ensure compliance with the requirements of the Governance and Financial Viability Standard. There have been no serious or material breaches of the law or the Standard as would require notification to the Homes and Communities Agency in accordance with the Governance and Regulatory Standard.

Board Membership and Remuneration

The new 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 table below identifies members from the previous L&H Homes Board, as well as the members of the new Homes Board. From 1 January 2016, remuneration of Homes Board members was for the role of Board members of L&H Homes, Spire Homes and Friendship Care and Housing, the remuneration shown is the total paid to each member.

Board Member	Appointed Date	Resignation Date	Remuneration
Ernest Hendricks (Homes Board Chair)	1 January 2016	-	£3,000
Derek Doran	1 January 2016	-	£1,750
Karen Preece	1 January 2016	-	£1,750
Peter Oliver	1 March 2016	-	£583
Stephen Wenham	-	-	£4,456
Julie Doyle	1 January 2016	-	Executive Officer
Lynn Stubbs	1 January 2016	-	Executive Officer
Sidney McFarlane MBE	-	31 December 2015	£8,118
Keith Laidler	-	31 December 2015	£2,706
Brendan Haigh	-	31 December 2015	£2,706
Kevin Lockyer	-	31 December 2015	£1,804
Linda Scott	-	31 December 2015	Nil
Kathleen Skelton	-	31 December 2015	Nil
Garry Snelson	-	31 December 2015	£2,706
Patricia Stanley	-	31 December 2015	£2,706
Rosemary Woodland	-	31 December 2015	£2,706
Brenda Owen	-	1 July 2015	£1,503

Statement of the Board's Responsibilities in Respect of the Financial Statements

The Board is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of its income and expenditure for that period. In preparing these financial statements the Board is required to;

1. Select suitable accounting policies and then apply them consistently.
2. Make judgements and estimates that are reasonable and prudent.
3. State whether applicable accounting standards have been followed.
4. Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Association 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 Association and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. In determining how amounts are presented within items in the Statement of Comprehensive Income and the Statement of Financial Position, the Board has regard to the substance of the reported transaction or arrangement, in accordance with the generally accepted accounting principles or practice. The Board is also responsible for safeguarding the assets of the Association and hence taking reasonable steps for the prevention and detection of fraud and other irregularities, by establishing and maintaining a satisfactory system of control over the Association'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 auditors are unaware. The Directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any audit information and the establish that the Association's auditors are aware of that information.

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 Board's responsibility to establish and maintain appropriate systems of internal control for L&H Homes. The Group Board has overall responsibility for ensuring that the appropriate level of internal control is in place across 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 & Risk Committee.

The L&H Homes Board, Group Board and the Audit & 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 appointed as Internal Auditors at the beginning of the 2012/13 financial year. The focus of internal audit work in 2015/16 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 rules relating to the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of the Company's assets.
- ii) The 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 Committee has reviewed the fraud register on a quarterly basis during 2015/16. There were no matters which were required to be reported to the HCA.
- iii) The 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.
- v) The Group Board has approved a Group-wide contingency plan. The contingency plan was developed in recognition of the changing nature of the risks faced by our business and the sector as a whole. The contingency plan supplements the work undertaken on risk management and incorporates additional stress testing on the Business 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 others.
- vii) The Audit 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) The establishment of a group-wide Asset & Liability register.

Statement on Internal Controls (continued)

- ix) A Group-wide Finance & Treasury Committee which meets four times a year focussing 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 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. In reviewing the Association's compliance with all relevant laws and regulations, no breaches were identified.

Strategic Report

The Association 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 Operating Financial Review the information required by schedule 7 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, Beaver and Struthers, will be proposed at the Annual General Meeting.

The financial statements were approved and authorised for issue by the Board on 19 July 2016 and signed on its behalf by:

.....

**Mrs A Ray
Company Secretary
19 July 2016**

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF LONGHURST AND HAVELOK HOMES LTD

We have audited the financial statements of Longhurst and Havelok Homes Limited for the year ended 31 March 2016 on pages 7 to 33. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). This report is made solely to the Association's members, as a body, in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Board and the Auditor

As explained more fully in the Statement of Board's Responsibilities set out on page 3, the Board is responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

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

In our opinion the information given in the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements;

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 require 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; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Beever and Struthers
Chartered Accountants and Statutory Auditor
St George's House, 215-219 Chester Road
Manchester, M15 4JE

Date: 19 July 2016

LONGHURST AND HAVELOK HOMES LTD
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 March 2016	Restated Year ended 31 March 2015
	Notes	£'000	£'000
Turnover	2	48,400	43,075
Cost of Sales	2	(7,440)	(4,259)
Operating expenditure	2	(25,686)	(24,820)
Operating surplus		<u>15,274</u>	<u>13,996</u>
(Loss)/surplus on disposal of property, plant and equipment	6	(648)	982
Interest receivable		115	224
Interest and financing costs	7	(11,495)	(10,096)
Increase in valuation of investment properties	14	119	75
Surplus		<u>3,365</u>	<u>5,181</u>
Total comprehensive income for the year		<u><u>3,365</u></u>	<u><u>5,181</u></u>

The financial statements on pages 7 to 33 were approved and authorised for issue by the Board on 19 July 2016 and were signed on its behalf by:

Board Member:

Board Member:

Secretary:

.....

.....

.....

The results relate wholly to continuing activities and the notes on pages 11 to 33 form an integral part of these accounts.

LONGHURST AND HAVELOK HOMES LTD
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
 STATEMENT OF FINANCIAL POSITION

	Notes	Year ended 31 March 2016 £'000	Restated Year ended 31 March 2015 £'000
Fixed assets			
Tangible fixed assets	13	406,481	398,131
Investment properties	14	5,461	5,296
		<u>411,942</u>	<u>403,427</u>
Current assets			
Stock	15	1,649	6,876
Trade and other debtors	16	1,270	2,329
Cash and cash equivalents	17	4,247	3,191
		<u>7,166</u>	<u>12,396</u>
Less: Creditors: amounts falling due within one year	18	(16,113)	(10,371)
Net current (liabilities)/assets		<u>(8,947)</u>	<u>2,025</u>
Total assets less current liabilities		402,995	405,452
Creditors: amounts falling due after more than one year	19	<u>(345,427)</u>	<u>(351,249)</u>
Total net assets		<u>57,568</u>	<u>54,203</u>
Reserves			
Non-equity share capital	22		
Income and expenditure reserve		<u>57,568</u>	<u>54,203</u>
Total reserves		<u>57,568</u>	<u>54,203</u>

The financial statements on pages 7 to 33 were approved and authorised for issue by the Board on 19 July 2016 and were signed on its behalf by:

Board Member:

Board Member:

Secretary:

.....

.....

.....

The notes on pages 11 to 33 form an integral part of these accounts.

LONGHURST AND HAVELOK HOMES LTD
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
STATEMENT OF CHANGES IN RESERVES

	Income and expenditure reserve £'000
Balance at 1 April 2014	39,411
Prior Year Adjustment (Note 28)	<u>9,611</u>
Restated balance as at 1 April 2014	49,022
Surplus as stated at 31 March 2015	4,639
Prior Year Adjustment (Note 28)	<u>542</u>
Restated Surplus from Statement of Comprehensive Income	5,181
Balance at 31 March 2015	<u>54,203</u>
Surplus from Statement of Comprehensive Income	3,365
Balance at 31 March 2016	<u>57,568</u>

The notes on pages 11 to 33 form an integral part of these accounts.

LONGHURST AND HAVELOK HOMES LTD
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
 STATEMENT OF CASH FLOWS

	Year ended 31 March 2016 £'000	Restated Year ended 31 March 2015 £'000
Net cash generated from operating activities (see Note i)	26,666	16,853
Cash flow from investing activities		
Purchase of tangible fixed assets	(15,236)	(23,176)
Proceeds from sale of tangible fixed assets	3,093	3,983
Grants received	353	389
Interest received	15	43
	<u>(11,775)</u>	<u>(18,761)</u>
Cash flow from financing activities		
Interest paid	(11,499)	(9,749)
New secured loans	1,500	19,950
Repayment of borrowings	(3,836)	(7,913)
	<u>(13,835)</u>	<u>2,288</u>
Net change in cash and cash equivalents	1,056	380
Cash and cash equivalents at beginning of the year	<u>3,191</u>	<u>2,811</u>
Cash and cash equivalents at end of the year	<u>4,247</u>	<u>3,191</u>

Note i	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Cash flow from operating activities		
Surplus for the year	3,365	5,181
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	5,396	4,978
Amortisation of government grant	(1,421)	(1,376)
Impairment Charges	-	1,057
Decrease/(increase) in stock	3,477	(1,388)
Decrease in trade and other debtors	1,059	2,661
Increase/(decrease) in trade and other creditors	1,699	(2,972)
Pension costs less contributions payable	1,183	(103)
Adjustments for investing or financing activities:		
Proceeds from the sale of tangible fixed assets	647	(982)
Movement on valuation of investment properties	(119)	(75)
Interest payable	11,495	10,096
Interest received	(115)	(224)
	<u>26,666</u>	<u>16,853</u>
Net cash generated from operating activities	<u>26,666</u>	<u>16,853</u>

The notes on pages 11 to 33 form an integral part of these accounts.

LEGAL STATUS

Longhurst and Havelok Homes Limited is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Homes and Communities Agency as a Private Registered Provider of Social Housing. The registered office is **Leverett House, Gilbert Drive, Boston, Lincolnshire, PE21 7TQ.**

1. PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The 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. L&H Homes is a Public Benefit Entity and has applied the Public Benefit Entity section of FRS102.

The financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The accounts are prepared on the historical cost basis of accounting as modified by the revaluation of investment properties and are presented in sterling £.

The financial statements have been prepared in compliance with FRS102 as it applies for the first time to the financial statements for the year ended 31 March 2016.

The association transitioned from previous UK GAAP to FRS102 as at 1 April 2014. An explanation of how the transition to FRS102 has affected the reported financial position and performance, as well as the exemptions taken on transition, is given in note 28.

Going concern

The financial statements have been prepared on a going concern basis which assumes an ability to continue operating for the foreseeable future. The Government's announcements in July 2015 impacting on the future income of the Group have led to a reassessment of the Group's business plan as well as an assessment of imminent or likely future breach in borrowing covenants. No significant concerns have been noted and we consider it appropriate to continue to prepare the financial statements on a going concern basis.

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 association capitalises development expenditure in accordance with the accounting policy described on page 14. 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 association has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the association has considered if the asset is held for social benefit or to earn commercial rentals. The association has determined that market rented property are investment properties.
- **Impairment.** The Group has identified a cash generating unit for impairment assessment purposes at a property scheme level.

1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

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 association carries its investment property at fair value, with changes in fair value being recognised in profit and loss. The association engaged independent valuation specialists to determine fair value at the transition date, 31 March 2015 and 31 March 2016. 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 are 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 the government announced a change in rent policy which resulted in a material impact on the net income expected to be collected in the future for housing properties and they have assessed that this represents a trigger for impairment review.

Following a trigger for impairment, impairment tests are performed based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from sales transactions in an arm's length transaction on similar cash generating units (properties) or observable market prices less incremental costs for disposing of the properties. The value in use calculation is based on either a depreciated replacement cost or a discounted cash flow model. The depreciated replacement cost is based on available data of the cost of constructing or acquiring replacement properties to provide the same level of service potential to the Association as the existing property.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

The cash flows are derived from the business plan for the next 30 years and do not include restructuring activities that the association is not yet permitted to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes. Following the assessment of impairment, no impairment losses were identified in the reporting period.

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 2. 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 3 and matched against the relevant costs.

Service charges

Service charge income and costs are recognised on an accruals basis. The Association 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.

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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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 association depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories.

UELs for identified components are as follows:

	Years
• Structure	120
• Roof	60
• Heating	15
• Windows	30
• Electricals	30
• Bathrooms	30
• Kitchen	20
• Lifts	15
• Doors	30

The association depreciates housing properties held on long 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 useful life 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.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Property managed by agents

Where the Association 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 Account. Where the agency carries the majority of the financial risk, income includes only that which relates solely to the Association. In both cases, the assets and associated liabilities are included in the Statement of Financial Position.

Leasing and hire purchase

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 Association. 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.

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 one 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 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 one year.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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 3.02% at 31 March 2014, 1.92% at 31 March 2015 and 2.06% at 31 March 2016. The unwinding of the discount is recognised as a finance cost in the Statements of Comprehensive Income in the period incurred.

2. TURNOVER, COST OF SALES, OPERATING EXPENDITURE AND OPERATING SURPLUS/DEFICIT

	Turnover	2016		Operating Surplus /Deficit £'000
		Cost of sales £'000	Operating expenditure £'000	
SOCIAL HOUSING LETTINGS (Note 3a)	35,238	-	(21,995)	13,243
OTHER SOCIAL HOUSING ACTIVITIES				
First tranche low cost home ownership sales	8,930	(7,440)	-	1,490
Floating Support/Supporting People Contract Income	998	-	(858)	140
Development services	351	-	(470)	(119)
Managed operations	2,102	-	(2,244)	(142)
Other Activities	443	-	(83)	360
ACTIVITIES OTHER THAN SOCIAL HOUSING				
Lettings (Note 3b)	<u>338</u>	<u>-</u>	<u>(36)</u>	<u>302</u>
	<u>13,162</u>	<u>(7,440)</u>	<u>(3,691)</u>	<u>2,031</u>
TOTAL	<u>48,400</u>	<u>(7,440)</u>	<u>(25,686)</u>	<u>15,274</u>
		Restated 2015		
	Turnover	Cost of sales	Operating expenditure	Operating Surplus /Deficit
	£'000	£'000	£'000	£'000
SOCIAL HOUSING LETTINGS (Note 3a)	33,835	-	(21,583)	12,252
OTHER SOCIAL HOUSING ACTIVITIES				
First tranche low cost home ownership sales	5,339	(4,259)	-	1,080
Floating Support/Supporting People Contract Income	1,137	-	(855)	282
Development services	555	-	(619)	(64)
Managed operations	1,804	-	(1,704)	100
Other Activities	263	-	(45)	218
ACTIVITIES OTHER THAN SOCIAL HOUSING				
Lettings (Note 3b)	<u>142</u>	<u>-</u>	<u>(14)</u>	<u>128</u>
	<u>9,240</u>	<u>(4,259)</u>	<u>(2,967)</u>	<u>1,744</u>
TOTAL	<u>43,075</u>	<u>(4,259)</u>	<u>(24,820)</u>	<u>13,996</u>

3(a) TURNOVER AND OPERATING EXPENDITURE

	General Needs	Supported Housing and Housing for Older People	Low cost Home Ownership	Residential Care	Total 2016	Restated Total 2015
	£'000	£'000	£'000	£'000	£'000	£'000
INCOME						
Rent receivable net of identifiable service charge	26,709	1,796	1,834	870	31,209	29,831
Service charge income	1,163	499	69	-	1,731	1,659
Amortised government grants	1,191	86	132	12	1,421	1,376
Other income from Social Housing Lettings	-	-	143	734	877	969
TURNOVER FROM SOCIAL HOUSING LETTINGS	<u>29,063</u>	<u>2,381</u>	<u>2,178</u>	<u>1,616</u>	<u>35,238</u>	<u>33,835</u>
OPERATING EXPENDITURE						
Management	5,127	324	685	321	6,457	4,608
Service charge costs	1,295	545	66	1,821	3,727	3,929
Routine maintenance	3,670	264	3	19	3,956	4,245
Planned maintenance	1,795	180	6	13	1,994	2,238
Major repairs expenditure	437	-	2	-	439	359
Bad debts	126	17	-	(3)	140	198
Depreciation of Housing Properties	4,743	263	199	16	5,221	4,930
Impairment of Housing Properties	-	-	-	-	-	1,057
Other Costs	61	-	-	-	61	19
Operating expenditure on Social Housing Lettings	<u>17,254</u>	<u>1,593</u>	<u>961</u>	<u>2,187</u>	<u>21,995</u>	<u>21,583</u>
OPERATING SURPLUS / (DEFICIT) ON SOCIAL	<u>11,809</u>	<u>788</u>	<u>1,217</u>	<u>(571)</u>	<u>13,243</u>	<u>12,252</u>
Void losses	<u>203</u>	<u>58</u>	<u>-</u>	<u>347</u>	<u>608</u>	<u>480</u>

3(b) TURNOVER FROM ACTIVITIES OTHER THAN SOCIAL HOUSING

	2016	2015
	£'000	£'000
Lettings		
Market Renting	338	142
	<u>338</u>	<u>142</u>
	<u><u>338</u></u>	<u><u>142</u></u>

4. ACCOMODATION OWNED, MANAGED AND IN DEVELOPMENT

	2016		2015	
	No. of properties		No. of properties	
	Owned	Managed	Owned	Managed
Social Housing				
Under development at end of year:				
General needs housing social rent	-	-	64	-
General needs housing affordable rent	13	-	28	-
General needs housing intermediate rent	200	-	190	-
Market Rent	-	-	31	-
Low-cost home ownership	98	-	155	-
Deferred Equity	10	-	14	-
Help to Buy	<u>-</u>	<u>-</u>	<u>7</u>	<u>-</u>
	321	-	489	-
Under management at end of year:				
General needs housing	6,062	169	5,996	169
Supported housing and housing for older people	467	-	455	-
Low-cost home ownership	945	37	907	39
Residential Care Homes	74	-	72	-
Leasehold schemes for the elderly	940	155	937	155
	<u>8,488</u>	<u>361</u>	<u>8,367</u>	<u>363</u>
	<u>8,809</u>	<u>361</u>	<u>8,856</u>	<u>363</u>
Non-Social Housing				
Under management at end of year:				
Market rented	<u>47</u>	<u>-</u>	<u>47</u>	<u>-</u>
	<u>8,856</u>	<u>361</u>	<u>8,903</u>	<u>363</u>
	<u><u>8,856</u></u>	<u><u>361</u></u>	<u><u>8,903</u></u>	<u><u>363</u></u>

5. ACCOMMODATION MANAGED BY OTHERS

L&H Homes own property managed by other bodies.	2016 No. of properties	2015 No. of properties
Market rented	47	47
Supported housing and housing for older people	44	44
Intermediate Rent	1	-
Residential care homes	<u>5</u>	<u>5</u>
	<u>97</u>	<u>96</u>

6. (LOSS)/GAIN ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

	S/O Staircasing 2016 £'000	RTB & Voluntary Sales 2016 £'000	Total 2016 £'000	Restated Total 2015 £'000
Proceeds of sales	2,363	730	3,093	3,982
Less: Costs of sales	<u>(1,813)</u>	<u>(1,928)</u>	<u>(3,741)</u>	<u>(3,000)</u>
(Loss)/Surplus	<u>550</u>	<u>(1,198)</u>	<u>(648)</u>	<u>982</u>
Capital grant recycled (Note 21)	<u>280</u>	<u>288</u>	<u>568</u>	<u>1,033</u>

7. INTEREST AND FINANCING COSTS

	2016 £'000	Restated 2015 £'000
Deferred benefit pension charge	68	109
On loans repayable within five years	3,239	3,159
On loans wholly or partly repayable in more than five years	8,266	8,065
Costs associated with financing	697	660
Less: Interest capitalised on housing properties under construction	<u>(775)</u>	<u>(1,897)</u>
	<u>11,495</u>	<u>10,096</u>

The weighted average interest on borrowings of 5.851% (2015:6%) was used for calculating capitalised finance costs.

8. SURPLUS/(DEFICIT) ON ORDINARY ACTIVITIES

	2016	Restated
	£'000	2015 £'000
The operating surplus is stated after charging/(crediting):		
Auditors remuneration (excluding VAT):	18	20
Fees payable to the company's auditor and its associates for other services to the group:		
Service charge certification	13	13
Operating lease rentals:		
– Vehicles	210	227
– Office equipment	4	-
Impairment losses of housing properties	-	1,056
Depreciation of housing properties	5,221	4,930
Depreciation of other fixed assets	175	182
Surplus on sale of other fixed assets	(648)	(982)

9. TAXATION

The Association is registered as a Charitable Co-operative and Community Benefit Society and as such is exempt from UK Corporation Tax.

10. DIRECTORS' REMUNERATION

	2016	2015
	£'000	£'000
The aggregate emoluments paid to or receivable by non Executive Directors and former non-executive Directors	<u>28</u>	<u>40</u>
The aggregate emoluments paid to or receivable by executive Directors and former executive Directors	<u>215</u>	<u>368</u>
The remuneration paid to the highest paid Director excluding pension contributions	<u>78</u>	<u>122</u>
The aggregate amount of Directors or past Directors' pensions, excluding amounts payable under a properly funded pension scheme	<u>14</u>	<u>25</u>
The aggregate amount of any consideration payable to Directors for loss of office.	<u>183</u>	<u>80</u>

Mr M Hardy was Chief Executive until 31 May 2015. Mr Hardy was an ordinary member of the pension scheme. The pension scheme is a final salary scheme funded by annual contributions by the employer and employee. The association paid a contribution of £1,703 during the year (2015: £8,888) in addition to the personal contributions of the Chief Executive. As part of the exit arrangements for Mr Hardy, an AVC account within the SHPS pension scheme was opened on behalf of Mr Hardy and the Association made a contribution of £65,000.

11. EMPLOYEE INFORMATION

	2016	2015
	No.	No.
The average number of persons employed during the year expressed in full time equivalents (36.25 hours per week) was:		
Office staff	101	105
Wardens, caretakers and cleaners	136	144
	<u>237</u>	<u>249</u>
Staff costs (for the above persons)	£'000	£'000
Wages and salaries	5,247	5,340
Social Security costs	315	331
Other pension costs	1,891	381
	<u>7,453</u>	<u>6,052</u>
Aggregate number of full time equivalent staff whose remuneration exceeded £60,000 in the period:		
	<u>No.</u>	<u>No.</u>
£70,000 - £80,000	-	1
£80,000 - £90,000	1	1
£110,000 - £120,000	1	-
£130,000 - £140,000	-	1
£150,000 - £160,000	-	1
£160,000 - £170,000	1	-

12. PENSION OBLIGATIONS

Social Housing Pension Scheme and Pensions Trust

Longhurst and Havelok Homes Limited 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 and Havelok Homes has elected to operate a final salary with a 1/60 accrual rate and the career average re-valued 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 re-valued earnings structure is the only option available. During the year under review, Longhurst and Havelok Homes paid contributions at the rate of 7.35% for the final salary scheme and 8.05% for the career average scheme, plus a monthly lump sum to fund past deficit amounts. Contributions by members varied between 8.45% and 12.45% depending on their age and which scheme they are in. At the balance sheet date there were 73 active members of the scheme employed by Longhurst and Havelok Homes 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 three 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 £3,123m, liabilities were £4,446m, revealing a shortfall of assets compared with the value of liabilities of £1,323m.

12. PENSION OBLIGATIONS (continued)

Following a change in legislation in September 2005, 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 and Havelok Homes as at 30 September 2014 has been calculated as £27,080,782.

Social Housing Pension Scheme and Pensions Trust Growth Plan

Longhurst and Havelok Homes Limited participates in the Pension Trust's multi-employer 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 and Havelok Homes paid contributions at the rate of 0% during the accounting period. Members paid contributions at varying rates during the accounting period. As at the balance sheet date, there were one active member of the plan employed by Longhurst and Havelok Homes. Longhurst and Havelok Homes continues to offer membership of the plan to its employees.

The Trustee commissions an actuarial valuation of the growth plan every three years. The last formal valuation of the scheme was carried out at 30 September 2015 by a professionally qualified actuary. The valuation revealed a shortfall in assets of £206.9m, equivalent to a funding level of 81%. The estimated amount of employer debt on withdrawal liability for Longhurst and Havelok Homes as at 30 September 2015 has been calculated as £65,474.

SHPS deficit payment agreement

The association has a contractual obligation under an agreement to pay additional deficit payments to SHPS of £148,500 per annum for 11 years to 2026/27.

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.

	2016	2015
	£'000	£'000
At start of the year	3,745	3,848
Additional liabilities in the year	1,595	184
Interest for the year	68	109
Released to expenditure in the year	(412)	(396)
	<hr/> 4,996 <hr/>	<hr/> 3,745 <hr/>

During the year ended 31 March 2016 the association received notification of changes to the additional deficit payment to SHPS, this resulted in an additional liability of £1,595 at 31 March 2016

LONGHURST AND HAVELOK HOMES LTD
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

13. TANGIBLE FIXED ASSETS

	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
COST:									
At start of the year	378,391	4,201	38,024	9,068	429,684	8,788	1,221	1,093	440,786
Additions to properties acquired	2,106	8,637	737	1,028	12,508	-	-	98	12,606
Works to existing properties	4,066	-	-	-	4,066	-	-	-	4,066
Schemes completed	9,571	(9,571)	4,631	(4,631)	-	-	-	-	-
Components Replaced	(1,117)	-	-	-	(1,117)	-	-	-	(1,117)
Disposals	(1,862)	-	(1,257)	-	(3,119)	-	-	(490)	(3,609)
At end of the year	<u>391,155</u>	<u>3,267</u>	<u>42,135</u>	<u>5,465</u>	<u>442,022</u>	<u>8,788</u>	<u>1,221</u>	<u>701</u>	<u>452,732</u>
DEPRECIATION AND IMPAIRMENT:									
At start of the year	39,247	-	1,621	-	40,868	777	219	791	42,655
Charge for the year	4,648	-	140	-	4,788	47	18	110	4,963
Components Replaced	(688)	-	-	-	(688)	-	-	-	(688)
Disposals	(133)	-	(56)	-	(189)	-	-	(490)	(679)
At end of the year	<u>43,074</u>	<u>-</u>	<u>1,705</u>	<u>-</u>	<u>44,779</u>	<u>824</u>	<u>237</u>	<u>411</u>	<u>46,251</u>
NET BOOK VALUE AT END OF THE YEAR:	<u>348,081</u>	<u>3,267</u>	<u>40,430</u>	<u>5,465</u>	<u>397,243</u>	<u>7,964</u>	<u>984</u>	<u>290</u>	<u>406,481</u>
Housing Properties comprise:	2016 £'000	2015 £'000							
Long leaseholds	<u>397,243</u>	<u>388,816</u>							
	<u>397,243</u>	<u>388,816</u>							
Works to existing properties in the year:									
Components capitalised	4,066	4,693							
Amounts charged to expenditure	439	359							

The net book value of other fixed assets includes £0 (2015: £0) in respect of assets held under finance leases. Cost of properties includes £350k (2015: £555k) for direct administrative costs capitalised during the year

14. INVESTMENT PROPERTIES HELD FOR LETTING

	2016	2015
	£'000	£'000
At start of year	5,296	-
Additions	46	5,221
Gain from adjustment in value	119	75
At end of year	<u>5,461</u>	<u>5,296</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. STOCK

Properties held for sale	2016	2015
	£'000	£'000
Completed	982	5,263
Work in progress	667	1,613
	<u>1,649</u>	<u>6,876</u>

16. TRADE AND OTHER DEBTORS

Amounts falling due within one year	2016	2015
	£'000	£'000
Rent arrears	1,500	1,975
Less: provision for bad debts	(722)	(893)
Other debtors	53	16
Prepayments and accrued income	341	275
Intercompany debtors	98	232
	<u>1,270</u>	<u>1,605</u>
Amounts falling due after one year		
Intercompany debtors	<u>-</u>	<u>724</u>
Total Debtors	<u>1,270</u>	<u>2,329</u>

17. CASH AND CASH EQUIVALENTS

	2016	2015
	£'000	£'000
Cash and cash equivalents	4,247	3,191
	<u>4,247</u>	<u>3,191</u>

In the above are balances totalling £2,459k (2015: £2,309k) which are held in trust for leaseholders.

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£'000	£'000
Loans and overdrafts (Note 19b)	5,118	86
Interest Payable	539	543
Trade creditors	841	413
Amounts owed to group undertakings	2,043	2,747
Rents and service charges paid in advance	613	383
Service charge balances held on behalf of leaseholders	2,333	2,234
Other taxation and social security payable	177	215
Accruals and deferred income	1,650	1,173
SHPS pension agreement plan (Note 12)	577	412
Deferred Capital Grant (Note 20)	1,386	1,376
Recycled Capital Grant Fund (Note 21)	783	666
Other creditors	53	123
	<u>16,113</u>	<u>10,371</u>

19(a). CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2016	2015
	£'000	£'000
Loans (Note 19b)	196,846	203,710
Deferred Capital Grant (Note 20)	142,546	142,455
Recycled capital grant fund (Note 21)	1,616	1,750
SHPS pension agreement plan (Note 12)	4,419	<u>3,334</u>
	<u>345,427</u>	<u>351,249</u>

19(b). DEBT ANALYSIS

	2016	2015
	£'000	£'000
Loans repayable by instalments:		
Within one year	1,718	86
In one year or more but less than two years	1,676	1,681
In two years or more and less than five years	5,054	5,118
In five years or more	28,968	31,274
Loans not repayable by instalments:		
Within one year	3,400	-
In one year or more but less than two years	39,407	3,400
In two years or more and less than five years	6,500	47,500
In five years or more	118,240	118,239
Less: loan issue costs	<u>(2,999)</u>	<u>(3,502)</u>
Total loans	<u>201,964</u>	<u>203,796</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 2016 was 5.61%. (2015: 5.467%).

20. DEFERRED CAPITAL GRANT

	2016	2015
	£'000	£'000
At start of the year	143,831	146,506
Grant received in the year	1,678	1,141
Grant disposed in year	(867)	(2,898)
Amortised in Year	(1,386)	(1,376)
Amortised Written Back	85	458
Transferred from RCGF	591	-
At the end of the year	<u>143,932</u>	<u>143,831</u>
	£'000	£'000
Amount due to be released < 1 year	1,386	1,376
Amount due to be released > 1 year	<u>142,546</u>	<u>142,455</u>
	<u>143,932</u>	<u>143,831</u>

21. RECYCLED CAPITAL GRANT FUND

	2016	2015
	£'000	£'000
At the start of the year	2,416	1,374
Inputs: Grants recycled	568	1,033
Interest accrued	6	9
Recycling: New build	(591)	-
At the end of the year	<u>2,399</u>	<u>2,416</u>
Amount three years or older where repayment may be required	<u>-</u>	<u>-</u>
This is grant from the HCA	<u>-</u>	<u>-</u>

22. NON-EQUITY SHARE CAPITAL

	2016	2015
	£	£
Allotted Issued and Fully Paid		
At the start of the year	39	39
Issued during the year	-	-
At the end of the year	<u>39</u>	<u>39</u>

The par value of each share is £1. The shares do not have a right to any dividend or distribution in a winding-up, and are not redeemable. Each share has full voting rights. All shares are fully paid.

23. CAPITAL COMMITMENTS

	2016	2015
	£'000	£'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	23,746	22,334
Capital expenditure that has been authorised by the Board but has not yet been contracted for	12,135	14,825
	<u>35,881</u>	<u>37,159</u>
L&H Homes expects these commitments to be financed with:		
Social Housing Grant	259	334
Proceeds from the sales of properties	10,498	-
Committed loan facilities	25,124	36,825
	<u>35,881</u>	<u>37,159</u>

The above figures include the full cost of shared ownership properties contracted for.

24. OPERATING LEASES

Longhurst & Havelok Homes Ltd holds office equipment and vehicles under non-cancellable operating leases. At the end of the year the L&H Homes had commitments of future minimum lease payments as follows:

	2016	2015
	£'000	£'000
Others:		
Within one year	128	204
In two to five years	196	362
Over five years	<u>-</u>	<u>-</u>
	<u>324</u>	<u>566</u>

25. CONTINGENT LIABILITY

There are no contingent liabilities at the statement of financial position date; 31st March 2016.

26. GRANT AND FINANCIAL ASSISTANCE

	2016	2015
	£'000	£'000
The total accumulated SHG received or receivable at 31 March:		
Held as deferred capital grant	143,932	143,831
Revenue grant recognised as income	<u>24,373</u>	<u>22,952</u>
	<u>168,305</u>	<u>166,783</u>

27. RELATED PARTIES

Ultimate Parent Undertaking

The ultimate parent undertaking in which the results of Longhurst and Havelok Homes Limited are consolidated is Longhurst Group Limited, a company registered in England. The consolidated accounts of Longhurst Group Limited are available to the public and are available from the registered head office, 50 Newhall Hill, Birmingham, B1 3JN.

Tenant Board Members

L&H Homes had transactions with two tenant board members during the year, these being Linda Scott and Kathleen Skelton. Tenant board members hold tenancy agreements on normal terms. The combined transactions with both members are shown in the table below. All rent and service charges were charged in line with standard policies, as was the reimbursement of expenses. Both tenant board members held their position for all of the financial year ended 31 March 2015 and both members resigned on 31 December 2015, as part of the group wide governance review.

	Period Ended 31.12.2015	Year Ended 31.03.2015
Rent charged	£6,591	£8,598
Service costs charged	£378	£492
Expenses reclaimed	£1,107	£1,678
Period end account balance	£19 in credit	£139 in credit

Transactions with Regulated Group Members

L&H Homes Limited has taken advantage of the exemption conferred to it in FRS8 Related Party Disclosures, not to disclose transactions with other regulated members of Longhurst Group Limited.

Transactions with Non-Regulated Group Members

During 2015/2016 L&H Homes transacted with two non-regulated businesses that are direct subsidiaries of Longhurst Group Ltd. Libra (LG) Treasury PLC act as bond issuer and loans manager for the group bank loan facilities, of which L&H Homes are a borrower to both. The majority of interest costs incurred by L&H Homes relate to loans that reside within or are managed by Libra. The set up costs and interest costs associated with these loans have been recharged to L&H Homes at cost only.

L&H Homes also transacted with Keystone (LG) Developments during 2015/2016. At the balance sheet date, a loan from L&H Homes to Keystone, with a balance of £0 (2015: £723,940) was outstanding. The loan has been provided to fund a retirement scheme for the elderly and is charged to Keystone at the base rate plus 4.5% (2015: base rate plus 4.5%).

Other

Together with Friendship Care & Housing and Spire Homes, L&H Homes is a founder member 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 a founder member L&H Homes have a place on the Board and our liabilities are limited to a £1 share. We have signed a Members' Agreement and the Articles of Association.

Jubilee Teetotal Homes Ruskington

Longhurst Homes (now L&H Homes) was appointed as sole trustee of Jubilee Teetotal Homes Ruskington in May 1998, providing housing and property management services. Jubilee Teetotal Homes Ruskington is a registered charity which exists to provide housing for retired people in Ruskington, Lincolnshire. The results are not included in L&H Homes results, but are consolidated into the Longhurst Group accounts. The results of the charity are as follows:

	31.03.2016 £'000	Restated 31.03.2015 £'000
Net Current Assets	56	54
Annual Surplus	-	4

28. FIRST TIME ADOPTION OF FRS 102

	Note	Reserves as at transition date 1 April 2014 £'000	Surplus Year ended 31 March 2015 £'000	Reserves as at 31 March 2015 £'000
As previously stated under former UK GAAP		39,411	4,639	44,050
Transitional adjustments				
Increase in depreciation of housing properties	a.	(8,643)	(554)	(9,197)
Increase in amortisation of grants relating to housing properties	b.	21,576	918	22,494
Adjustment for non-government grant to reserves	c.	526	-	526
Inclusion of SHPS pension deficit payment liability	d.	(3,848)	103	(3,745)
Fair value adjustment for investment properties	e.	-	75	75
		<u>49,022</u>	<u>5,181</u>	<u>54,203</u>

Explanation of changes to previously reported profit and equity:

- a. FRS102 requires that capital grant previously deducted from the cost of fixed assets, is treated as creditors where the fixed assets are carried at cost. The effect compared to current UK GAAP is an increase to the carrying cost of housing properties resulting in an increase in the depreciation at transition of £8,643k and a decrease in the surplus for the year ended 31 March 2015 of £554k.
- b. FRS102 requires that government capital grant previously deducted from the carrying cost of housing properties is treated as a deferred capital grant creditor and released to the statement of comprehensive income over the useful life of the associated assets. The effect compared to current UK GAAP is an increase in income recognised on transition of £21,576k, and £918k increase in surplus for the year ended 31 March 2015.
- c. FRS102 requires that grant received from non-government sources is recognised in the Statement of Comprehensive Income when performance conditions are met. The effect compared to current UK GAAP is to increase reserves at transition by £526k.
- d. FRS102 requires that a liability is recognised for the contributions that arise from an agreement to fund a deficit in a multi-employer pension scheme. The effect is that a liability for the SHPS payment plan has been recognised at the present value of the contributions payable using the discount rate specified in note 12. This has resulted in a decrease in reserves of £3,848k at transition and an increase in the surplus in the year ended 31 March 2015 of £103k.

28. FIRST TIME ADOPTION OF FRS 102 (continued)

- e. FRS102 requires that changes in the fair value of investment properties are recognised in profit or loss for the period. Under previous UK GAAP these changes were recognised outside of profit or loss and presented separately in a revaluation reserve. This change has increased reported profit for the year ended 31 March 2015 by £75k but has not affected the measurement of investment property on the balance sheet.
- f. No holiday pay accrual was made as part of the restatement of the 2015 figures as this was not material. A holiday pay accrual, in line with the accounting policies has been made for 2016.

Part 4

SPIRE HOMES (LG) LIMITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH,
2017

SPIRE HOMES (LG) LIMITED
(A Company Limited by Guarantee)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

Company Registration Number: 4043921
Charity Registration Number:1140935

SPIRE HOMES (LG) LIMITED

CONTENTS

	Page No.
Board Members, Executive Officers and Principal Advisors	1
Strategic Report	2-5
Report of the Independent Auditors	6
Statement of Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Reserves	9
Statement of Cash Flows	10
Notes to the Financial Statements	11 - 29

SPIRE HOMES (LG) LIMITED

BOARD MEMBERS, EXECUTIVE OFFICERS AND PRINCIPAL ADVISORS

Board Members:

Ernie Hendricks (Chair – Resigned 01/11/2016)
Stephen Wenham (Chair – Appointed Chair 01/11/2016)
Karen Preece
Derek Doran (Resigned 16/02/2017)
Peter Oliver
Julie Doyle – Executive Member
Lynn Stubbs – Executive Member

Executive Officers:

Julie Doyle
Rob Griffiths
Ian Jackson
Lynn Stubbs
Sharon Guest
Jonathan Drifill

Registered Head Office:

1 Crown Court
Crown Way
Rushden
Northants
NN10 6BS

Principal Bankers:

Lloyds Bank
3rd Floor
25 Gresham Street
London
EC2V 7HN

Auditors:

Beever and Struthers
Chartered Accountants and Statutory Auditor
St George's House
215 - 219 Chester Road
Manchester
M15 4JE

Solicitors:

Trowers & Hamlin
3 Bunhill Row
London
EC1Y 8YZ

Registered with the Homes and Community Agency No: LH4302

Introduction

The Board of Spire Homes (LG) Limited is pleased to present its report and audited financial statements for the year ended 31 March 2017. Spire Homes is part of the Longhurst Group of companies and further detail about the organisation's performance, finances and future plans and priorities can be found in the Group's audited consolidated financial statements for the 2016/17 financial year.

Spire Homes is a dynamic housing and care provider, owning and managing 6,000 properties across Northamptonshire, Leicestershire and Rutland and established as a result of large scale voluntary transfers of stock, from East Northamptonshire Council in 2001, followed by Rutland County Council in 2009. Spire Homes is part of the Longhurst Group of companies, a leading housing provider of affordable housing, care and support services across the Midlands and surrounding areas, with almost 19,500 homes in management.

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 difference to people's lives.

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

In it together – We stand together as one team with one vision to make a difference to people's lives.

Heartfelt service – Everything we do shows we care deeply about our customers and colleagues.

Own it – We do what we say we do to the best of our ability and with pride and passion.

Push the boundaries – We strive for excellence constantly looking for fresh ways of doing things.

Fun and fair – We work hard, enjoy it and treat everybody equally with respect and honesty.

We have weathered the storm of the first year of rent cuts but threats to our income streams still exist through further rent reductions and welfare cuts. During the year we have made further improvements to our core operating performance whilst also continuing to provide high quality services to our customers. Key to our ongoing success is our connectivity with our customers who play a key role in shaping and developing local services through well-established customer forums and networks.

Our development programme continues to make a positive difference to the housing crisis through the delivery of much needed new homes for rent and shared ownership. In total the Group delivered 400 new homes during the 2016/17 financial year.

We have continued to invest in a range of services to support our customers. Our money advice service continues to assist our tenants to manage challenging financial situations and help them to sustain their tenancies. Support and advice is also available on jobs and benefits, tackling fuel poverty and meeting crises through hardship funds and support for food banks.

The 2017 General Election, resulting hung parliament and Brexit negotiations are likely to bring more changes and challenges for our business and the wider sector. We are well prepared to cope with future challenges and are committed to maintaining high quality services and providing new homes. Our financial plans enable us to make the required investment to existing homes across our operating areas, as well as develop new, or acquire existing affordable units to meet local housing needs. Underpinning this investment is our commitment to maintain our position as a strong, efficient landlord that goes beyond the basics – providing extra services that engage, support and develop people with a clear focus on achieving value for money in all that we do.

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 the 1st 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 Code

Spire Homes 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*'. L&H Homes has undertaken a detailed self-assessment against the Code during the year and complies with the provisions of the Code.

Compliance with Governance and Financial Viability Standard

The Board has taken reasonable steps to ensure compliance with the requirements of the Governance and Financial Viability Standard. There have been no serious or material breaches of the law or the Standard as would require notification to the Homes and Communities Agency in accordance with the Governance and Regulatory Standard.

Board Membership and Remuneration

The co-terminous Board brings together the Boards of all three Group member companies, L&H Homes, Spire Homes and Friendship Care and Housing. The table below identifies members from the previous Spire Homes Board, as well as the members of the new Homes Board. From 1 January 2016, remuneration of Homes Board members was for the role of Board members of L&H Homes, Spire Homes and Friendship Care and Housing, the remuneration shown is the total paid to each member.

Board Member	Appointed Date	Resignation Date	Remuneration
Stephen Wenham (Homes Board Chair)	1 January 2016	-	£9,083
Karen Preece	1 January 2016	-	£7,000
Peter Oliver	21 March 2016	-	£7,583
Julie Doyle	1 January 2016	-	Executive Officer
Lynn Stubbs	1 January 2016	-	Executive Officer
Ernest Hendricks (Previous Chair)	1 January 2016	1 November 2016	£7,045
Derek Doran	1 January 2016	16 February 2017	£7,000

Statement of the Board's Responsibilities in Respect of the Financial Statements

The Board is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of its income and expenditure for that period. In preparing these financial statements the Board is required to;

1. Select suitable accounting policies and then apply them consistently.
2. Make judgements and estimates that are reasonable and prudent.
3. State whether applicable accounting standards have been followed.
4. Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Association 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 Association and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. In determining how amounts are presented within items in the Statement of Comprehensive Income and the Statement of Financial Position, the Board has regard to the substance of the reported transaction or arrangement, in accordance with the generally accepted accounting principles or practice. The Board is also responsible for safeguarding the assets of the Association and hence taking reasonable steps for the prevention and detection of fraud and other irregularities, by establishing and maintaining a satisfactory system of control over the Association'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 auditors are unaware. The Directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any audit information and to establish that the Association's auditors are aware of that information.

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 Board's responsibility to establish and maintain appropriate systems of internal control Spire Homes. The Group Board has overall responsibility for ensuring that the appropriate level of internal control is in place across 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 & Risk Committee.

The Homes Board, Group Board and the Audit & 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 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 & 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 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 others.
- vii) The Audit & 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 Group's strategic risk register and risk assurance framework for each key business area across the Group.

Statement on Internal Controls (continued)

- iii) A group-wide Asset & Liability register.
- iv) A Group-wide Finance & Treasury Committee which meets four times a year focussing on the Group's treasury strategy and monitoring compliance with the approved treasury policy.
- v) 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 & 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. In reviewing the Association's compliance with all relevant laws and regulations, no breaches were identified.

Value for Money Assessment

The Association has not produced a separate individual value for money self-assessment for the year ending 31st March 2017. The Longhurst Group consolidated value for money self-assessment incorporates the results and activities of the association, along with other members of the Longhurst Group. A full copy of the Group value for money self-assessment can be found at www.longhurst-group.org.uk/value-for-money.

Strategic Report

The Association 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 Operating Financial Review the information required by schedule 7 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.

The financial statements were approved and authorised for issue by the Board on 20 July 2017 and signed on its behalf by:

.....

Ms R Challinor
Company Secretary
20 July 2017

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF SPIRE HOMES (LG) LIMITED

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

This report is made solely to the Association'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 Association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association and the Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Board and the Auditor

As explained more fully in the Statement of Board's Responsibilities set out on page 3, the Board is responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the 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 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 Association's affairs as at 31 March 2017 and of its profit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of 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 matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- 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 Date: 20 July 2017
St George's House, 215-219 Chester Road
Manchester, M15 4JE

SPIRE HOMES (LG) LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
STATEMENT OF COMPREHENSIVE INCOME

	Notes	31 March 2017 £'000	31 March 2016 £'000
Turnover	2	33,320	33,693
Cost of Sales	2	(3,515)	(4,506)
Operating expenditure	2	(16,256)	(17,033)
Operating surplus		13,549	12,154
(Loss) on disposal of property, plant and equipment (fixed assets)	6	(286)	(3)
Interest receivable		161	137
Interest and financing costs	7	(10,302)	(9,780)
Surplus for the year	8	3,122	2,508
Actuarial (loss)/gain in respect of pension schemes		(310)	433
Total comprehensive income for the year		2,812	2,941

The financial statements on pages 7 to 29 were approved and authorised for issue by the Board on **20 July 2017** and were signed on its behalf by:

Board Member:

Board Member:

Secretary:

.....

.....

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SPIRE HOMES (LG) LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
STATEMENT OF FINANCIAL POSITION

	Notes	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Fixed assets			
Tangible fixed assets	13	328,254	315,897
Current assets			
Stock	14	5,326	2,526
Trade and other debtors	15	1,393	1,150
Cash and cash equivalents	16	242	938
		<u>6,961</u>	<u>4,614</u>
Less: Creditors: amounts falling due within one year	17	(6,369)	(5,993)
Net current assets/(liabilities)		<u>592</u>	<u>(1,379)</u>
Total assets less current liabilities		328,846	314,518
Creditors: amounts falling due after more than one year	18(a)	188,613	177,282
Provisions for liabilities			
Pension provision	12	<u>2,107</u>	<u>1,922</u>
Total net assets		<u>138,126</u>	<u>135,314</u>
Reserves			
Non-equity share capital	21	-	-
Income and expenditure reserve		(1,376)	(5,443)
Revaluation reserve		139,502	140,757
Total reserves		<u>138,126</u>	<u>135,314</u>

The financial statements on pages 7 to 29 were approved and authorised for issue by the Board on **20 July 2017** and were signed on its behalf by:

Board Member:

Board Member:

Secretary:

.....
 The notes on pages 11 to 29 form an integral part of these accounts.

SPIRE HOMES (LG) LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
STATEMENT OF CHANGES IN RESERVES

	Income and expenditure reserve £'000	Revaluation reserve £'000	Total £'000
Balance at 31 March 2015	(9,438)	141,811	132,373
Surplus from Statement of Comprehensive Income	2,941	-	2,941
Transfer of depreciation	1,054	(1,054)	-
Balance at 31 March 2016	(5,443)	140,757	135,314
Surplus from Statement of Comprehensive Income	2,812	-	2,812
Transfer of depreciation	1,255	(1,255)	-
Balance at 31 March 2017	<u>(1,376)</u>	<u>139,502</u>	<u>138,126</u>

The notes on pages 11 to 29 form an integral part of these accounts.

SPIRE HOMES (LG) LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
STATEMENT OF CASH FLOWS

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Net cash generated from operating activities (see Note i)	13,081	14,757
Cash flow from investing activities		
Purchase of tangible fixed assets	(16,913)	(16,005)
Proceeds from sale of tangible fixed assets	1,481	1,153
Grants received	488	1,353
Interest received	161	9
	<u>(14,783)</u>	<u>(13,490)</u>
Cash flow from financing activities		
Interest paid	(10,594)	(10,478)
New secured loans	23,484	10,050
Repayment of borrowings	(11,884)	(500)
	<u>1,006</u>	<u>(928)</u>
Net change in cash and cash equivalents	(696)	339
Cash and cash equivalents at beginning of the year	<u>938</u>	<u>599</u>
Cash and cash equivalents at end of the year	<u><u>242</u></u>	<u><u>938</u></u>

Note i	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Cash flow from operating activities		
Surplus for the year	3,122	2,508
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	4,918	4,789
Amortisation of government grants	(181)	(174)
Impairment Charges	-	4
Decrease/(increase) in stock	(2,800)	471
Decrease in trade and other debtors	(243)	(20)
Increase/(decrease) in trade and other creditors	(2,041)	(2,615)
Pension costs less contributions payable	(121)	148
Adjustments for investing or financing activities:		
Gain on disposal of tangible fixed assets	286	3
Interest payable	10,302	9780
Interest received	(161)	(137)
	<u><u>13,081</u></u>	<u><u>14,757</u></u>
Net cash generated from operating activities		

The notes on pages 11 to 29 form an integral part of these accounts.

LEGAL STATUS

Spire Homes (LG) Limited is incorporated in England under the Companies Act 2006 as a company limited by guarantee without share capital (registered number 4043921) and is registered with the Homes and Communities Agency as a Registered Provider of Social Housing. The Company is also registered with the Charity Commission (reference 1140935). The registered office is **1 Crown Court, Crown Way, Rushden, NN10 6BS**.

1. PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The 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. Spire Homes (LG) is a Public Benefit Entity and the financial statements have been prepared in compliance with FRS 102.

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 and are presented in sterling £, rounded to the nearest £'000.

Going concern

The 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 association capitalises development expenditure in accordance with the accounting policy described on page 14. 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 Association has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the association has considered if the asset is held for social benefit or to earn commercial rentals.
- **Impairment.** The association 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 value

1. PRINCIPAL ACCOUNTING POLICIES (continued)

- **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 there was no trigger for impairment.

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 2. 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 3 and matched against the relevant costs.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Service charges

Service charge income and costs are recognised on an accruals basis. The association 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.

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. Donated land/assets or assets acquired at below market value from a government source, i.e. local authority, are included as a liability in the Statement of Financial Position at the fair value less consideration paid. Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion of construction. For shared ownership properties, the properties are classified as complete once the final property within a scheme has been sold. 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 association depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories. UELs for identified components are as follows:

	Years
• Structure	120
• Roof	60
• Heating	15
• Windows	30
• Electricals	30
• Bathroom	30
• Kitchen	20
• Lifts	15
• Doors	30

1. PRINCIPAL ACCOUNTING POLICIES (continued)

The Association depreciates housing properties held on long 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 of Cost
• Freehold Offices	1%
• Furniture & Office Equipment	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 Association 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 Association. In both cases, the assets and associated liabilities are included in the Statement of Financial Position.

Leasing and hire purchase

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

Stock and properties held for sale

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 one 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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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 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 one year.

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 association has a participating interest.

Contributions payable under an agreement with The Social Housing Pension Scheme to fund past deficits are recognised as a liability in the 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% at 31 March 2016 and 1.33% for 31 March 2017. The unwinding of the discount is recognised as a finance cost in the Statements of Comprehensive Income in the period incurred.

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.

Financial instruments held by the Association 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.

2. TURNOVER, COST OF SALES, OPERATING EXPENDITURE AND OPERATING SURPLUS

	Turnover	Cost of sales	2017 Operating expenditure	Operating surplus/(deficit)
	£'000	£'000	£'000	£'000
SOCIAL HOUSING LETTINGS (Note 3)	26,834	-	(15,110)	11,724
OTHER SOCIAL HOUSING ACTIVITIES				
First tranche low cost home ownership sales	4,893	(3,515)	-	1,378
Support services	648	-	(645)	3
Development services	747	-	(411)	336
Other activities	194	-	(82)	112
Managed operations	<u>4</u>	<u>-</u>	<u>(8)</u>	<u>(4)</u>
TOTAL	<u>33,320</u>	<u>(3,515)</u>	<u>(16,256)</u>	<u>13,549</u>

	Turnover	Cost of sales	2016 Operating expenditure	Operating surplus/(deficit)
	£'000	£'000	£'000	£'000
SOCIAL HOUSING LETTINGS (Note 3)	26,380	-	15,824	10,556
OTHER SOCIAL HOUSING ACTIVITIES				
First tranche low cost home ownership sales	5,987	(4,506)	-	1,481
Support services	668	-	(682)	(14)
Development services	411	-	(438)	(27)
Other activities	247	-	(81)	166
Managed operations	<u>-</u>	<u>-</u>	<u>(8)</u>	<u>(8)</u>
TOTAL	<u>33,693</u>	<u>(4,506)</u>	<u>(17,033)</u>	<u>12,154</u>

3. TURNOVER AND OPERATING EXPENDITURE FROM SOCIAL HOUSING LETTINGS

	General Housing	Supported Housing and Housing for Older People	Low cost Home Ownership	Garages	Total 2017	Total 2016
	£'000	£'000	£'000	£'000	£'000	£'000
INCOME						
Rent receivable net of identifiable service charges and voids	22,132	2,400	834	277	25,643	25,182
Service charge income	398	496	104	-	998	1,007
Amortised government grants	161	2	18	-	181	174
Other income from Social Housing Lettings	-	12	-	-	12	17
TOTAL TURNOVER FROM SOCIAL HOUSING LETTINGS	<u>22,691</u>	<u>2,910</u>	<u>956</u>	<u>277</u>	<u>26,834</u>	<u>26,380</u>
OPERATING EXPENDITURE						
Management	3058	396	48	-	3,502	3,857
Service charge costs	613	703	7	-	1,323	1,378
Routine maintenance	2,665	357	1	14	3,037	3,250
Planned maintenance	988	131	-	1	1,120	1,384
Major repairs expenditure	852	217	(2)	70	1,137	1,334
Bad debts	290	18	-	7	315	66
Depreciation of Housing Properties	4223	366	87	-	4,676	4,551
Impairment of Housing Properties	-	-	-	-	-	4
Operating expenditure on Social Housing Lettings	<u>12,689</u>	<u>2,188</u>	<u>141</u>	<u>92</u>	<u>15,110</u>	<u>15,824</u>
OPERATING SURPLUS ON SOCIAL HOUSING LETTINGS	<u>10,002</u>	<u>722</u>	<u>815</u>	<u>185</u>	<u>11,724</u>	<u>10,556</u>
Void losses	<u>124</u>	<u>57</u>	<u>-</u>	<u>214</u>	<u>395</u>	<u>465</u>

4. ACCOMODATION OWNED, MANAGED AND IN DEVELOPMENT

	2017		2016	
	No. of units Owned	Managed	No. of units Owned	Managed
Social Housing				
Under development at end of year:				
General needs housing social rent	133	-	152	-
General needs housing affordable rent	118	-	94	-
General needs housing intermediate rent	37	-	30	-
Low-cost home ownership	181	-	152	-
Deferred Equity	8	-	-	-
Outright Sale	39	-	-	-
	<u>516</u>	<u>-</u>	<u>428</u>	<u>-</u>
Under management at end of year:				
General needs housing	4,245	1	4,398	-
General needs housing affordable rent	290	-	-	-
Supported housing and housing for older people	562	-	582	-
Leasehold Schemes for the Elderly	145	-	3	-
Low-cost home ownership	402	-	314	-
	<u>5,644</u>	<u>1</u>	<u>5,297</u>	<u>-</u>
	<u>6,160</u>	<u>1</u>	<u>5,725</u>	<u>-</u>

5. ACCOMMODATION MANAGED BY OTHERS

The Association owns property managed by other bodies.

	2017 No. of properties	2016 No. of properties
General Needs	1	2
Supported	<u>7</u>	<u>8</u>
	<u>8</u>	<u>10</u>

6. LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT (FIXED ASSETS)

	RTB & Voluntary Sales £'000	Shared Ownership Staircasing sales £'000	Total 2017 £'000	Total 2016 £'000
Proceeds of sales	1,173	308	1,481	1,153
Less: Costs of sales	<u>(1,469)</u>	<u>(298)</u>	<u>(1,767)</u>	<u>(1,156)</u>
(Loss)	<u>(296)</u>	<u>10</u>	<u>(286)</u>	<u>(3)</u>
Capital grant recycled (Note 20)	<u>-</u>	<u>-</u>	<u>-</u>	<u>30</u>

7. INTEREST AND FINANCING COSTS

	2017	2016
	£'000	£'000
Deferred benefit pension charge	84	90
On loans repayable within five years	1,459	1,544
On loans wholly or partly repayable in more than five years	9,158	8,902
Costs associated with financing	462	394
Less: Interest capitalised on housing properties under construction	<u>(861)</u>	<u>(1,150)</u>
	<u>10,302</u>	<u>9,780</u>

The weighted average interest on borrowings of 6.307% (2016: 5.851%) was used for calculating capitalised finance costs.

8. SURPLUS ON ORDINARY ACTIVITIES

	2017	2016
	£'000	£'000
The operating surplus is stated after charging/(crediting):-		
Auditors remuneration (excluding VAT):		
Audit of the financial statements	17	24
Operating lease rentals:		
– Vehicles	117	131
– Office equipment	7	2
Impairment losses of housing properties	-	4
Depreciation of housing properties	4,474	4,551
Depreciation of other fixed assets	242	252
Deficit on sale of other fixed assets	286	3
Amortisation of Government grants	181	174

9. TAX ON SURPLUS ON ORDINARY ACTIVITIES

The Association is registered as a Charitable Company and as such is exempt from UK Corporation Tax on its charitable activities.

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

	2017	2016
10. KEY MANAGEMENT PERSONNEL REMUNERATION	£'000	£'000
Total emoluments paid to non-executive Directors	38	30
Total emoluments paid to executive Directors	912	75
Remuneration of the highest paid Director (excluding pension contributions)	200	46
Total amount of Directors pension contributions excluding amounts under a properly funded pension scheme.	-	5

Directors (Key Management Personnel) are defined as 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). The prior year comparative included Key Management Personnel employed solely by Spire Homes as this was prior to the restructuring of the senior team across the Group.

The Chief Executive (Ms J Doyle) is an ordinary member of the pension scheme. The pension scheme is a Care 1/60th 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 £24,182 was paid in addition to the personal contributions of the Chief Executive.

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

11. EMPLOYEE INFORMATION

	2017	2016
	No.	No.
The average number of persons employed during the year expressed in full time equivalents (36.25 hours per week) was:		
Office staff	65	58
Care Scheme staff, wardens, caretakers and cleaners	10	11
	<u>75</u>	<u>69</u>
Staff costs (for the above persons)	£'000	£'000
Wages and salaries	2,170	2,345
Social Security costs	188	172
Other pension costs	<u>334</u>	<u>546</u>
	<u>2,692</u>	<u>3,063</u>
Aggregate number of full time equivalent staff whose remuneration exceeded £60,000 in the period:	<u>No of Staff</u>	<u>No of Staff</u>
£60,000 - £70,000	1	1
£70,000 - £80,000	-	1
£80,000 - £90,000	1	-

12. PENSION OBLIGATIONS

Spire Homes (LG) Limited participates in three schemes, the Social Housing Pension Scheme (SHPS) and two Local Government Pension Scheme (LGPS) in East Northamptonshire and Rutland.

Social Housing Pension Scheme

Spire Homes (LG) Limited 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. Spire Homes (LG) Limited has elected to operate a final salary with a 1/60 accrual rate and the career average re-valued 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 re-valued earnings structure is the only option available. During the year under review, Spire Homes (LG) Limited paid contributions at the rate of 7.35% for the final salary scheme and 8.05% for the career average scheme, plus a monthly lump sum to fund past deficit amounts. Contributions by members varied between 8.45% and 12.45% depending on their age and which scheme they are in. At the balance sheet date there were 28 active members of the scheme employed by Spire Homes (LG) Limited 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 section 28 represents the employer contribution payable.

12. PENSION OBLIGATIONS (continued)

The trustee commissions an actuarial valuation of the scheme every three 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 £3,123m, liabilities were £4,446m, revealing a shortfall of assets compared with the value of liabilities of £1,323m.

Following a change in legislation in September 2005, 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 Spire Homes as at 30 September 2015 has been calculated as £6,565,293

Social Housing Pension Scheme and Pensions Trust Growth Plan

Spire Homes participates in the Pension Trust's multi-employer 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 Spire Homes paid contributions at the rate of 0% during the accounting period. Members paid contributions at varying rates during the accounting period. As at the balance sheet date, there was no active member of the plan employed Spire Homes. Spire Homes continues to offer membership of the plan to its employees.

The Trustee commissions an actuarial valuation of the growth plan every three years. The last formal valuation of the scheme was carried out as 30 September 2016 by a professionally qualified actuary. The valuation revealed a shortfall in assets of £230.6m, equivalent to a funding level of 79.6%. The estimated amount of employer debt on withdrawal liability for Spire Homes as at 30 September 2016 has been calculated as £2,077.

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.

	2017	2016
	£'000	£'000
At start of the year	1,112	947
Additional liabilities in the year	26	265
Interest for the year	21	17
Released to expenditure in the year	<u>(147)</u>	<u>(117)</u>
	<u>1,012</u>	<u>1,112</u>

During the year ended 31 March 2017 no additional payments to reduce the deficit have been agreed with SHPS (2016 - £271k).

12. PENSION OBLIGATIONS (continued)

Local Government Pension Scheme

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 contributions made for the year ended 31 March 2017 were £256k (2015: £213k), of which employer's contributions totalled £241k (2016: £199k) and employees' contributions totalled £15k (2016: £14k). The agreed employer contribution rates for future years are 19.4% for the Northamptonshire County Council scheme and 19.37% for the Leicestershire County Council scheme.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund and updated to 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
	years	years
Retiring today		
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	At 31 March 2016
	£'000	£'000
Analysis of the amount charged to operating costs in the Statement of Comprehensive Income		
Contributions by employer including unfolded	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>
Amount 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>

12. PENSION OBLIGATIONS (continued)

Local Government Pension Scheme (continued)

Movement in surplus/(deficit) during year	At 31 March 2017	At 31 March 2016
	£'000	£'000
Surplus/(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>
(Deficit)/Surplus in scheme at 31 March	<u>(2,107)</u>	<u>(1,922)</u>
Asset and Liability Reconciliation	At 31 March 2017	At 31 March 2016
	£'000	£'000
Reconciliation of liabilities		
Opening defined benefit obligation	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>
Closed defined benefit obligation	<u>7,300</u>	<u>6,249</u>
Reconciliation of assets		
Opening fair value of Fund Assets	4,327	4,329
Interest on assets	148	135
Return on assets 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>
Closing fair value of Fund assets	<u>5,193</u>	<u>4,327</u>

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

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

13. TANGIBLE FIXED ASSETS

	Housing Properties				Other Fixed Assets			
	Social Housing Properties For Letting Completed	Social Housing Properties for letting Under Construction	Low cost home ownership Properties Completed	Low cost home ownership Properties Under Construction	Total Housing properties	Freehold offices	Furniture and Office Equipment	Total Fixed assets
Cost:	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At start of the year	308,522	11,090	13,920	6,945	340,477	2,178	1,552	344,207
Additions to properties Completed in year	410	11,798	-	4,790	16,998	-	9	17,007
Components Capitalised	1,427	-	-	-	1,427	-	-	1,427
Components Replaced	(316)	-	-	-	(316)	-	-	(316)
Disposals	(956)	-	(271)	-	(1,227)	-	-	(1,227)
At end of the year	<u>319,734</u>	<u>12,241</u>	<u>19,513</u>	<u>5,871</u>	<u>357,359</u>	<u>2,178</u>	<u>1,561</u>	<u>361,098</u>
Depreciation and Impairment								
At start of the year	26,357	-	482	-	26,839	429	1,042	28,310
Charge for the year	4,387	-	87	-	4,474	14	228	4,716
Components Replaced	(113)	-	-	-	(113)	-	-	(113)
Impairment losses	-	-	-	-	-	-	-	-
Disposals	(67)	-	(2)	-	(69)	-	-	(69)
At end of the year	<u>30,564</u>	<u>-</u>	<u>567</u>	<u>-</u>	<u>31,131</u>	<u>443</u>	<u>1,270</u>	<u>32,844</u>
Net Book value at the end of the year	<u>289,170</u>	<u>12,241</u>	<u>18,946</u>	<u>5,871</u>	<u>326,228</u>	<u>1,735</u>	<u>291</u>	<u>328,254</u>
Net book value at the start of the year	<u>282,165</u>	<u>11,090</u>	<u>13,438</u>	<u>6,945</u>	<u>313,638</u>	<u>1,749</u>	<u>510</u>	<u>315,897</u>

Housing Properties comprise:

Freeholds

	2017 £'000	2016 £'000
Freeholds	326,228	313,638

Cost of properties includes £747k (2016: 411k) for direct administrative costs capitalised during the year

Works to existing properties in the year:

	2017	2016
Components capitalised	1,427	2,259
Amounts charged to expenditure	1,137	1,334

The aggregate amount of interest and finance costs included in the cost of housing properties is £4,998k (2016: £4,137k)

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

14. STOCK

	2017	2016
	£'000	£'000
Properties held for sale		
Completed	2,173	216
Work in progress	<u>3,153</u>	<u>2310</u>
	<u><u>5,326</u></u>	<u><u>2,526</u></u>

15. TRADE AND OTHER DEBTORS

	2017	2016
	£'000	£'000
Rent arrears	1,050	1,288
Less: provision for bad debts	(643)	(731)
Other debtors	180	165
Prepayment and accrued income	186	251
Social Housing Grant Receivable	193	-
Intercompany	<u>427</u>	<u>177</u>
	<u><u>1,393</u></u>	<u><u>1,150</u></u>

16. CASH AND CASH EQUIVALENTS

	2017	2016
	£'000	£'000
Cash and cash equivalents	<u>242</u>	<u>938</u>
	<u><u>242</u></u>	<u><u>938</u></u>

The cash held includes balances totalling £14k (2016: £13k) which are held in trust for leaseholders.

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017	2016
	£'000	£'000
Loans (note 18b)	816	-
Trade creditors	570	735
Amounts owed to group undertakings	2,974	3,230
Rents and service charges paid in advance	728	549
Service charge balances held on behalf of leaseholders	17	10
Other taxation and social security payable	94	85
Accruals and deferred income	177	526
SHPS pension agreement plan (Note 12)	153	147
Deferred Capital Grant (Note 19)	181	170
Recycled Capital Grant Fund (Note 20)	-	121
Other creditors	659	420
	<u><u>6,369</u></u>	<u><u>5,993</u></u>

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

18(a). CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2017	2016
	£'000	£'000
Loans (Note 18b)	166,842	155,822
Deferred Capital Grant (Note 19)	20,912	20,450
Recycled capital grant fund (Note 20)	-	45
SHPS pension agreement plan (Note 12)	<u>859</u>	<u>965</u>
	<u>188,613</u>	<u>177,282</u>

18(b). DEBT ANALYSIS

	2017	2016
	£'000	£'000
Loans repayable by instalments:		
Within one year	816	-
In one year or more but less than two years	816	-
In two years or more and less than five years	2,448	-
In five years or more	12,104	-
Loans not repayable by instalments:		
Within one year	-	-
In one year or more but less than two years	-	11,850
In two years or more and less than five years	19,050	11,500
In five years or more	136,850	136,837
	-	-
Less: loan issue costs	<u>(4,426)</u>	<u>(4,365)</u>
Total loans	<u>167,658</u>	<u>155,822</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 6.307%. (2016: 5.61%).

19. DEFERRED CAPITAL GRANT

	2017	2016
	£'000	£'000
At start of the year	20,620	19,462
Amortised in year	(181)	(175)
Disposed of in year	-	(30)
Received in the year	488	1,330
Received from RCGF	<u>166</u>	<u>33</u>
At the end of the year	<u>21,093</u>	<u>20,620</u>
	£'000	£'000
Amount due to be released < 1 year	181	170
Amount due to be released > 1 year	20,912	20,450
	<u>21,093</u>	<u>20,620</u>

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

20. RECYCLED CAPITAL GRANT FUND

	2017	2016
	£'000	£'000
At the start of the year	166	168
Inputs: Grants recycled	-	30
Interest accrued	-	1
Recycling: New build	(166)	(33)
At the end of the year	<u>-</u>	<u>166</u>
	<u>-</u>	<u>-</u>
Amount three years or older where repayment may be required This is grant from the HCA.	<u>-</u>	<u>-</u>

21. NON-EQUITY SHARE CAPITAL

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

22. CAPITAL COMMITMENTS

	2017	2016
	£'000	£'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	29,337	19,560
Capital expenditure that has been authorised by the Board but has not yet been contracted for	<u>3,177</u>	<u>10,065</u>
	<u>32,514</u>	<u>29,625</u>
The Association expects these commitments to be financed with:		
Social Housing Grant	618	463
Proceeds from the sales of properties	19,487	15,198
Committed loan facilities	<u>12,409</u>	<u>13,964</u>
	<u>32,514</u>	<u>29,625</u>

The above figures include the full cost of shared ownership properties contracted for.

23. OPERATING LEASES

Spire Homes holds vehicles and office equipment under non-cancellable operating leases. At the end of the year Spire Homes had commitments of future minimum lease payments as follows: -

	2017	2016
	£'000	£'000
Leases expiring:		
Not later than one year	104	111
Later than one year and not later than five years	118	178
Later than five years	<u>-</u>	<u>-</u>
	<u>222</u>	<u>289</u>

24. CONTINGENT LIABILITY

Spire Homes did not have any contingent liabilities at the Statement of Financial Position date.

25. GRANT AND FINANCIAL ASSISTANCE

	2017	2016
	£'000	£'000
The total accumulated SHG received or receivable at 31 March:		
Held as deferred capital grant	21,093	20,620
Revenue grant recognised as income	<u>1,820</u>	<u>1,638</u>
	<u><u>22,913</u></u>	<u><u>22,258</u></u>

26. RELATED PARTIES

Ultimate Parent Undertaking

The ultimate parent undertaking in which the results of Spire Homes Limited are consolidated is Longhurst Group Limited, a company registered in England. The consolidated accounts of Longhurst Group Limited are available to the public and are available from the registered head office, 50 Newhall Hill, Birmingham, B1 3JN.

Transactions with Regulated Group Members

Spire Homes Limited has taken advantage of the exemption conferred to it in FRS102 section 33, not to disclose transactions with other regulated members of Longhurst Group Limited.

Transactions with Non-Regulated Group Members

During 2016/2017 Spire Homes transacted with one non-regulated businesses that is a direct subsidiary of Longhurst Group Ltd. Libra (LG) Treasury PLC acts as a bond issuer and loans manager for the Group bank loans facilities, of which Spire Homes are a borrower of both. Since August 2012 all of the interest costs incurred by Spire Homes relates to loans that reside within or are managed by Libra. The set up costs associated with these loans have been recharged from Libra to Spire Homes at cost only.

Other

Together with Longhurst and Havelok Homes and Friendship Care & Housing, Spire Homes is a founder member 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 a founder member Friendship Care & Housing has a place on the Board and its liabilities are limited to a £1 share. We have signed a Members' Agreement and the Articles of Association.

27. FINANCIAL INSTRUMENTS

The Association's financial instruments may be analysed as follows:	2017	2016
	£'000	£'000
Financial assets		
(a) Financial assets that are debt instruments measured at amortised cost:		
Cash at bank and in hand	242	938
Trade debtors	407	557
Other debtors	180	165
Accrued income	193	5
(b) Financial liabilities at amortised cost:		
Loans	167,658	155,822
Finance leases	-	-
Trade creditors	570	735
Accruals	177	526
Other creditors	659	420
Recycled capital grant fund	-	166
Deferred capital grant fund	21,093	20,620

SPIRE HOMES (LG) LIMITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31
MARCH, 2016

SPIRE HOMES (LG) LIMITED
(A Company Limited by Guarantee)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

Company Registration Number: 4043921
Charity Registration Number:1140935

	Page No.
Board Members, Executive Officers and Principal Advisors	1
Strategic Report	2-5
Report of the Independent Auditors	6
Statement of Comprehensive Income	7
Statement of Changes in Reserves	8
Statement of Financial Position	9
Statement of Cash Flows	10
Notes to the Financial Statements	11 - 35

SPIRE HOMES (LG) LIMITED

BOARD MEMBERS, EXECUTIVE OFFICERS AND PRINCIPAL ADVISORS

Board Members:

Ernest Hendricks (Chair) – (appointed 01.01.2016)
John Farrar (Chair) – (resigned 31.12.2015)
Penny Steel (Vice Chair) – (resigned 31.12.2015)
Sarah Peacock – (resigned 31.12.2015)
Vikki Sargent – (resigned 31.12.2015)
Lesley Owen Jones – (resigned 31.12.2015)
Ron Whittaker – (resigned 31.12.2015)
Charles Parkhouse – (resigned 31.12.2015)
John Robson – (resigned 31.12.2015)
Daniel Elkins – (resigned 31.12.2015)
Caroline Mabey – (resigned 31.12.2015)
Stephen Wenham – (appointed 01.01.2016)
Derek Doran - (appointed 01.01.2016)
Peter Oliver - (appointed 01.03.2016)
Julie Doyle – Executive Member - (appointed 01.01.2016)
Lynn Stubbs – Executive Member - (appointed 01.01.2016)

Executive Officers:

Lynn Stubbs DMS – resigned 30.11.2015
Katy Sagoe BA (Hons) – resigned 10.08.2015

Registered Head Office:

1 Crown Court
Crown Way
Rushden
Northants
NN10 6BS

Principle Bankers:

Lloyds Bank
3rd Floor
25 Gresham Street
London
EC2V 7HN

Auditors:

Beever and Struthers
Chartered Accountants and Statutory Auditor
St George's House
215 - 219 Chester Road
Manchester M15 4JE

Solicitors:

Trowers & Hamlin
3 Bunhill Row
London
EC1Y 8YZ

Registered with the Homes and Community Agency No: LH4302

Introduction

The Board of Spire Homes (LG) Limited is pleased to present its report and audited financial statements for the year ended 31 March 2016. Spire Homes is part of the Longhurst Group of companies and further detail about the organisation's performance, finances and future plans and priorities can be found in the Group's audited consolidated financial statements for the 2015/16 financial year.

Spire Homes is a successful and thriving registered social housing provider with charitable status. Owning around 5,700 properties across Northamptonshire, Leicestershire and Rutland and established as a result of large scale voluntary transfers of stock, from East Northamptonshire Council in 2001, followed by Rutland County Council in 2009. Spire Homes is part of the Longhurst Group of companies, a leading housing provider of affordable housing, care and support services across the Midlands and surrounding areas, with almost 19,000 homes in management.

As Spire Homes completes its fifteenth year of operation we can reflect on and celebrate a huge contribution to the lives of our customers and the wider community through the provision of high quality homes and housing and support services. With a strong staff team and a culture of innovation and excellence, Spire Homes continues to perform well and achieve high levels of customer satisfaction.

Spire Homes has continued to flourish and grow and bring much needed new homes to the region, with more than 900 new homes built so far for rent and shared ownership. Providing desperately needed new homes in the midst of the housing crisis is our absolute priority and we are proud of the contribution we are making by bringing a range of good quality homes of different tenure types to meet the increasing demand in our area.

Our customers have also continued to benefit from a range of support services to help them to improve their quality of life and support them through the tough economic climate. This will remain a key priority for the year ahead as we develop a Group-wide Social Value Strategy to maximise our contribution to the health and wellbeing of our customers and local communities.

Despite the significant challenges faced this year through the rent reductions and other policy announcements, Spire Homes has continued to perform well, remains financially strong and has been planning for future success through a Group wide governance and structures review.

Corporate Governance

Maintaining a healthy Board and committee structure is vital to both Spire Homes and the wider Longhurst Group; this ensures that we take strong decisions and manage anticipated business risks effectively. Following a comprehensive review of our governance arrangements across the Group, a new streamlined governance structure came into effect on 1st January 2016. The new structure accommodates our ambition to grow and supports greater efficiency, as well as ensuring we are fit for purpose and ready to meet the demands of the sector now and in the future.

The new governance structure incorporates a co-terminous Board, known as the Homes Board, which brings together the Boards of all three Group member companies, Spire Homes, Friendship Care and Housing and L and H Homes. 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. As the Group moves forward with its ambition of creating a unified team with one vision, the co-terminous Homes Board will play a key role in championing this approach.

Compliance with Governance Code

Spire Homes 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*'. Spire Homes 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 with the Code, namely:

Code Provision	Reasoned Statement of Non-Compliance
<p>D2</p> <p>Maximum tenure must be agreed for all non-executives which must in total be nine 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</p>	<p>During the year some Board Members length of service exceeded 9 years' tenure; these members were retained to ensure continuity during a period of governance change for the Group and all these relevant members stood down during the year. A</p>

Compliance with Governance and Financial Viability Standard

The Board has taken reasonable steps to ensure compliance with the requirements of the Governance and Financial Viability Standard. There have been no serious or material breaches of the law or the Standard as would require notification to the Homes and Communities Agency in accordance with the Governance and Regulatory Standard.

Board Membership and Remuneration

The new 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 table below identifies members from the previous L&H Homes Board, as well as the members of the new Homes Board. From 1 January 2016, remuneration of Homes Board members was for the role of Board members of L&H Homes, Spire Homes and Friendship Care and Housing, the remuneration shown is the total paid to each member.

Board Member	Appointed Date	Resignation Date	Remuneration
Ernest Hendricks (Homes Board Chair)	1 January 2016	-	£3,000
Derek Doran	-	-	£4,456
Peter Oliver	1 March 2016	-	£583
Stephen Wenham	1 January 2016	-	£1,750
Julie Doyle	1 January 2016	-	Executive Officer
Lynn Stubbs	1 January 2016	-	Executive Officer
John Farrar	-	31 December 2015	£8,118
Penny Steel	-	31 December 2015	£2,706
Sarah Peacock	-	31 May 2015	£601
Vikki Sargent	-	31 December 2015	£2,706
Lesley Owen-Jones	-	31 December 2015	£2,706
Ron Whittaker	-	31 December 2015	£2,706
Charles Parkhouse	-	31 December 2015	£2,706
John Robson	-	31 December 2015	Nil
Daniel Elkins	-	31 December 2015	£2,706
Caroline Mabey	-	31 December 2015	£2,706

Statement of the Board's Responsibilities in Respect of the Financial Statements

The Board is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and of its income and expenditure for that period. In preparing these financial statements the Board is required to;

1. Select suitable accounting policies and then apply them consistently.
2. Make judgements and estimates that are reasonable and prudent.
3. State whether applicable accounting standards have been followed.
4. Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Association 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 Association and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. In determining how amounts are presented within items in the Statement of Comprehensive Income and the Statement of Financial Position, the Board has regard to the substance of the reported transaction or arrangement, in accordance with the generally accepted accounting principles or practice. The Board is also responsible for safeguarding the assets of the Association and hence taking reasonable steps for the prevention and detection of fraud and other irregularities, by establishing and maintaining a satisfactory system of control over the Association'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 auditors are unaware. The Directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any audit information and the establish that the Association's auditors are aware of that information.

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 Board's responsibility to establish and maintain appropriate systems of internal control for Spire Homes. The Group Board has overall responsibility for ensuring that the appropriate level of internal control is in place across 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 & Risk Committee.

The Spire Homes Board, Group Board and the Audit & 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 appointed as Internal Auditors at the beginning of the 2012/13 financial year. The focus of internal audit work in 2015/16 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 rules relating to the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of the Company's assets.
- ii) The 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 Committee has reviewed the fraud register on a quarterly basis during 2015/16. There were no matters which were required to be reported to the HCA.

- iii) The 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.
- v) The Group Board has approved a Group-wide contingency plan. The contingency plan was developed in recognition of the changing nature of the risks faced by our business and the sector as a whole. The contingency plan supplements the work undertaken on risk management and incorporates additional stress testing on the Business 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 others.
- vii) The Audit 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) The establishment of a group-wide Asset & Liability register
- iii) A Group-wide Finance & Treasury Committee which meets four times a year focussing on the Group's treasury strategy and monitoring compliance with the approved treasury policy
- iv) 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 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. In reviewing the Association's compliance with all relevant laws and regulations, no breaches were identified.

Strategic Report

The Association 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 Operating Financial Review the information required by schedule 7 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.

The financial statements were approved and authorised for issue by the Board on 19 July 2016 and signed on its behalf by:

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Lynn Stubbs
Company Secretary
19 July 2016

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF SPIRE HOMES (LG) LIMITED

We have audited the financial statements of Spire Homes (LG) Limited for the year ended 31 March 2016 on pages 7 to 35. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective Responsibilities of the Board and the Auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Association's affairs as at 31 March 2016 and of the Group's surplus/deficit for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

In our opinion the information given in the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements;

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 require 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; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Beever and Struthers
Chartered Accountants and Statutory Auditor
St George's House, 215-219 Chester Road
Manchester, M15 4JE

Date: 19 July 2016

SPIRE HOMES (LG) LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
STATEMENT OF COMPREHENSIVE INCOME

	Notes	31 March 2016 £'000	Restated 31 March 2015 £'000
Turnover	2	33,693	31,245
Cost of Sales	2	(4,506)	(3,464)
Operating expenditure	2	(17,033)	(16,398)
Operating surplus		<u>12,154</u>	<u>11,383</u>
(Loss) on disposal of property, plant and equipment (fixed assets)	6	(3)	(403)
Interest receivable		137	57
Interest and financing costs	7	(9,780)	(9,570)
Surplus for the year	8	<u>2,508</u>	<u>1,467</u>
Actuarial gain/(loss) in respect of pension schemes		433	(141)
Total comprehensive income for the year		<u><u>2,941</u></u>	<u><u>1,326</u></u>

The financial statements on pages 7 to 35 were approved and authorised for issue by the Board on 19 July 2016 and were signed on its behalf by:

Board Member:

Board Member:

Secretary:

.....

.....

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SPIRE HOMES (LG) LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
STATEMENT OF FINANCIAL POSITION

	Notes	Year ended 31 March 2016 £'000	Restated Year ended 31 March 2015 £'000
Fixed assets			
Tangible fixed assets	13	315,897	304,619
Current assets			
Stock	14	2,526	2,997
Trade and other debtors	15	1,150	1,153
Cash and cash equivalents	16	938	599
		<u>4,614</u>	<u>4,749</u>
Less: Creditors: amounts falling due within one year	17	(5,993)	(8,229)
Net current (liabilities)		<u>(1,379)</u>	<u>(3,480)</u>
Total assets less current liabilities		314,518	301,139
Creditors: amounts falling due after more than one year	18	177,282	166,344
Provisions for liabilities			
Pension provision	12	<u>1,922</u>	<u>2,422</u>
Total net assets		135,314	132,373
Reserves			
Non-equity share capital	21	-	
Income and expenditure reserve		(5,443)	(9,438)
Revaluation reserve		140,757	141,811
Total reserves		<u>135,314</u>	<u>132,373</u>

The financial statements on pages 7 to 35 were approved and authorised for issue by the Board on 19 July 2016 and were signed on its behalf by:

Board Member:

Board Member:

Secretary:

.....
 The notes on pages 11 to 35 form an integral part of these accounts.

SPIRE HOMES (LG) LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
STATEMENT OF CHANGES IN RESERVES

	Income and expenditure reserve £'000	Revaluation reserve £'000	Total £'000
Balance at 1 April 2014	(11,572)	-	(11,572)
Prior Year Adjustment (Note 26)	<u>(456)</u>	<u>-</u>	<u>(456)</u>
Restated Balance at 1 April 2014	(12,028)	-	(12,028)
Surplus as stated at 31 March 2015	2,462	-	2,462
Prior Year Adjustment (Note 26)	(1,136)	-	(1,136)
Restated Surplus from Statement of Comprehensive Income	1,326	-	1,326
FRS102 Deemed Cost Adjustment	-	143,075	143,075
Transfer from Revaluation Reserve	1,264	(1,264)	-
Balance at 31 March 2015	<u>(9,438)</u>	<u>141,811</u>	<u>132,373</u>
Surplus from Statement of Comprehensive Income	2,941	-	2,941
Transfer from Revaluation Reserve	1,054	(1,054)	-
Balance at 31 March 2016	<u>(5,443)</u>	<u>140,757</u>	<u>135,314</u>

The notes on pages 11 to 35 form an integral part of these accounts.

SPIRE HOMES (LG) LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 March 2016 £'000	Restated Year ended 31 March 2015 £'000
Net cash generated from operating activities (see Note i)	14,757	13,967
Cash flow from investing activities		
Purchase of tangible fixed assets	(16,005)	(28,340)
Proceeds from sale of tangible fixed assets	1,153	942
Grants received	1,353	880
Interest received	9	34
	<u>(13,490)</u>	<u>(26,484)</u>
Cash flow from financing activities		
Interest paid	(10,478)	(8,572)
Issue of ordinary shares	-	-
New secured loans	10,050	17,720
Repayment of borrowings	(500)	-
Withdrawal from deposits	-	-
	<u>(928)</u>	<u>(9,148)</u>
Net change in cash and cash equivalents	339	(3,369)
Cash and cash equivalents at beginning of the year	<u>599</u>	<u>3,968</u>
Cash and cash equivalents at end of the year	<u><u>938</u></u>	<u><u>599</u></u>
Note i	Year ended	Year ended
	31 March 2016	31 March 2015
Cash flow from operating activities	£'000	£'000
Surplus for the year	2,508	1,467
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	4,789	4,485
Amortisation of government grants	(174)	(169)
Impairment Charges	4	-
Decrease/(increase) in stock	471	(953)
Decrease/(increase) in trade and other debtors	(20)	818
Increase/(decrease) in trade and other creditors	(2,615)	(1,525)
Pension costs less contributions payable	148	(72)
Adjustments for investing or financing activities:		
Proceeds from the sale of tangible fixed assets	3	403
Interest payable	9780	9570
Interest received	(137)	(57)
	<u>14,757</u>	<u>13,967</u>
Net cash generated from operating activities		

The notes on pages 11 to 35 form an integral part of these accounts.

LEGAL STATUS

Spire Homes (LG) Limited is incorporated in England under the Companies Act 1985 as a company limited by guarantee without share capital (registered number 4043921) and is registered with the Homes and Communities Agency as a Registered Provider of Social Housing. The Company is also registered with the Charity Commission (reference 1140935). The registered office is **1 Crown Court, Crown Way, Rushden, NN10 6BS**.

1. PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The 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. The financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The accounts are prepared on the historical cost basis of accounting and are presented in sterling £.

The financial statements have been prepared in compliance with FRS102 as it applies for the first time to the financial statements for the year ended 31 March 2016. The Association transitioned from previous UK GAAP to FRS102 as at 1 April 2014. An explanation of how the transition to FRS102 has affected the reported financial position and performance, as well as the exemptions taken on transition, is given in note 26.

Going concern

The financial statements have been prepared on a going concern basis which assumes an ability to continue operating for the foreseeable future. Government's announcements in July 2015 impacting on the future income of the association have led to a reassessment of the business plan as well as an assessment of imminent or likely future breach in borrowing covenants. No significant concerns have been noted and we consider it appropriate to continue to prepare the financial statements on a going concern basis.

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 association capitalises development expenditure in accordance with the accounting policy described on page x. 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 Association has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the association has considered if the asset is held for social benefit or to earn commercial rentals.
- **Impairment.** The association 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 value

1. PRINCIPAL ACCOUNTING POLICIES (continued)

- **Pension and other post-employment benefits.** The cost of defined benefit pension plans and other post-employment benefits are 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 29.
- **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 the government announced a change in rent policy which resulted in a material impact on the net income expected to be collected in the future for housing properties and the association have assessed that this represents a trigger for impairment review. Following a trigger for impairment, the association perform impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from sales transactions in an arm's length transaction on similar cash generating units (properties) or observable market prices less incremental costs for disposing of the properties. The value in use calculation is based on either a depreciated replacement cost or a discounted cash flow model. The depreciated replacement cost is based on available data of the cost of constructing or acquiring replacement properties to provide the same level of service potential to the Association as the existing property. The cash flows are derived from the business plan for the next 30 years and do not include restructuring activities that the association is not yet permitted to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Following the assessment of impairment, impairment losses of £4k were identified in the reporting period.

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 2. 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 3 and matched against the relevant costs.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Service charges

Service charge income and costs are recognised on an accruals basis. The association 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 long term 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.

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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Tangible fixed assets and depreciation

Housing properties

Tangible fixed assets are stated at cost, less accumulated depreciation. Donated land/assets or assets acquired at below market value from a government source, i.e. local authority, are included as a liability in the Statement of Financial Position at the fair value less consideration paid. Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion of construction. For shared ownership properties, the properties are classified as complete once the final property within a scheme has been sold. 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 association depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories. UELs for identified components are as follows:

	Years
• Structure	120
• Roof	60
• Heating	15
• Windows	30
• Electricals	30
• Bathroom	30
• Kitchen	20
• Lifts	15
• Doors	30

The association depreciates housing properties held on long 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 of Cost
• Freehold Offices	1%
• Furniture & Office Equipment	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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Leasing

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

Stock and properties held for sale

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 one 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 received for items of cost written off in the Statement of Comprehensive Income Account is included as part of Turnover. SHG must be recycled by the association 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 one year.

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 association has a participating interest.

Contributions payable under an agreement with SHPS to fund past deficits are recognised as a liability in the financial statements calculated by the repayments known, discounted to the net present value at the year ended using a market rate discount factor of 1.92% at 31 March 2015 and 2.06% at 31 March 2016. The unwinding of the discount is recognised as a finance cost in the Statements of Comprehensive Income in the period incurred.

2. TURNOVER, COST OF SALES, OPERATING EXPENDITURE AND OPERATING SURPLUS

	Turnover	Cost of sales	2016 Operating expenditure	Operating surplus/(deficit)
	£'000	£'000	£'000	£'000
SOCIAL HOUSING LETTINGS (Note 3)	26,380	-	15,824	10,556
OTHER SOCIAL HOUSING ACTIVITIES				
First tranche low cost home ownership sales	5,987	4,506	-	1,481
Support services	668	-	682	(14)
Development services	411	-	438	(27)
Other activities	247	-	81	166
Managed operations	-	-	8	(8)
TOTAL	<u>33,693</u>	<u>4,506</u>	<u>17,033</u>	<u>12,154</u>

	Turnover	Cost of sales	2015 Operating expenditure	Operating surplus/(deficit)
	£'000	£'000	£'000	£'000
SOCIAL HOUSING LETTINGS (Note 3)	24,914	-	15,249	9,665
OTHER SOCIAL HOUSING ACTIVITIES				
First tranche low cost home ownership sales	4,687	3,464	-	1,223
Support services	451	-	491	(40)
Development services	646	-	376	270
Other activities	547	-	275	272
Managed operations	-	-	7	(7)
TOTAL	<u>31,245</u>	<u>3,464</u>	<u>16,398</u>	<u>11,383</u>

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

3. TURNOVER AND OPERATING EXPENDITURE

	General Housing	Supported Housing and Housing for Older People	Low cost Home Ownership	Garages	Total 2016	Total 2015
	£'000	£'000	£'000	£'000	£'000	£'000
INCOME						
Rent receivable net of identifiable service charge	21,824	2,395	676	287	25,182	23,636
Service charge income	354	568	85	-	1,007	943
Amortised government grants	155	2	17	-	174	170
Other income from Social Housing Lettings	-	17	-	-	17	165
TURNOVER FROM SOCIAL HOUSING LETTINGS	22,333	2,982	778	287	26,380	24,914
OPERATING EXPENDITURE						
Management	3,364	439	54	-	3,857	3,564
Service charge costs	631	744	3	-	1,378	1,495
Routine maintenance	3,021	223	-	6	3,250	2,915
Planned maintenance	1,167	217	-	-	1,384	1,387
Major repairs expenditure	1,054	193	-	87	1,334	1,508
Bad debts	61	5	-	-	66	157
Depreciation of Housing Properties	4,140	352	59	-	4,551	4,223
Impairment of Housing Properties	4	-	-	-	4	-
Operating expenditure on Social Housing Lettings	13,442	2,173	116	93	15,824	15,249
OPERATING SURPLUS ON SOCIAL HOUSING LETTINGS	8,891	809	662	194	10,556	9,665
Void losses	151	85	-	229	465	385

4. ACCOMODATION OWNED, MANAGED AND IN DEVELOPMENT

	2016	2015
	No. of properties Owned	No. of properties Owned
Social Housing		
Under development at end of year:		
General needs housing social rent	152	167
General needs housing affordable rent	94	123
General needs housing intermediate rent	30	66
Low-cost home ownership	152	182
Outright Sale	-	2
	<u>428</u>	<u>540</u>
Under management at end of year:		
General needs housing	4,398	4,284
Supported housing and housing for older people	582	594
Leasehold Schemes for the Elderly	3	-
Low-cost home ownership	314	250
	<u>5,297</u>	<u>5,128</u>
	<u>5,725</u>	<u>5,668</u>

5. ACCOMMODATION MANAGED BY OTHERS

The PRP owns property managed by other bodies.

	2016	2015
	No. of properties	No. of properties
General Needs	2	2
Supported	<u>8</u>	<u>8</u>
	<u><u>10</u></u>	<u><u>10</u></u>

6. LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT (FIXED ASSETS)

	RTB & Voluntary Sales	Shared Ownership Staircasing sales	Total 2016	Total 2015
	£'000	£'000	£'000	£'000
Proceeds of sales	801	352	1,153	942
Less: Costs of sales	<u>(894)</u>	<u>(262)</u>	<u>(1,156)</u>	<u>(1,345)</u>
(loss)	<u>(93)</u>	<u>90</u>	<u>(3)</u>	<u>(403)</u>
Capital grant recycled (Note 23)	<u>-</u>	<u>30</u>	<u>30</u>	<u>15</u>

7. INTEREST AND FINANCING COSTS

	2016	2015
	£'000	£'000
Deferred benefit pension charge	90	165
On loans repayable within five years	1,544	-
On loans wholly or partly repayable in more than five years	8,902	10,124
Costs associated with financing	394	349
Less: Interest capitalised on housing properties under construction	<u>(1,150)</u>	<u>(1,068)</u>
	<u>9,780</u>	<u>9,570</u>

The weighted average interest on borrowings of 5.851% (2015: 6.00%) was used for calculating capitalised finance costs.

8. SURPLUS ON ORDINARY ACTIVITIES

	2016	2015
	£'000	£'000
The operating surplus is stated after charging/(crediting):-		
Auditors remuneration (excluding VAT):		
Audit of the financial statements	24	16
Operating lease rentals:		
– Vehicles	131	142
– Office equipment	2	-
Impairment losses of housing properties	4	-
Depreciation of housing properties	4,551	4,223
Depreciation of other fixed assets	252	260
Deficit on sale of other fixed assets	3	403

9. TAX ON SURPLUS ON ORDINARY ACTIVITIES

The Association is registered as a Charitable Co-operative and Community Benefit Society and as such is exempt from UK Corporation Tax.

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

10. DIRECTORS' REMUNERATION	2016	2015
	£'000	£'000
The aggregate emoluments paid to or receivable by non-executive Directors and former non-executive Directors	30	40
	_____	_____
The aggregate emoluments paid to or receivable by executive Directors and former executive Directors	75	241
	_____	_____
The emoluments paid to the highest paid Director excluding pension contributions	46	85
	_____	_____
The aggregate amount of Directors or past Directors' pensions, excluding amounts payable under a properly funded pension scheme	5	16
	_____	_____
The aggregate amount of any consideration payable to Directors for loss of office.	-	-
	_____	_____

The Chief Executive (Ms J Doyle) is an ordinary member of the pension scheme. The pension scheme is a final salary 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 PRP of £4,711 (2015: £7,916) was paid in addition to the personal contributions of the Chief Executive. Ms Doyle resigned from her position as Chief Executive of Spire Homes on 30 June 2015 to take up the post of Chief Executive of Longhurst Group.

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

11. EMPLOYEE INFORMATION

	2016	2015
	No.	No.
The average number of persons employed during the year expressed in full time equivalents (36.25 hours per week) was:		
Office staff	58	62
Care Scheme staff, wardens, caretakers and cleaners	11	17
	<u>69</u>	<u>79</u>
Staff costs (for the above persons)	£'000	£'000
Wages and salaries	2,345	2,357
Social Security costs	172	181
Other pension costs	<u>546</u>	<u>291</u>
	<u>3,063</u>	<u>2,829</u>
Aggregate number of full time equivalent staff whose remuneration exceeded £60,000 in the period:	<u>No of Staff</u>	<u>No of Staff</u>
£60,000 - £70,000	1	-
£70,000 - £80,000	1	2

12. PENSION OBLIGATIONS

Spire Homes (LG) Limited participates in three schemes, the Social Housing Pension Scheme (SHPS) and two Local Government Pension Scheme (LGPS) in East Northamptonshire and Rutland.

Social Housing Pension Scheme

Spire Homes (LG) Limited 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. Spire Homes (LG) Limited has elected to operate a final salary with a 1/60 accrual rate and the career average re-valued 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 re-valued earnings structure is the only option available. During the year under review, Spire Homes (LG) Limited paid contributions at the rate of 7.35% for the final salary scheme and 8.05% for the career average scheme, plus a monthly lump sum to fund past deficit amounts. Contributions by members varied between 8.45% and 12.45% depending on their age and which scheme they are in. At the balance sheet date there were 28 active members of the scheme employed by Spire Homes (LG) Limited 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 section 28 represents the employer contribution payable.

12. PENSION OBLIGATIONS

The trustee commissions an actuarial valuation of the scheme every three 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 £3,123m, liabilities were £4,446m, revealing a shortfall of assets compared with the value of liabilities of £1,323m.

Following a change in legislation in September 2005, 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 Spire Homes as at 30 September 2015 has been calculated as £6,565,293

Social Housing Pension Scheme and Pensions Trust Growth Plan

Spire Homes participates in the Pension Trust's multi-employer 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 Spire Homes paid contributions at the rate of 0% during the accounting period. Members paid contributions at varying rates during the accounting period. As at the balance sheet date, there was no active member of the plan employed Spire Homes. Spire Homes continues to offer membership of the plan to its employees.

The Trustee commissions an actuarial valuation of the growth plan every three years. The last formal valuation of the scheme was carried out as 30 September 2015 by a professionally qualified actuary. The valuation revealed a shortfall in assets of £206.9m, equivalent to a funding level of 81%. The estimated amount of employer debt on withdrawal liability for Spire Homes as at 30 September 2015 has been calculated as £1,860.

SHPS deficit payment agreement

The association has a contractual obligation under an agreement to pay additional deficit payments to SHPS of £24,753 per annum for 11 years to 2026/2027.

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.

	£	£
At start of the year	947	989
Additional liabilities in the year	265	42
Interest for the year	17	28
Released to expenditure in the year	(117)	(112)
	<u>1,112</u>	<u>947</u>
	<u><u>1,112</u></u>	<u><u>947</u></u>

12. PENSION OBLIGATIONS (continued)

Local Government Pension Scheme

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 2016 were £93k (2015: £170k), of which employer's contributions totalled £90k (2015: £181k) and employees' contributions totalled £3k (2015: £9k). The agreed employer contribution rates for future years are 19.4% for the Northamptonshire County Council scheme and 19.37% for the Leicestershire County Council scheme.

Principal Actuarial Assumptions

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

	At 31 March 2016	At 31 March 2015
Rate of increase in salaries	3.65%	4.15%
Rate of increase for pensions	2.15%	2.25%
Discount rate for scheme liabilities	3.45%	3.15%

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 2016	At 31 March 2015
	years	years
<i>Retiring today</i>		
Males	22.25	22.25
Females	24.3	24.3
<i>Retiring in 20 years</i>		
Males	24.1	24.1
Females	26.6	26.6

	At 31 March 2016	At 31 March 2015
	£'000	£'000
Analysis of the amount charged to operating costs in the Statement of Comprehensive Income		
Contributions by employer including unfolded	199	170
Current service cost	<u>(59)</u>	<u>(51)</u>
Total operating charge	<u>140</u>	<u>119</u>
Analysis of pension finance income / (costs)		
Interest on assets	135	158
Interest costs	<u>(208)</u>	<u>(249)</u>
Amounts charged/credited to financing costs	<u>(73)</u>	<u>(91)</u>
Amount of gains and losses recognised in the Statement of Comprehensive Income		
Actuarial gains/(losses) on pension scheme assets	(102)	349
Actuarial gains/(losses) on scheme liabilities	<u>535</u>	<u>(558)</u>
Actuarial gain/(loss) recognised	<u>433</u>	<u>(209)</u>

12. PENSION OBLIGATIONS (continued)

Local Government Pension Scheme (continued)

Movement in surplus/(deficit) during year	At 31 March 2016	At 31 March 2015
	£'000	£'000
Surplus/(deficit) in scheme at 1 April	(2,422)	(2,241)
Movement in year:		
Current service costs	(59)	(51)
Interest income on plan assets	135	158
Interest cost on defined benefit obligation	(208)	(249)
Employer contributions	199	170
Change in financial assumptions	535	(558)
Return on assets, excluding net interest	<u>(102)</u>	<u>349</u>
(Deficit)/Surplus in scheme at 31 March	<u>(1,922)</u>	<u>(2,422)</u>
Asset and Liability Reconciliation	At 31 March 2016	At 31 March 2015
	£'000	£'000
Reconciliation of liabilities		
Opening defined benefit obligation	6,751	6,074
Current service cost	59	51
Interest Cost	208	249
Contributions by Scheme participants	14	15
Change in financial assumptions	(535)	558
Estimated benefits paid net of transfers in	<u>(248)</u>	<u>(196)</u>
Closed defined benefit obligation	<u>6,249</u>	<u>6,751</u>
Reconciliation of assets		
Opening fair value of Fund Assets	4,329	3,833
Interest on assets	135	158
Return on assets less interest	(102)	349
Contributions by employer including unfunded	199	170
Contributions by Fund participants	14	15
Estimated benefits paid plus unfunded net of transfers in	<u>(248)</u>	<u>(196)</u>
Closing fair value of Fund assets	<u>4,327</u>	<u>4,239</u>

The total return on the fund assets for the year to 31 March 2016 is £33k (2015: £507k).

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

13. TANGIBLE FIXED ASSETS

	Housing Properties				Other Fixed Assets			Total Fixed assets
	Social Housing Properties For Letting Completed	Social Housing Properties for letting Under Construction	Low cost home ownership Properties Completed	Low cost home ownership Properties Under Construction	Total Housing properties	Freehold offices	Furniture and Office Equipment	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
COST								
At start of the year	291,559	15,342	11,494	6,421	324,816	2,178	2,553	329,547
Additions to properties Completed in year	898	10,478	44	3,211	14,631	-	31	14,662
Components Capitalised	14,730	(14,730)	2,687	(2,687)	-	-	-	-
Components Replaced	2,259	-	-	-	2,259	-	-	2,259
Disposals	(348)	-	-	-	(348)	-	-	(348)
	(572)	-	(305)	-	(877)	-	(1,032)	(1,909)
At end of the year	<u>308,526</u>	<u>11,090</u>	<u>13,920</u>	<u>6,945</u>	<u>340,481</u>	<u>2,178</u>	<u>1,552</u>	<u>344,211</u>
DEPRECIATION AND IMPAIRMENT								
At start of the year	22,252	-	425	-	22,677	415	1,836	24,928
Charge for the year	4,291	-	55	-	4,346	14	238	4,598
Components Replaced	(131)	-	-	-	(131)	-	-	(131)
Impairment losses	4	-	-	-	4	-	-	4
Disposals	(55)	-	2	-	(53)	-	(1,032)	(1,085)
At end of the year	<u>26,361</u>	<u>-</u>	<u>482</u>	<u>-</u>	<u>26,843</u>	<u>429</u>	<u>1,042</u>	<u>28,314</u>
NET BOOK VALUE AT END OF THE YEAR	<u>282,165</u>	<u>11,090</u>	<u>13,438</u>	<u>6,945</u>	<u>313,638</u>	<u>1,749</u>	<u>510</u>	<u>315,897</u>

Housing Properties comprise:

Freeholds

	2016	2015
	£'000	£'000
	<u>313,638</u>	<u>302,139</u>

Cost of properties includes £411k (2015: 646k) for direct administrative costs capitalised during the year

Works to existing properties in the year:

Improvement works capitalised
 Components capitalised
 Amounts charged to expenditure

	2016	2015
	£'000	£'000
	2,259	7,592
	1,334	1,508

The aggregate amount of interest and finance costs included in the cost of housing properties is £1,150k (2015: £1,068k)

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

14. STOCK

	2016	2015
	£'000	£'000
Properties held for sale		
Completed	2,310	265
Work in progress	<u>216</u>	<u>2,732</u>
	<u>2,526</u>	<u>2,997</u>

15. TRADE AND OTHER DEBTORS

	2016	2015
	£'000	£'000
Rent arrears	1,288	1,262
Less: provision for bad debts	(731)	(712)
Social Housing Grant receivable	-	23
Other debtors	165	133
Prepayment and accrued income	251	248
Intercompany	<u>177</u>	<u>199</u>
	<u>1,150</u>	<u>1,153</u>

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

16. CASH AND CASH EQUIVALENTS	2016	2015
	£'000	£'000
Cash and cash equivalents	<u>938</u>	<u>599</u>

The cash held includes balances totalling £13k (2015: £10k) which are held in trust for leaseholders.

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2016	2015
	£'000	£'000
Trade creditors	735	1,621
Amounts owed to group undertakings	3,230	4,193
Rents and service charges paid in advance	549	405
Service charge balances held on behalf of leaseholders	10	10
Other taxation and social security payable	85	54
Accruals and deferred income	526	1,140
SHPS pension agreement plan (Note 12)	147	117
Deferred Capital Grant (Note 19)	170	170
Recycled Capital Grant Fund (Note 20)	121	33
Other creditors	420	486
	<u>5,993</u>	<u>8,229</u>

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

18(a). CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2016	2015
	£'000	£'000
Loans (Note 18b)	155,822	146,087
Deferred Capital Grant (Note 19)	20,450	19,292
Recycled capital grant fund (Note 20)	45	135
SHPS pension agreement plan (Note 12)	965	830
	<u>177,282</u>	<u>166,344</u>

18(b). DEBT ANALYSIS

	2016	2015
	£'000	£'000
Loans repayable by instalments:		-
Within one year	-	-
In one year or more but less than two years	-	-
In two years or more and less than five years	-	-
In five years or more	-	-
Loans not repayable by instalments:		
Within one year	-	-
In one year or more but less than two years	11,850	-
In two years or more and less than five years	11,500	13,800
In five years or more	136,837	136,828
		-
Less: loan issue costs	<u>(4,365)</u>	<u>(4,541)</u>
Total loans	<u>155,822</u>	<u>146,087</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 2016 was 5.61%. (2015: 6.957%).

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

19. DEFERRED CAPITAL GRANT

	2016	2015
	£'000	£'000
At start of the year	19,462	19,081
Amortised in year	(175)	(170)
Disposed of in year	(30)	(15)
Received in the year	1,330	566
Received from RCGF	33	-
	<u>20,620</u>	<u>19,462</u>
	£'000	£'000
Amount due to be released < 1 year	170	170
Amount due to be released > 1 year	20,450	19,292

20. RECYCLED CAPITAL GRANT FUND

	2016	2015
	£'000	£'000
At the start of the year	168	164
Inputs: Grants recycled	30	15
Interest accrued	1	-
Recycling: New build	(33)	(11)
At the end of the year	<u>166</u>	<u>168</u>
	<u>-</u>	<u>-</u>
Amount three years or older where repayment may be required This is grant from the HCA.	<u>-</u>	<u>-</u>

21. NON-EQUITY SHARE CAPITAL

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

22. CAPITAL COMMITMENTS

	2016	2015
	£'000	£'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	19,560	24,414
Capital expenditure that has been authorised by the Board but has not yet been contracted for	10,065	18,864
	<u>29,625</u>	<u>43,278</u>
The PRP expects these commitments to be financed with:		
Social Housing Grant	463	1,150
Proceeds from the sales of properties	15,198	
Committed loan facilities	13,964	42,128
	<u>29,625</u>	<u>43,278</u>

The above figures include the full cost of shared ownership properties contracted for.

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

23. OPERATING LEASES

Spire Homes holds vehicles and office equipment under non-cancellable operating leases. At the end of the year Spire Homes had commitments of future minimum lease payments as follows: -

	2016	2015
	£'000	£'000
Vehicles:		
Within one year	104	111
In two to five years	166	181
Over 5 years	-	-
Office Equipment:		
Within one year	7	-
In two to five years	12	-
Over 5 Years	-	-
	<u>289</u>	<u>292</u>

24. CONTINGENT LIABILITY

Spire Homes did not have any contingent liabilities at the balance sheet date.

25. GRANT AND FINANCIAL ASSISTANCE

	2016	2015
	£'000	£'000
The total accumulated SHG received or receivable at 31 March:		
Held as deferred capital grant	20,450	19,292
Revenue grant recognised as income	1,638	1,464
	=	

26. RELATED PARTIES

Ultimate Parent Undertaking

The ultimate parent undertaking in which the results of Spire Homes Limited are consolidated is Longhurst Group Limited, a company registered in England. The consolidated accounts of Longhurst Group Limited are available to the public and are available from the registered head office, 50 Newhall Hill, Birmingham, B1 3JN.

Transactions with Regulated Group Members

Spire Homes Limited has taken advantage of the exemption conferred to it in FRS102 section 33, not to disclose transactions with other regulated members of Longhurst Group Limited.

Transactions with Non-Regulated Group Members

During 2015/2016 Spire Homes transacted with one non-regulated businesses that is a direct subsidiary of Longhurst Group Ltd. Libra (LG) Treasury PLC acts as a bond issuer and loans manager for the Group bank loans facilities, of which Spire Homes are a borrower of both. Since August 2012 all of the interest costs incurred by Spire Homes relates to loans that reside within or are managed by Libra. The set up costs associated with these loans have been recharged from Libra to Spire Homes at cost only.

Other

Together with Longhurst and Havelok Homes and Friendship Care & Housing, Spire Homes is a founder member 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 a founder member Friendship Care & Housing have a place on the Board and our liabilities are limited to a £1 share. We have signed a Members' Agreement and the Articles of Association.

SPIRE HOMES (LG) LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

27. FIRST TIME ADOPTION OF FRS 102

On adoption of FRS 102 the Association has restated the comparatives, the impact on reserves is as follows:

	Note	I&E Reserve as at transition date 1 April 2014 £'000	Surplus/ (deficit) year ended 31 March 2015 £'000	I&E Reserve 31 March 2015 £'000	Revaluation Reserve Movement 31 March 2015 £'000	Total Reserves as at 31 March 2015 £'000
As previously stated under former UK GAAP		(11,572)	2,462	(9,110)	-	(9,110)
Transitional adjustments						
Increase in depreciation of housing properties	a	(761)	(815)	(1,576)	-	(1,576)
Revaluation to deemed cost of housing properties	b	-	-	-	143,075	143,075
Increase in amortisation of grants relating to housing properties	c	1,294	169	1,463	-	1,463
Additional cost of sales of revalued properties		-	(533)	(533)	-	(533)
Inclusion of SHPS pension deficit payment liability	d	(989)	72	(917)	-	(917)
Change to measurement of net finance cost on defined benefit pension schemes	e	-	(29)	(29)	-	(29)
Additional depreciation transferred from revaluation reserve		-	731	731	(731)	-
Additional cost of sales transferred from revaluation reserve		-	533	533	(533)	-
As stated in accordance with FRS 102		<u>(12,028)</u>	<u>2,590</u>	<u>(9,438)</u>	<u>141,811</u>	<u>132,373</u>

Explanation of changes to previously reported profit and equity:

- a. FRS102 requires that capital grant previously deducted from the cost of fixed assets, is treated as creditors where the fixed assets are carried at cost. The effect compared to current UK GAAP is an increase to the carrying cost of housing properties resulting in an increase in the depreciation at transition of £761k and a decrease in the surplus for the year ended 31 March 2015 of £815k.
- b. FRS102 allows as a transitional relief the adoption of a valuation of a class of housing properties as deemed cost. This has resulted in a revaluation reserve of £143,074k being created as at 31 March 2015.
- c. FRS102 requires that government capital grant previously deducted from the carrying cost of housing properties is treated as a deferred capital grant creditor and released to the statement of comprehensive income over the useful life of the associated assets. The effect compared to current UK GAAP is an increase in income recognised on transition of £1,294k, and £169k increase in surplus for the year ended 31 March 2015.
- d. FRS102 requires that a liability is recognised for the contributions that arise from an agreement to fund a deficit in a multi-employer pension scheme. The effect is that a liability for the SHPS payment plan has been recognised at the present value of the contributions payable using the discount rate specified in note 12. This has resulted in a decrease in reserves of £989k at transition.
- e. FRS102 requires the recognition in profit or loss of a net interest cost (or income) on defined benefit pension schemes. This is calculated by multiplying the net pension liability (or asset) by the market yields on high quality corporate bonds. The effect of this, when compared to previous UK GAAP, has been to reduce reported profits for the year ended 31 March 2015 by £29k.

Part 5

LONGHURST GROUP LIMITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 MARCH, 2017

LONGHURST GROUP LIMITED
(A Company Limited by Guarantee)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

Company Registration Number: 3958380

LONGHURST GROUP LIMITED

CONTENTS

Board Members, Executive Officers, Principal Advisors and Bankers	2
Report from the Chair and Chief Executive	3 - 4
Strategic Report for the Year Ended 31 March 2017	5 – 26
Report of the Independent Auditors	27
Consolidated Statement of Comprehensive Income	28
Consolidated Statement of Financial Position	29
Consolidated Statement of Changes in Reserves	30 - 31
Consolidated Statement of Cash Flows	32
Notes to the Financial Statements	33 - 63

LONGHURST GROUP LIMITED

BOARD MEMBERS, EXECUTIVE OFFICERS, PRINCIPAL ADVISORS AND BANKERS

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 Driffill	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:

50 Newhall Hill
Birmingham
B1 3JN

Principal Bankers:

Lloyds Banking Group
3rd Floor, 25 Gresham Street
London
EC2V 7HN

Auditors:

Beever & Struthers
Chartered Accountant and Statutory Auditor
St George's House
215-219 Chester Road
Manchester
M15 4JE

Solicitors:

Wright Hassall LLP
Olympus Avenue
Leamington Spa
Warwickshire
CV34 6BF

Trowers & Hamblins LLP
3 Bunhill Row
London
EC1Y 8YZ

Winckworth Sherwood LLP
Minerva House
5 Montague Close
London
SE1

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 per cent. The number of employed people claiming housing benefit is up more than 19 per cent 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 per cent 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 per cent to 63 per cent 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.

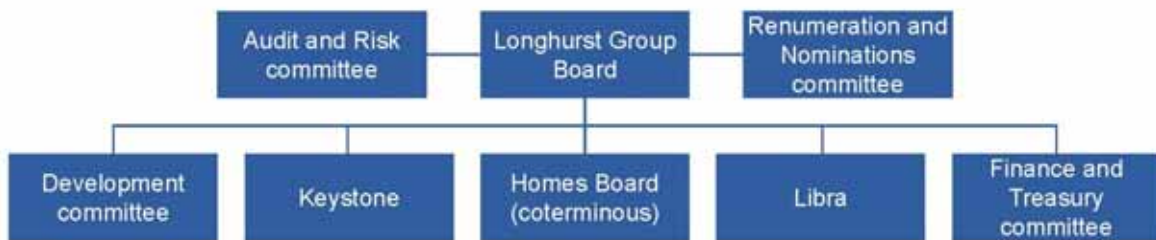
Our Values

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:

- **In it together** – We stand together as one team with one vision to make a difference to people’s lives
- **Heartfelt service** – Everything we do shows we care deeply about our customers and colleagues
- **Own it** – We do what we say we do to the best of our ability with pride and passion
- **Push the boundaries** – We strive for excellence constantly looking for fresh ways of doing things
- **Fun and air** – We work hard, enjoy it and treat everybody equally with respect and honesty

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 3000 new homes over the course of the next five 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.

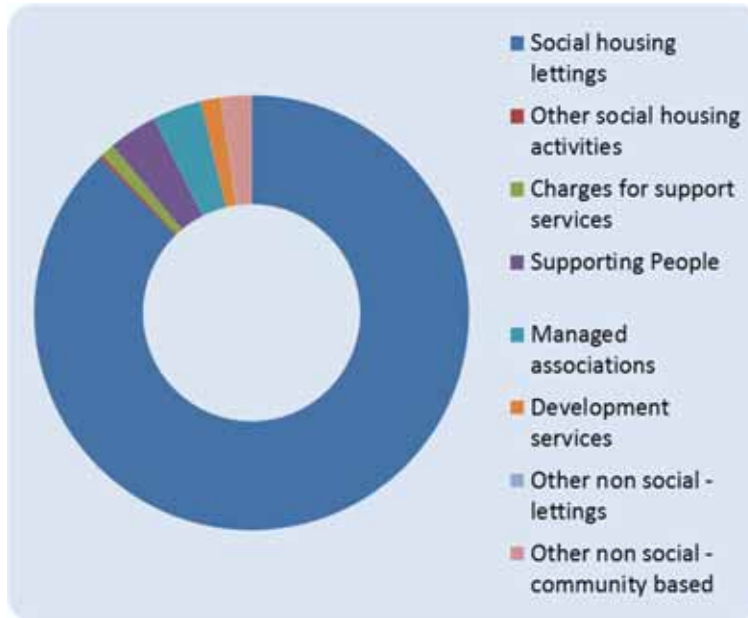
Value-for-Money Self-Assessment

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 £885 thousand.

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 (update link to 16/17).

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 £3.55m 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 £1.07m. 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% compared to 29.04% 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.

LONGHURST GROUP LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2017

	2015-16	2015-16	2015-16	2015-16	2016-17	2016-17	2016-17	2016-17
	Consolidated	Friendship	Spire	L&H	Consolidated	Friendship	Spire	L&H
Closing owned and managed units	18,690	4,540	5,297	8,853	19,111	4,517	5,645	8,949
HCA figures (£'000s)								
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

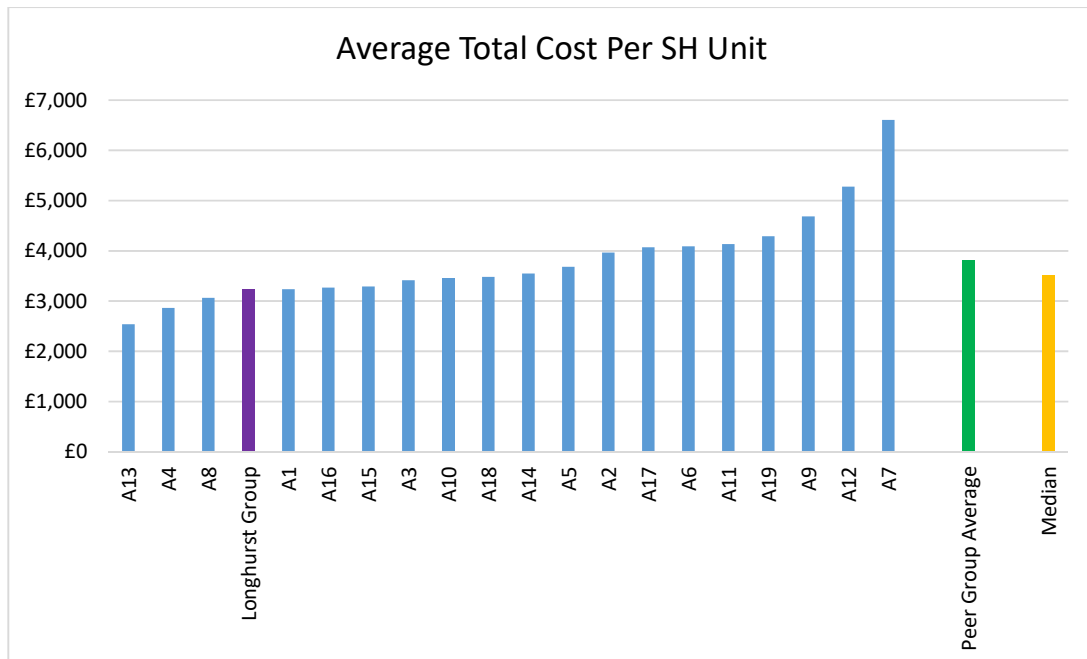
The information in the table below follows a similar logic to that used by the HCA but has been updated to show a position which we believe is more reflective of our business. The calculation for service charges and other social housing has been based on the net position after income for each business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

The alternative basis for looking at costs per unit shows an improved position for Friendship where there is a higher proportion of care & 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	2015-16	2015-16	2015-16	2016-17	2016-17	2016-17	2016-17
	Consolidated	Friendship	Spire	L&H	Consolidated	Friendship	Spire	L&H
LG comparison** (£'000s)								
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 focussed 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% since 2015/16). Our sales turnover was £4.9million better than budgeted for the year, and our surplus on sales being £2.8 million, £1.3million ahead of the budgeted plans.



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% 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% 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 & 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 8), 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% at March 2016 to 2.27% 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) 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% at the end of 2015/16 to 2.16% 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% in 2015/16 to 0.54%, 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% 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 FCH's 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 L&H; when Spire's 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 CHC 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% over the year, the total number of logins increased by 31%, and the number of repairs reported and rent statements requested through the portal both increased by 20%. Overall usage remains low (9% 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 three 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	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	£,1676
	Communication	Reduced print /increasing digital distribution	Ongoing	Saving	£18,794
	Business Support	Reduction in archiving costs	Ongoing	Saving	£552
					£437,810

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 9 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 6 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.

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 £500 thousand 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% 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 VFM 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% by 2020. This target was approved during the re-development of our business plan in October 2015 and having achieved 2.5% 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 Skillsgate	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
<p>D2</p> <p>Maximum tenure must be agreed for all non-executives which must in total be nine 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.</p>	<p>For the year under review, Rob Lankey served as a Group Board member up to the point he resigned on the 1st 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.</p> <p>At the end of March 2017 there were no serving Board members whose service had exceeded 9 years.</p>

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 & Risk Committee each quarter. The other Boards and Committees of the Group review the risks that fall under their area of responsibility. The Audit & Risk Committee regularly reviews the system of internal controls across the Group and our internal audit plan is focussed 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 & Impact	Principal Mitigations	Key Control Assurances
Delivery of Development Programme The group aims to provide 3,000 new homes over the next 5 - 6 years	<u>Cause</u> - Property market downturn - Developers prices rise faster than expected <u>Impact</u> - Business Plan (BP) targets could be missed - Cash flow and funding issues if units not delivered in line with BP assumptions	- BP uses prudent assumptions, reviewed by independent expert advisors - The development programme is phased so as to not over commit at any one time - Scenario modelling, sensitivity analysis incorporating change in tenures and reduction in sales value - Flexibility exists to amend scheme profiles in terms of outright sale to rented - A proportion of the schemes already have agreed contract prices up to 18 months' in advance	- Development Strategy and Land Acquisition Strategy approved at Group Board - Development Programme performance for 2016/17 better than BP target - Quarterly update to the Business Plan incorporates latest development projections and stress test
Financial Performance Not delivering results in line with BP	<u>Cause</u> - Rent reduction of 1% for further 3 years - Uncertainty of what rent policy the government will follow post rent reduction policy in 3 years' time - Higher cost inflation during period of rent cuts - Not achieving planned efficiency savings identified as part of merger with Axiom <u>Impact</u> - Efficiency targets missed - Credit rating could suffer - Cost of funding could increase - Unable to deliver BP aims and objectives	- BP is based on prudent assumptions on both inflation interest rates - Robust programme of stress testing and scenario planning in place - Operating costs reduction target of 7.5% over 4 years (first two years delivered in line with target) - Significant improvement in financial performance over the last 5 years	- The Group's credit rating of A2 was confirmed by Moody's Investment services in December 2016 - The Group's HCA Regulatory rating was confirmed as V1 in March 2017 following an In-Depth Assessment
Welfare Reform Under occupancy rules, introduction of Universal Credit, direct payments to tenants and LHA benefit caps	<u>Cause</u> - Government and austerity measures - Confusion around status with supported housing services - Higher inflation reducing disposable income for our customers <u>Impact</u> - Rent element of benefit may not get paid to us as promptly as under previous system - Pressure on discretionary Housing Benefit payments - Under occupancy leaves tenants having to make extra payments	- Dedicated Income Teams have improved rent collection rates across the Group - Money Guidance Officers provide advice on Benefits to tenants - BP has made prudent assumptions on arrears levels which may arise following Welfare Reform & these have been stress tested - Tenancy Policies have been amended to reflect the changes in Welfare Reform	- Rent collection performance has improved over the last 4 years - Group Income Management policy updated

<p>Government Policy Following hung parliament after the general election, uncertainty of government policy</p>	<p><u>Cause</u> - Failure to anticipate and be responsive to changes in government policy</p> <p><u>Impact</u> - BP assumptions and strategies can become outdated or obsolete - Managing reputational issues following the new deregulatory approach from the HCA</p>	<ul style="list-style-type: none"> - Engagement and horizon scanning by the Executive Leadership Team to ensure key issues can be anticipated - BP modelled with various adverse scenarios to ensure financial robustness going forward under various strategies and government policies 	
<p>Regulation & Reputation The Group places high priority in maintaining excellent standards in line with regulators requirements and customer's expectations</p>	<p><u>Cause</u> - Rent reduction of 1% for further 3 years - Changes in government policies - Compliance with HCA Regulatory Framework</p> <p><u>Impact</u> - Meeting customers' expectations - Continued drive to improve KPI's</p>	<ul style="list-style-type: none"> - Our self-assessment on the HCA Regulatory Standards and NHF Code of Governance shows compliance - Independent review of compliance with regulatory standards and relevant laws - Targets for continued and improved quality service provision are set out in the Groups BP - Governance Standing Orders, Schemes of Delegation, Financial Regulations and other key policies in place 	<ul style="list-style-type: none"> - The Group's HCA Regulatory rating was confirmed as G1&V1 in March 2017 following an In-Depth Assessment - Internal Audit programme delivers robust review of internal control environment
<p>Care & Support 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> - Further cuts to funding for care & support services - National Living Wage (NLW) legislation - Welfare Reform</p> <p><u>Impact</u> - Ongoing viability of schemes if funding isn't increased and costs keep going up - Reputation risks if service withdrawn</p>	<ul style="list-style-type: none"> - A C&S model has been developed to robustly price tender opportunities to ensure viability - One LA provider has agreed to increase contract prices to enable improved rates of pay - New tenders and/or renegotiations are made in line with the new NLW 	<ul style="list-style-type: none"> - CQC inspection May 16 overall rating "Good" - Care & Support Business development strategy approved by Group Board (March 17)
<p>Serious loss of ICT infrastructure and or Data Protection breach 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> - Cyber-attacks, hacking, crypto locking and ransom ware are becoming ever more sophisticated and frequency of attacks greater - Weakness in controls of a third party who we deal with / share information - Failure of a member of staff to follow procedures (fraudulent attachment opened or link followed)</p> <p><u>Effect</u> - Loss of ICT systems - Customers temporarily being unable to access our services - Loss of sensitive data - Regulator intervention and reputation damage</p>	<ul style="list-style-type: none"> - Use of up to date firewalls, anti-virus software and close monitoring by ICT Teams - Passwords, restrictions and permissions required to access systems, controlled and monitored by ICT Teams - Training and policies in place for staff to follow - Data Controller in place and work of Governance Teams 	<ul style="list-style-type: none"> - Penetration testing carried out - ICT business continuity testing undertaken - Membership of a Data Action Network hosted by Professional in this area

Review of Financial Performance

We are pleased to present the consolidated Group Financial Statements for the year ending 31st 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)
Operating Surplus	40,329	32,793
Gain/(Loss) on disposal of Property, Plant & Equipment	939	(623)
Interest Receivable	24	293
Interest Payable	(24,139)	(25,365)
Increase in valuation of investment properties	18	119
Surplus before tax	17,171	7,217
Taxation	(146)	25
Net Surplus	17,025	7,242
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)
Total Assets less Current Liabilities	943,070	910,609
Creditors due after 1 year	(727,935)	(712,848)
Pension Provision	(3,505)	(3,165)
Total Net Assets	211,630	194,595
Reserves		
Income & 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
	211,630	194,595

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 £110.84million, 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 1% 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 £65.49m 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% for the year (29.04% 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%. 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 £2.97m in 2015/16 to £2.81m in 2016/17. However, this was on the back of lower turnover and the margin achieved on new sales increased from 19.9% in 2015/16 to 29.9% in 2016/17.
- Surpluses generated on the Group's commercial development programme saw an improvement in the year with a surplus of £583 thousand from turnover of £3.53 million compared to a surplus of £1 thousand in £2015/16 on turnover of 32.68 million.
- Net interest costs were at £24.1 million for 2016/17 compared to £25.37m in 2015/16. The reduction in net interest costs is due to a higher proportion of debt being linked to 3 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 £939 thousand 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 £1.6m 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 £13.2m 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 £1.23m.

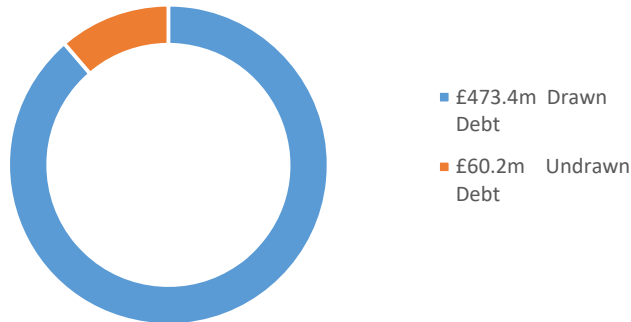
Treasury Management

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

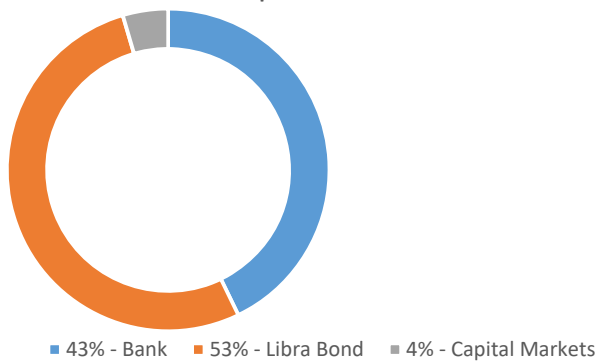
Two new revolving credit facilities were agreed in the year with Santander bank Plc and Barclays Bank Plc totalling £52m. The balance of undrawn facilities of £60.2m is fully secured and available to draw at 3 days' notice.

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

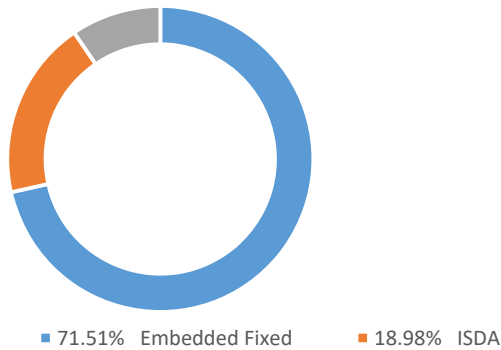
Bank v Capital Market



Bond and capital markets debt now account for 57% 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% of its net position subject to fixed rates of interest, on a rolling five-year average basis. The Group will ensure that no more than 100% 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% 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).

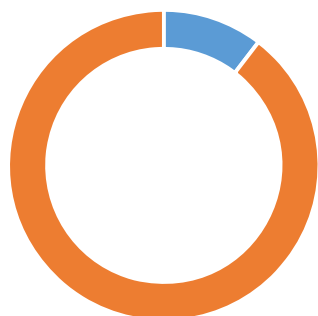
72% of the Group's Loans have been arranged under long term facility periods with 28% being arranged as short term facilities with a final repayment date of between two and five years. The repayment profile for the drawn and undrawn debt held across the Group is summarised in the chart below.

Debt Repayment Profile



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

Available Liquidity



■ £7.0m Cash ■ £60.2m Undrawn secured

Liquidity

At the 31st 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 and Spire 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 loans are currently held at company level, however, new facilities arranged during 2016/17 include Friendship as a borrower, none of which was drawn by Friendship at 31 March 2017. L&H, Spire 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 & 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 Friendship, 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 & 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 £3m 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 and Finance & Treasury Committee	Keystone Board and Development Committee	Audit & Risk Committee	Remuneration and Nominations Committee
Anne Adamthwaite	Resigned 31/07/2016	£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 from 01/11/16			
Stephen Wenham		£9,083		Chair from 01/11/16		*		
Parmjit Dhanda	Appointed 01/09/2016	£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 & Risk Committee.

The Group Board and the Audit & 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 & 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 & Liability register.
- ix) A Group-wide Finance & Treasury Committee which meets four times a year focussing 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 7 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

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF LONGHURST GROUP LIMITED

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.

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; and
- have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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; and
- 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, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- 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

LONGHURST GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
STATEMENT OF COMPREHENSIVE INCOME

	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	<u>(60,971)</u>	<u>(8,718)</u>	<u>(65,493)</u>	<u>(8,925)</u>
Operating surplus/(deficit)		40,329	132	32,793	(341)
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		<u>18</u>	<u>-</u>	<u>119</u>	<u>-</u>
Surplus/(deficit) before tax	8	17,171	93	7,217	(371)
Taxation	9	<u>(146)</u>	<u>-</u>	<u>25</u>	<u>-</u>
Surplus/(deficit) for the year after tax		17,025	93	7,242	(371)
Actuarial (loss)/gain in respect of pension schemes		<u>(508)</u>	<u>-</u>	<u>537</u>	<u>-</u>
Total comprehensive income for the year		<u>16,517</u>	<u>93</u>	<u>7,779</u>	<u>(371)</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:

.....

.....

.....

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.

LONGHURST GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
STATEMENT OF FINANCIAL POSITION

	Notes	Year ended 31 Mar 2017		Year Ended 31 Mar 2016	
		Consolidated £'000	Parent Company £'000	Consolidated £'000	Parent Company £'000
Fixed assets					
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>	912,184	493
Current assets					
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>
		<u>41,989</u>	<u>1,567</u>	29,135	1,237
Less: Creditors: amounts falling due within one year	19	<u>(31,304)</u>	<u>(1,234)</u>	<u>(30,711)</u>	<u>(882)</u>
Net current assets/(liabilities)		<u>10,685</u>	<u>333</u>	<u>(1,576)</u>	<u>355</u>
Total assets less current liabilities		<u>943,070</u>	<u>747</u>	910,608	848
Creditors: amounts falling due after more than one year	20(a)	<u>(727,935)</u>	<u>(1,676)</u>	<u>(712,848)</u>	<u>(1,870)</u>
Provisions for liabilities					
Pension provision	12	<u>(3,505)</u>	-	<u>(3,165)</u>	-
Total net assets/(liabilities)		<u>211,630</u>	<u>(929)</u>	<u>194,595</u>	<u>(1,022)</u>
Reserves					
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>	-
Total reserves		<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:

.....

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

LONGHURST GROUP LIMITED
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
 PARENT COMPANY STATEMENT OF CHANGES IN RESERVES

Group	Income and expenditure reserve £'000	Restricted reserve £'000	Cashflow hedge reserve £'000	Revaluation reserve £'000	Total £'000
Balance at 31 March 2016	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	<u>-</u>	<u>-</u>	<u>518</u>	<u>-</u>	<u>518</u>
Balance at 31 March 2017	<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.

LONGHURST GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
PARENT COMPANY STATEMENT OF CHANGES IN RESERVES

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

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

LONGHURST GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017
CONSOLIDATED STATEMENT OF CASHFLOWS

	Year ended 31 Mar 2017 £'000	Year Ended 31 Mar 2016 £'000
Net cash generated from operating activities	36,096	44,296
Cash flow from investing activities		
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	<u>(146)</u>	<u>26</u>
	(33,096)	(29,270)
Cash flow from financing activities		
Interest paid	(24,921)	(25,851)
New secured loans	40,234	18,326
Repayment of borrowings	<u>(19,541)</u>	<u>(4,505)</u>
	(4,228)	(12,030)
Net change in cash and cash equivalents	<u>(1,228)</u>	<u>2,996</u>
Cash and cash equivalents at beginning of the year	<u>11,454</u>	<u>8,458</u>
Cash and cash equivalents at end of the year	<u>10,226</u>	<u>11,454</u>
Note i		
Cash flow from operating activities	Year ended 31 Mar 2017 £'000	Year Ended 31 Mar 2016 £'000
Surplus for the year	17,169	7,243
Adjustments for non-cash items:		
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
Adjustments for investing or financing activities:		
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	<u>(607)</u>	<u>(247)</u>
Net cash generated from operating activities	<u>36,096</u>	<u>44,296</u>

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.

1. Principal Accounting Policies (continued)

Other key sources of estimation and assumptions:

- a. **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.
- b. **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.
- c. **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.
- d. **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 & 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 & 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 2. 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 3 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.

1. Principal Accounting Policies (continued)

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:

- i. 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;
- ii. 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); and
- ii. 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:

- (a) The best evidence of fair value is a quoted price in an active market.
- (b) 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.
- (c) 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

1. Principal Accounting Policies (continued)

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 & doors	30
• Kitchen	20
• Heating & 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.

1. Principal Accounting Policies (continued)

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 one 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 one year.

1. Principal Accounting Policies (continued)

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% at 31 March 2016 and 1.33% 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
Other social housing activities				
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
Activities other than social housing				
Lettings (Note 3b)	365	-	(41)	324
Properties developed for outright sale	3,530	(2,947)	-	583
Other	<u>1,519</u>	<u>-</u>	<u>(1,526)</u>	<u>(7)</u>
Total	<u>110,843</u>	<u>(9,543)</u>	<u>(60,971)</u>	<u>40,329</u>
	2016			
	£'000	£'000	£'000	£'000
Social housing lettings (notes 3a)	86,892	-	(57,417)	29,475
Other social housing activities				
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
Activities other than social housing				
Lettings (Note 3b)	338	-	(36)	302
Properties developed for outright sale	2,682	(2,681)	-	1
Other	<u>1,155</u>	<u>-</u>	<u>(1,457)</u>	<u>(302)</u>
Total	<u>112,913</u>	<u>(14,627)</u>	<u>(65,493)</u>	<u>32,793</u>

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

Parent Company	2017		
	Turnover £'000	Operating Costs £'000	Operating surplus £'000
Activities other than social housing			
Development	1,587	(1,329)	258
General Management	2,101	(2,278)	(177)
Health & 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	<u>77</u>	<u>-</u>	<u>77</u>
Total	<u>8,850</u>	<u>(8,718)</u>	<u>132</u>
	2016		
	£'000	£'000	£'000
Activities other than social housing			
Development	1,562	(1,423)	139
General Management	1,021	(1,891)	(870)
Health & 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	<u>77</u>	<u>-</u>	<u>77</u>
Total	<u>8,584</u>	<u>(8,925)</u>	<u>(341)</u>

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

Group	General Housing	Supported Housing and Housing for Older People	Low Cost Home Ownership	Care Homes	Total 2017	Total 2016
	£'000	£'000	£'000	£'000	£'000	£'000
Income						
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
Total Turnover from Social Housing Lettings	72,983	6,404	3,574	5,429	88,390	86,892
Operating expenditure						
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
Operating Surplus/(Deficit) on Social Housing Lettings	32,179	1,652	2,460	(702)	35,589	29,475
Void losses (being rental income lost as a result of property not being let, although it is available for letting)	567	190	(1)	216	972	1,353

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

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

4. Accommodation owned, managed and in development

	2017 No. of properties		2016 No. of properties	
	Owned	Managed	Owned	Managed
Social Housing				
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	-	-	-
	<u>967</u>	<u>-</u>	<u>762</u>	<u>-</u>
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
	<u>18,733</u>	<u>378</u>	<u>18,311</u>	<u>379</u>
	<u>19,700</u>	<u>378</u>	<u>19,073</u>	<u>379</u>
Non-Social Housing				
Under management at end of year:				
Market rented	-	-	-	-
	<u>47</u>	<u>-</u>	<u>47</u>	<u>-</u>
	<u>47</u>	<u>-</u>	<u>47</u>	<u>-</u>
	<u>19,747</u>	<u>378</u>	<u>19,120</u>	<u>379</u>

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 & 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 five years	8,176	5,694	-	-
On loans wholly or partly repayable in more than five 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% (2016: 5.851%) was used for calculating capitalised finance costs.

8. Surplus/(deficit) on ordinary activities

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
The operating surplus is stated after charging/(crediting):-				
Auditors remuneration (excluding VAT):				
Audit of the group financial statements	20	10	20	10
Audit of Subsidiaries	46	66	-	-
Fees payable to the company's auditor and its associates for other services to the group:	31	24	14	11
Operating lease rentals:				
- Motor Vehicles	641	726	232	231
- Land and buildings	56	55	-	-
- Office equipment	49	23	20	7
Impairment losses of housing properties	-	4	-	-
Depreciation of housing properties	12,707	12,514	-	-
Depreciation of other fixed assets	878	999	293	391
Amortisation of government grants	2,286	-	2,303	-
Surplus on sale of other fixed assets	<u>1,232</u>	<u>623</u>	<u>-</u>	<u>-</u>

9. Tax on Surplus/(deficit) on ordinary activities

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Current tax				
UK corporation tax on surplus for the year	147	(25)	-	-
Tax on surplus on ordinary activities	<u>147</u>	<u>(25)</u>	≡	≡
Deferred tax	-	-	-	-
Adjustments to tax charge in respect of prior periods	(1)	-	-	-
	<u>146</u>	<u>(25)</u>	≡	≡

The tax assessed in the year is lower than the standard rate of corporation tax in the United Kingdom at 20% (2016: 20%). The differences are explained as follows:

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Total tax reconciliation				
Surplus on ordinary activities before tax	<u>17,171</u>	<u>7,217</u>	<u>93</u>	<u>(371)</u>
Theoretical tax at UK corporation tax rate 20% (2016: 20%)	3,434	1,443	19	(74)
- Profits arising in non-taxable charitable entities	(3,288)	(1,541)	-	-
- Expenses not deductible for tax purposes	-	-	-	-
- Other short term timing differences	-	21	-	-
- Increase in losses carried forward	-	(21)	-	-
- Movement on deferred tax other fixed assets and short term timing differences	-	74	(19)	74
- Marginal relief	-	(1)	-	-
- Group relief surrendered free of charge	≡	≡	≡	≡
Current tax charge for the period	<u>146</u>	<u>(25)</u>	<u>-</u>	<u>-</u>

10(a). Key Management Personnel – Group

	2017	2016
	£'000	£'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	2016
	£'000	£'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 1/60th 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

	Group		Parent Company	
	2017	2016	2017	2016
	No.	No.	No.	No.
The average number of persons employed during the year expressed in full time equivalents (36.25 hours per week) was:				
Office staff	346	370	121	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>
	£'000	£'000	£'000	£'000
Staff costs (for the above persons)				
Wages and salaries	19,505	19,153	5,225	4,978
Social Security costs	1,498	1,318	482	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	5	6	2	3
£70,000 - £80,000	3	4	1	2
£80,000 - £90,000	5	4	3	3
£90,000 - £100,000	3	1	3	1
£100,000 - £110,000	2	1	2	1
£110,000 - £120,000	-	2	-	1
£120,000 - £130,000	-	-	-	-
£130,000 - £140,000	1	-	1	-
£140,000 - £150,000	2	-	2	-
£150,000 - £160,000	-	1	-	1
£160,000 - £170,000	-	1	-	-
£170,000 - £180,000	1	-	1	-
£180,000 - £190,000	-	-	-	-
£190,000 - £200,000	-	1	-	1
£200,000 - £210,000	-	1	-	1
£210,000 - £220,000	1	-	-	-
£220,000 - £230,000	<u>-</u>	<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	13,183	10,061	2,145	1,748
Re-measurements in the year	351	4,072	52	577
Interest for the year	254	183	41	32
Released to expenditure in the year	<u>(1,557)</u>	<u>(1,133)</u>	<u>(275)</u>	<u>(212)</u>
	<u>12,231</u>	<u>13,183</u>	<u>1,963</u>	<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).

12. Pension obligations (continued)

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 1st April 2007. For new entrants to the scheme from 1st 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% for the final salary scheme and 6.65% for the career average scheme plus a monthly lump sum to fund past deficit amounts. Contributions by members varied between 8.45% and 14.55% 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 £4,446m revealing a shortfall of assets compared with the value of liabilities of £1,323m.

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% 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 three years. The last formal valuation of the scheme was carried out at 30th September 2016 by a professionally qualified actuary. The valuation revealed a shortfall in assets of £230.6m, equivalent to a funding level of 79.6%.

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

12. Pension obligations (continued)

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% for the Northamptonshire County Council scheme and 19.37% for the Leicestershire County Council scheme.

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
<i>Retiring today</i>	<i>years</i>	<i>years</i>
Males	22.10	22.25
Females	24.25	24.3
<i>Retiring in 20 years</i>		
Males	23.85	24.1
Females	26.15	26.6

	As 31 March 2017	As 31 March 2016
	£'000	£'000
Analysis of the amount charged to operating costs in the Statement of Comprehensive Income		
Contributions by employer including unfolded	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>

12. Pension obligations (continued)

Movement in surplus/(deficit) during year	As 31 March 2017	As 31 March 2016
	£'000	£'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	680	(102)
(Deficit) in scheme at 31 March	<u>(2,107)</u>	<u>(1,922)</u>
 Asset and Liability Reconciliation	 As 31 March 2017	 As 31 March 2016
	£'000	£'000
Reconciliation of liabilities		
Opening defined benefit obligation	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>
Closed defined benefit obligation	<u>7,300</u>	<u>6,249</u>
 Reconciliation of assets		
Opening fair value of Fund Assets	4,327	4,329
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>
Closing fair value of fund assets	<u>5,193</u>	<u>4,327</u>

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% 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
<i>Retiring today</i>	<i>years</i>	<i>years</i>
Males	21.8	23
Females	24.2	25.7
<i>Retiring in 20 years</i>		
Males	23.9	25.3
Females	26.5	28

	As 31 March 2017 £'000	As 31 March 2016 £'000
Analysis of the amount charged to operating costs in the Statement of Comprehensive Income		
Contributions by employer including unfolded	<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>

12. Pension obligations (continued)

Movement in surplus/(deficit) during year	As 31 March 2017	As 31 March 2016
	£'000	£'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	-	-
(Deficit) in scheme at 31 March	<u>(1,398)</u>	<u>(1,243)</u>
Asset and Liability Reconciliation	As 31 March 2017	As 31 March 2016
	£'000	£'000
Reconciliation of liabilities		
Opening defined benefit obligation	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	-	-
Closed defined benefit obligation	<u>4,918</u>	<u>4,072</u>
Reconciliation of assets		
Opening fair value of Fund Assets	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	(163)	(179)
Closing fair value of fund assets	<u>3,520</u>	<u>2,829</u>

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

LONGHURST GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

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
Cost									
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	<u>917,680</u>	<u>17,985</u>	<u>72,635</u>	<u>9,692</u>	<u>1,017,992</u>	<u>14,450</u>	<u>1,221</u>	<u>4,402</u>	<u>1,038,065</u>
Depreciation and impairment									
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	<u>102,880</u>	<u>-</u>	<u>2,891</u>	<u>-</u>	<u>105,771</u>	<u>1,998</u>	<u>245</u>	<u>3,114</u>	<u>111,128</u>
Net book value at the end of the year	<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>
Net book value at the start of the year	<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	2016				
				£'000	£'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	2016				
				£'000	£'000				
Components capitalised				7,615	9,303				
Amounts charged to expenditure				2,067	2,456				
Total				9,682	11,759				
The aggregate amount of interest and finance costs included in the cost of housing properties				13,627	8,507				

13(b). Tangible fixed assets

Parent Company	Computer Equipment £'000	Furniture and office equipment £'000	Total fixed assets £'000
Cost			
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>
Depreciation			
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>
Net book value at the end of the year	<u>347</u>	<u>17</u>	<u>364</u>
Net book value at the start of the year	<u>424</u>	<u>19</u>	<u>443</u>

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	18	119	-	-
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
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This represents the parent company's investment in Libra (Longhurst Group) Treasury PLC (Libra). The Company owns 100% of the share capital of Libra.

<u>50</u>	<u>50</u>
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16. Stock

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

17. Trade and other debtors

Amounts falling due within one 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	<u>52</u>	<u>55</u>	<u>-</u>	<u>-</u>
Total	<u>4,415</u>	<u>4,481</u>	<u>755</u>	<u>480</u>

18. Cash and cash equivalents

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

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

19. Creditors: amounts falling due within one 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	-	-
	<u>31,304</u>	<u>30,711</u>	<u>1,234</u>	<u>882</u>

20(a). Creditors: amounts falling due after more than one 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)	<u>1</u>	<u>110</u>	<u>-</u>	<u>-</u>
	<u>727,935</u>	<u>712,848</u>	<u>1,676</u>	<u>1,870</u>

20(b). Debt analysis

	2017	Group	2016
	£'000		£'000
Loans repayable by instalments:			
Within one year	4,483		1,900
In one year or more but less than two years	5,317		8,314
In two years or more and less than five years	24,469		14,139
In five years or more	94,867		87,476
Loans not repayable by instalments:			
Within one year	3,850		7,021
In one year or more but less than two years	-		55,757
In two years or more and less than five years	83,315		22,500
In five years or more	257,393		262,578
Less: loan issue costs	<u>(8,063)</u>		<u>(7,895)</u>
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%. (2016: 5.71%).

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
					100,500

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

21. Deferred capital grant

	2017 £'000	Group 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	<u>1,373</u>	<u>624</u>
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	<u>226,734</u>	<u>228,260</u>
	<u>229,004</u>	<u>230,523</u>

22. Recycled capital grant fund

	2017 £'000	Group 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	<u>(155)</u>	<u>(239)</u>
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

		2017	Group	2016
		£'000		£'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 three 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	2016	2017	2016
	£'000	£'000	£'000	£'000
Land and buildings:				
Not later than one year	38	138	-	-
Later than one year and not later than five years	110	224	-	-
Later than five years	-	-	-	-
Others:				
	535	551	205	196
Not later than one year	636	901	264	312
Later than one year and not later than five years	-	-	-	-
Later than five years	1,319	1,814	469	508

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

	2017	2016
	£'000	£'000
The total accumulated government grant and financial assistance received or receivable at 31 March:		
Held as deferred capital grant	228,824	230,523
Recognised as income in statement of Comprehensive Income	47,334	45,140
	<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 & 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 & 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 & 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 & 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 & 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 £250m 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% 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 7% of its net position subject to fixed rates of interest, on a rolling five-year average basis. The Group will ensure that no more than 100% of its net exposure is fixed at any time. Any fluctuations in interest rates are fully borne by each group borrower.

Financial assets & 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 £32.435m (2016: £32.953m). 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	2016
	£'000	£'000
Financial assets		
(a) 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
(b) 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	Group
	2017	2016
	£'000	£'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	<u>17,920</u>	<u>22,200</u>
	<u>121,287</u>	<u>115,666</u>
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	<u>85,350</u>	<u>89,248</u>
	<u>121,287</u>	<u>115,666</u>

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.

LONGHURST GROUP LIMITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 MARCH, 2016

LONGHURST GROUP LIMITED
(A Company Limited by Guarantee)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

Company Registration Number: 3958380

LONGHURST GROUP LIMITED

CONTENTS

Board Members, Executive Officers, Principal Advisors and Bankers	2
Report from the Chair and Chief Executive	3 - 4
Strategic Report for the Year Ended 31 March 2016	5 - 24
Report of the Independent Auditors	25
Consolidated Statement of Comprehensive Income	26 - 27
Consolidated Statement of Changes in Reserves	28- 29
Consolidated Statement of Cash Flows	30
Notes to the Financial Statements	31 - 63

LONGHURST GROUP LIMITED

BOARD MEMBERS, EXECUTIVE OFFICERS, PRINCIPAL ADVISORS AND BANKERS

Board Members:

Anne Adamthwaite	Chair
Bob Wilson	Vice Chair, Chair of the Keystone Board
Ernie Hendricks	Chair of the Homes Board
Rob Lankey	Chair of the Libra Treasury Board
Patricia Stanley	(appointed 01/01/2016)
Clive Barnett	(appointed 01/02/2016)
Daniel Elkins	(appointed 01/01/2016)
Julie Doyle	(appointed 01/01/2016)

Roger Rudd	(resigned 31/12/2015)
John Farrar	(resigned 31/12/2015)
Sidney McFarlane	(resigned 31/12/2015)
John Robson	(resigned 20/05/2015)
Julie Reader-Sullivan	(resigned 31/12/2015)
Derek Young	(resigned 31/12/2015)
Lynda Bowen	(resigned 31/12/2015)

Executive Officers:

Julie Doyle	Chief Executive
Rob Griffiths	Deputy Chief Executive and Chief Financial Officer (Company Secretary)
Lynn Stubbs	Executive Director of People and Performance
Jonathan Driffill	Executive Director of Partnerships, Care and Community
Ian Jackson	Executive Director of Investment Portfolio
Sharon Guest	Executive Director of Housing (appointed 04/07/2016)

Registered Head Office:

50 Newhall Hill
Birmingham
B1 3JN

Principle Bankers:

Lloyds Banking Group
3rd Floor, 25 Gresham Street
London
EC2V 7HN

Auditors:

Beever & Struthers
Chartered Accountant and Statutory Auditor
St George's House
215-219 Chester Road
Manchester
M15 4JE

Solicitors:

Wright Hassall LLP
Olympus Avenue
Leamington Spa
Warwickshire
CV34 6BF

Trowers & Hamblins LLP
3 Bunhill Row
London
EC1Y 8YZ

Winckworth Sherwood LLP
Minerva House
5 Montague Close
London
SE1 5B

Report from the Chair and Chief Executive

The last 12 months were dominated by politics and housing was without question one of the most talked about topics of the year. Rent reductions, the prospect of Right to Buy, and further welfare cuts all threatened to destabilise our income base, but despite these challenges Longhurst Group has performed well and remains financially strong with a development programme bigger than ever.

Our first year working together as Chair and Chief Executive has encompassed much change which has only made Longhurst Group an even stronger organisation. We know what needs to be achieved and an internal review of our structure has made sure we're ready to deliver.

With concerns about the sector sacrificing community-focus in favour of commerciality, some associations are questioning their future, but for us there is no conflict of interest balancing a high-performing business with a social ethos.

We know what we do; we provide homes, we provide support, and we provide for the future. We do it by focusing on performance and efficiency.

Fit for Purpose

Although the last year has required us to react quickly to change, we've continued to think about the bigger picture and have taken decisions that safeguard our business for the future. Following a comprehensive review of our governance and structures arrangements, a new Board structure came into effect from 1 January 2016. This more streamlined structure accommodates our ambition to grow and supports greater efficiency, as well as ensuring that we are fit for purpose and ready to meet the demands of the sector with speed and agility.

With our income being constrained, it's become even more critical that we operate as efficiently as possible. Value-for-money isn't simply a cost assessment; we are committed to weighing the balance of social value against business expenditure to make sure we're investing sensibly in local communities.

Ambitious Partners

Our reputation for delivering on our promises is built on the foundation of strong financial performance. This year we've achieved £113 million turnover, that's a £7 million increase on last year, and is a performance we're aiming to emulate again over the next few years with the target to increase our turnover to £145 million by 2020.

We also generated a £7.2 million surplus for the year, which we will channel back into sustaining our development programme and initiatives that benefit our customers and local communities.

We're keen to push for innovation and have set ourselves ambitious targets, but we're realistic about what we can achieve with the resources we have available to us. We're on track to deliver over 2,500 new homes over five years and have provided 420 new homes in 2015/16. Development will be key to ending the housing crisis and we're proud to be playing a significant role in bringing new homes to the Midlands and surrounding areas. That's why our development programme is the largest it's ever been.

A commitment to partnership working has always been central to the Longhurst Group philosophy. In an increasingly competitive and challenging operating environment, our partnerships set us apart. Drawing on the knowledge and experience of expert partners, we're able to demonstrate new strengths and deliver excellent homes and services.

People-focused

We have continued to deliver services that make a real difference to the lives of our customers. We invest in taking care of the day to day issues that we know matter most to people.

Focusing on enabling people to live independently, we provided support to our customers to access education or training, with a particular focus on employable skills. Almost 900 customers met with our specialist money advisors.

Community work matters to us too and we're working in partnership with our contractors to deliver community improvements and employment opportunities for local people. As an employer of choice we recognise the importance of having a strong team in place to drive our success. We're really pleased to have been able to offer 11 apprenticeships over the last year, and we are committed to identifying more opportunities to support people into work over the coming year with a comprehensive programme planned.

Prepared for the Future

The future will undoubtedly hold new challenges, but in that lies opportunity and Longhurst Group is ready to act. Our performance in 2015/16 has been strong and has laid foundations for an even stronger year ahead. We will continue to build new homes, develop our people and deliver services that make a real and positive difference in local communities.

Anne Adamthwaite, Chair

Julie Doyle, Chief Executive

Introduction

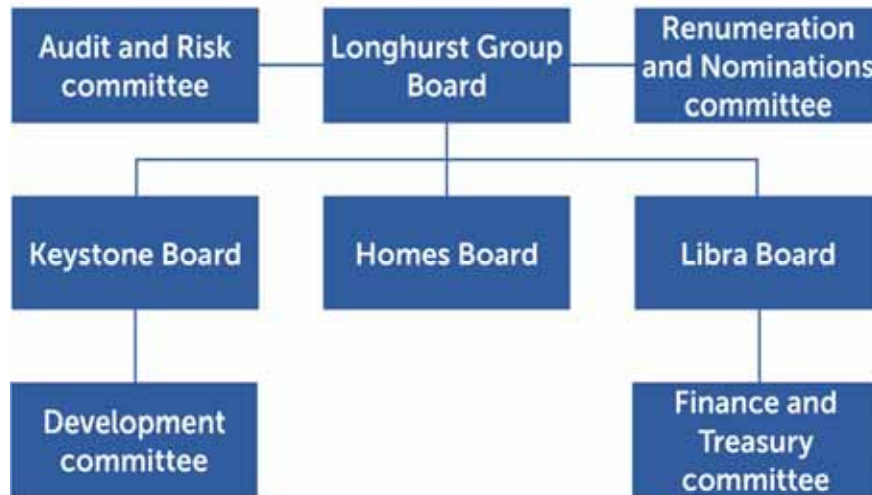
The Board presents its report and audited consolidated financial statements for Longhurst Group and its subsidiary undertakings for the year ended 31 March 2016. The principal activity of Longhurst Group is as a leading provider of affordable housing, care, and support in the Midlands and surrounding areas.

The rent reduction and the impact of other policy announcements (such as the extension of Right to Buy and the new minimum wage increases) has forced all housing associations to review business plans and priorities – especially in major expenditure areas such as development, maintenance, staffing and central overheads. Key stakeholders such as our customers, our lenders, the tax payer, and local authorities will hold us accountable for decisions on the best use of our resources.

With a well-defined set of values and a dynamic leadership team, Longhurst Group has a clear idea of what success looks like. We have the structures and controls in place to maximise our resources as we deliver the ambitious objectives set out in our Business Plan. This Plan is underpinned by two principles: growth and excellence. Our commitment to these principles is evident in our approach to:

Governance and Reporting Structure

Following a comprehensive review of the governance arrangements and management structures, our Board and Executive Leadership Team have been restructured with effect from 1 January 2016. These agile governance arrangements will underpin our success as our streamlined board structure allows us to take decisions quickly and clearly outlines where responsibility lies.



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)

Developing New Homes

We reviewed our development programme in light of changes to our operating environment to ensure that we are in a position to viably deliver our ambitious home-building targets. While demand for our rented homes will not decrease, we will be taking steps to address demand for other tenures including shared ownership. Our development programme now aims to achieve a 50:50 ratio of rented homes to low cost homeownership options.

In 2015/16 we invested more than £28 million into our development programme, including £1.5 million of HCA grant and Recycled Capital Grant Fund. We have continued to maximise traditional development models where they are available to us and increased our use of creative and innovative solutions to enable us to meet a broad range of needs through a diverse range of tenures; providing starter homes, leasehold schemes and market rent properties amongst others.

We have been very successful in our ability to develop without grant and through the life of this Business Plan we will increase the cross-subsidy opportunities of outright sale and market rent development. We completed 420 new homes in 2015/16 and expect to deliver more than 480 homes in 2016/17.

Keystone, our specialist development arm, will play a central role in delivering our strategy with the number of units delivered set to increase significantly over the next four years. Work started on site in February at our largest new scheme to date. The joint venture with Westleigh Partnerships will create 400 new homes in Humberston, North Lincolnshire over the coming years.

As lead partner in the Blue Skies Consortium, we secured grant in excess of £5 million to support the delivery of more than 410 new homes throughout the Midlands in 2015/16, with a further 300 start on sites. During 2016/17 we anticipate that more than 360 new homes will be completed by consortium members with a further 710 start on sites expected, based on £8.4 million grant take up.

Customer Service Excellence

Longhurst Group is committed to providing excellent services and we are continually driving improvements that meet the needs of our different operating areas.

Our Domiciliary Care services in the West Midlands have demonstrated excellence, receiving an incredibly positive CQC report in Spring 2016. The Leadership of the service was awarded an 'outstanding' rating as a result of the good communication between managers, customers and their families, and the staff team.

Thousands of our customers have already been affected by welfare reform and although we are pleased to report a minimal impact on our business so far, there are still more challenges to prepare for. We continue to provide specialist money advice services to help mitigate the impact of these changes on our customers, 897 customers accessed the service in 2015/16 which generated an additional £196,000 rental payments across the Group.

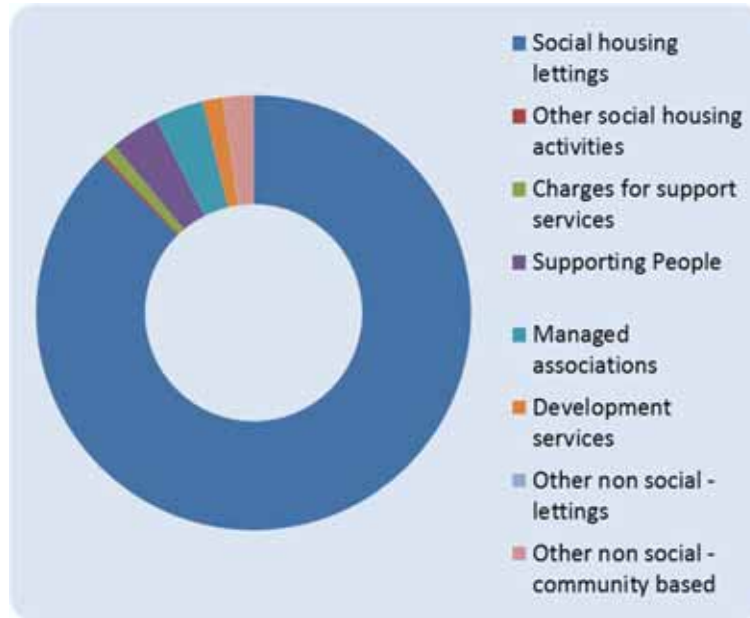
Value-for-Money Self-Assessment

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 2015/16 we generated value-for-money gains of approximately £3.3 million through cash savings, additional income and operating efficiencies.

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.

Understanding our costs

Activities driving operating costs



Operating costs from social housing letting (SHL), have increased by £2.54 million, however there has been a £3.55 million movement on pension deficit costs and a £664,000 increase in depreciation, therefore without these changes there has been a real decrease in SHL operating costs of £1.67 million. This includes £494,000 saving on planned and major works and a £1.05 million reduction in impairment charges.

Operating costs from Social Housing lettings increased by 4.6 percent from £54.87 million to £57.42 million yet operating costs per unit have only increased by 2.8 percent to £3,252.

The operating surplus was £32.8 million compared to £32.1 million in 2014/15, with operating margin falling from 30 percent to 29 percent over the same period. But for the movement on the pension scheme deficit the Group's core operating margin would have increased on a like-for-like basis. We expect the operating margin to rise to 33 percent by the end of 2016/17.

Understanding our Costs – Unit Cost Analysis

The Homes and Communities Agency (HCA) published their unit cost analysis in June 2016. The regulator has defined a 'headline social cost per unit' measure to analyse Global Accounts cost data, which aims to provide a consistent and robust measure of costs across providers.

The data analysed in the tables are taken from the 2014/15 global accounts data, which were published under old UK GAAP and prior to the restatement under FRS 102.

Table 1 shows the absolute cost data and where the Group and its subsidiaries are in relation to the median value.

HCA figures (£'000s)	Audited Accounts			
	2014-15 Consolidated	2014-15 Friendship	2014-15 Spire	2014-15 L&H
Headline social housing CPU	3.38	4.28	3.75	2.68
Management CPU	0.80	1.42	0.69	0.54
Service charge CPU	0.50	0.88	0.28	0.43
Maintenance CPU	0.82	0.99	0.82	0.74
Major repairs CPU	0.91	0.61	1.74	0.58
Other social housing CPU	0.34	0.38	0.22	0.39
	Upper		High cost	
	Higher Median		Above average cost	
	Lower Median		Below average cost	
	Lower		Low cost	

The results for Longhurst Group reinforce our understanding of our cost base, and although we are performing above the median across the headline measures, we know there is a significant cost variance within Friendship which needs further analysis and improvement during 2016/17 and is addressed through our future VFM objectives.

Maintenance costs per unit are low within Spire and L&H compared to the sector, and only just above median within Friendship. Spire's position is due to lower average repair cost, whereas L&H is reduced due to low numbers of repairs per property. There is a £800k gap between Friendship's performance and Spire's in this area.

Major repair spend shows a slightly above average spend within Friendship and L&H and a high spend in Spire, however, these figures contain Spire's last year fulfilling Rutland transfer promises so we would expect a higher cost in this area compared to sector averages.

Other Social housing costs per unit are higher than average for all companies with L&H and Friendship in the higher quartile. This takes account of costs in the area of floating support, leasehold services expenditure and community based activities however, like service charges the HCA data takes no account of the income offsetting expenditure in this area.

Table 2 shows revised figures taking into account service charge and support income

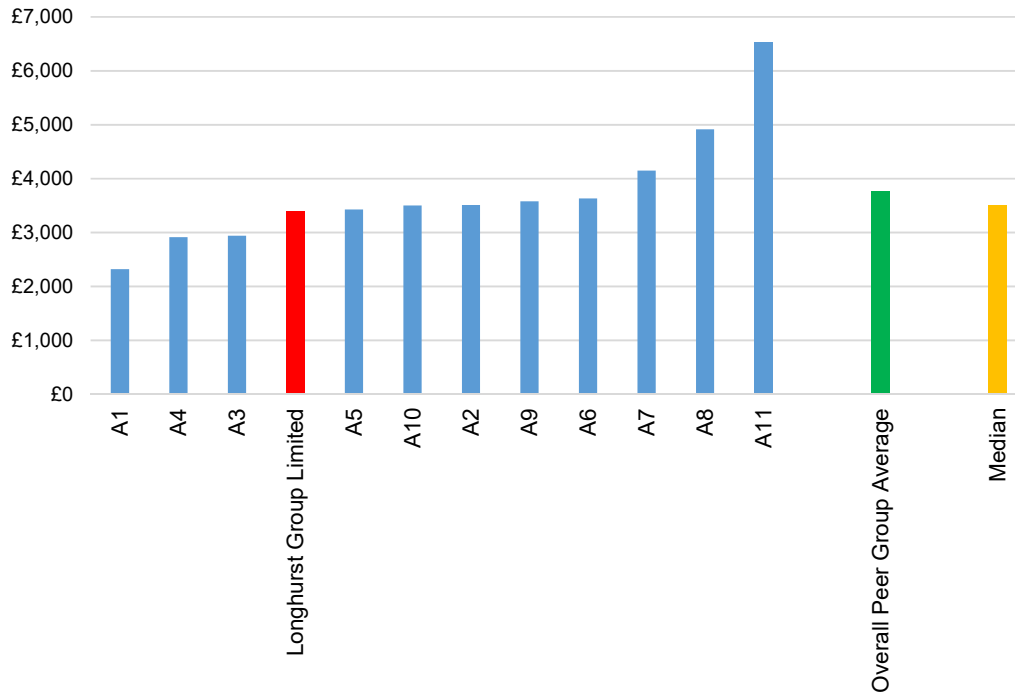
Alternative comparison (£000s)	Audited Accounts			
	2014-15 Consolidated	2014-15 Friendship	2014-15 Spire	2014-15 L&H
Headline social housing CPU	2.46	3.03	3.23	2.01
Management CPU	0.80	1.42	0.69	0.54
Service charge CPU	0.09	(0.01)	0.07	0.15
Maintenance CPU	0.82	0.99	0.82	0.74
Major repairs CPU	0.91	0.61	1.74	0.58
Other social housing CPU	(0.17)	0.03	(0.09)	(0.01)
	Upper		High cost	
	Higher Median		Above average cost	
	Lower Median		Below average cost	
	Lower		Low cost	

We have recalculated the group's cost per unit and the global quartiles taking into account the service charge income and other social housing income, we feel this gives a more comparable position and does not adversely impact our position when providing other services for which we recover the costs. Our analysis highlights Friendships management costs as priority area for improvement, to both improve its individual performance and the Group overall.

How we compare with our Peer Group

We have compared our performance to our chosen peer group(1) . This peer group consists of those providers who share similar characteristics and business profile.

Average Total Cost Per SH Unit



1 Longhurst Group Limited, Acclaim Housing Group Limited, Accord Housing Association Limited, Cross Keys Homes Limited, Derwent Housing Association Limited, Flagship Housing Group Limited, Futures Housing Group Limited, Grand Union Housing Group, Nottingham Community Housing Association 2014 Limited, Orbit Group Limited, The Riverside Group Limited, The Wrekin Housing Group Limited Westward Housing Group Limited, WM Housing Group Limited, Wellingborough Homes Limited.

Benchmarking

Benchmarking our performance is critical to ensuring we understand our relative costs and performance. We reviewed our benchmarking approaches across the Group this year and have taken the decision to establish a smaller, more focussed benchmarking group and therefore not renew our membership with HouseMark. Work is well underway in the analysis of our comparative data which will be available from September 2016. This year we have published current operational performance compared with a 2014/15 peer group comparison (using our chosen peer group of medium sized RPs across the Midlands).

Return on Assets

The historic cost of the Group's housing assets rose by £27.9 million to £871 million. In 2015/16 we developed a Group-wide asset management strategy identifying priorities for investment.

Understanding our assets

The rent reduction announced in July 2015 added a further threat to an already challenging operating environment, and increased the importance of understanding how our assets perform and where investment will have the greatest impact.

In 2014/15, we worked with Savills to complete an asset modelling project covering over 15,000 of our rented homes, enabling us to understand the financial and social performance of our stock, and informing the review of our Asset Management Strategy. Following the rent reduction announcement, we reviewed our capital investment programme lifecycles to ensure there is consistency across the Group and that we focus investment where it is most effective, whilst maintaining our homes to a standard that is affordable and desirable for our customers.

We completed targeted stock surveys, and developed a single Group stock survey template, and have transferred our data to this template. We also added stock value data to the model. Whilst these pieces of work have delayed a systematic analysis of assets, they have put us in a much stronger position in terms of understanding our stock, and being able to identify properties that perform weakly relative to value, as well as overall poor performers.

Development Programme

As in previous years, our development programme was achieved with minimal grant funding: £1.5 million in 2015/16 against private funding of over £28 million. We were also successful in achieving an average for first tranche sales of shared ownership properties of 43 percent (against a target of 40 percent), which was the main factor enabling us to achieve shared ownership sales income over £4.6 million above target.



In 2015/16, our average costs per unit were around £112,000; we expect this to rise to around £120,000 in the future as more units are developed for ownership, because of the higher specification on these units. Developing properties for sale will also increase our risk profile in the future, however, our development and sales programme will be structured in a way to ensure we are not over-committed at any one time on future sales programmes. The stress-testing of our sales assumptions formed a key part of the development of our Business Plan.

Development Programme	
Units completed in 2015/16	420
Units started in 2015/16	309
Completions due in 2016/17	518
percent of s.106 units in 2015/16 completions	72%
Grant received for units completed 2015/16	£801,081
Other grant (including RCGF & DPF) for units completed 2015/16	£753,919
Average cost pu for units completed in 2015/16	£111,925

Development savings

Our Construction Services Team provides clerk of works and employers agent services on most Group developments; the service generated a surplus in 2015/16 of over £146,000.

In 2014/15, we set up framework agreements for the procurement of consultants and contractors. These have provided lists of approved consultants and contractors for a four-year period, and avoids the need for tendering every scheme separately, as well as reducing legal costs and overheads. This has saved, on average, around £20,000 per scheme that is over the OJEU threshold, and £30,000 in 2015/16.

Rent Collection

Our work to reduce rent arrears proved successful. Our target was to reduce the cash value of arrears for general needs and housing for older people by 10 percent across the Group over the year; we achieved a reduction of 15.2 percent. This meant that our current general needs and housing for older people arrears fell from 3.75 percent to 2.7 percent for the year, resulting in an improved cashflow of £781,627 in 2015/16. An income review has been completed to support a single, streamlined approach that will increase efficiencies in managing the income collection process. As Universal Credit continues to be rolled out we will be targeting further improvements in this area.

Empty Homes

In 2015/16, rent loss from empty general needs and housing for older people properties fell from 0.82 percent to 0.72 percent, equating to an additional income of £74,984 across the Group. This was largely achieved because the number of tenancies terminating fell by 11 percent to 965, despite increases in the number of units we own.

Environmental impact

In 2015, we again achieved the Investors in the Environment (IE) premium 'Green Award' for our Environmental Management System (EMS) in acknowledgement of our excellent green credentials. Our established EMS objectives will continue to feature as a priority in all our Group-wide activity with innovative plans in place to reduce our existing consumption for gas, water and electricity by two percent over the course of the next 12 months.

Tackling fuel poverty

We spent £1.2 million refurbishing 56 prefabricated re-enforced concrete homes, and will recover £29,167 as a result of carbon savings.

We continued to work with Billcutter and My Home Energy Switch to get debt cleared from meters in void properties and help new tenants choose the best fuel tariff for them. We will continue this work in 2016/17 with Spark Energy, with void properties moved to tariffs below the 'Big 6' standard tariffs, and will receive between £12.50 and £25 per void in payment. We expect this income to total around £22,500 in 2016/17.

Procurement and Contract Management

We have made savings of £833,456 in 2015/16 through procurement and management. For example:

Action	Saving	Year of saving
We continued to procure materials through the Central Housing Investment Consortium	£179,589 (on post-savings expenditure totalling £933,410)	2015/16
We switched to an annual price-per-property contract across the Group for gas servicing	£71,000 per year	from 2016/17
Friendship ended its contract with one of its two main repairs and voids contractors in 2014/15	over £350,000	2015/16 (the first full year of operation)
We retendered our mobile phone contract across the Group	£69,000	2015/16

Transaction Costs

Although we offer a range of payment options for customers, we have adopted direct debit as our default option, because this is the most cost-effective for us. We made savings of around £22,632 on transaction costs in 2015/16.

Delivering social value

We support over 4,000 people through a range of care and support services, community initiatives and assistive technology services. We cannot ignore the financial challenge of providing these services, but as we harmonise our structures, policies and procedures, we will become more efficient. Our Care Strategy sets out clearly how we will continue to evaluate the viability of the services we provide.

We maximise the social value of our work wherever possible, taking into account whether we are the best organisation to deliver the value in question and how efficiently and effectively we can do so. Most of our repairs and maintenance contracts include social value provisions, and we work to ensure these are delivered to provide maximum benefit.

We achieved social value of £32,220 (using HACT assessment model) from our response and void repairs contract with Keepmoat through a range of projects including delivering employment skills training and securing work experience placements for customers.

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. From 2016/17 onwards this will deliver recurring savings of over £700k per annum. The new structure brings significant opportunities to streamline how we work, reduce costs, and share skills more effectively across the Group.

Savings from restructures further down the organisation will follow in subsequent years as we move away from our historical approach of the three landlord companies operating independently to three legal entities operating as a single unified organisation, reducing duplication and inefficiencies.

VFM Gains

Area	Activity		Nature of gain	Value
Development	Surplus on Construction Services team on clerk of works/employers' agent services	Ongoing	Economy	£146,000
Development	Framework agreements for consultants and contractors	Ongoing	Economy	£30,000
Development	Manufacturer indemnities in place of extended warranties	Ongoing	Economy	£30,000
Development	Rebates by procuring products direct from manufacturers	Ongoing	Economy	£21,000
Arrears	Reduction in rent arrears	One off	Savings	£781,627
Void loss	Reduction in void loss	One off	Savings	£74,984
Money guidance	Increased income from backdated claims	One off	Additional income	£78,661
Reducing emissions	Rebate following carbon savings achieved during refurbishment	One off	Savings	£29,167
Recycling	Reuse of out of date kitchen worktops	One off	Savings	£3,000
Property Services	Contract procurement	Ongoing	Savings	£833,456
Digital Services	Increasing online services and activity	Ongoing	Savings	£45,636
ICT	Non-procurement savings	Ongoing	Savings	£115,500
Transaction costs	Reduction in transaction costs	Ongoing	Savings	£22,632
One Team	Sharing expertise	One off	Savings	£57,822
Care	Securing existing contracts and increasing contract value	Annually	Additional Income	£900,000
Support	Care and Repair project fees	One off	Savings	£12,966
Customer Income	Benefit advice services	One off	Social value	£603,622
Life skills	Employment opportunities and skills training	One off	Social value	£32,220
Training	External funding received for training	One off	Additional Income	£117,425
Training	Discounts negotiated on training delivery	One off	Economy	£10,340
Training	Internal ad hoc course delivery and team away day facilitation	Ongoing	Economy	£18,450
Disrepair services		Ongoing	Economy	£21,000
TOTAL VFM GAINS				£3,985,508

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 response to the drop in our income brought about by the rent cut announced in July 2015 we have agreed a 7.5 percent minimum target saving to be made on our operating costs by 2020.

We recognise there is much to be gained from streamlining our policies and procedures across our operational areas and we expect significant savings to be realised through this work in the next two years. We will also be aligning our service standard on repairs and have started work on an options appraisal to determine the most effective and efficient service delivery model for repairs in the future.

Examples of the key priorities which we will be focussing on include:

- All three companies moved to a fixed price per annum gas contract (two companies previously had fixed price per service).
- Closer monitoring of maintenance contract social value undertakings.
- Procurement of new heating systems through Aaron services.
- Rent culture – review and greater focus on importance of collection.
- Implementation of single Group income recovery process and RentSense to reduce costs and increase efficiency.

To read the Longhurst Group Value-for-Money self-assessment report in full, please visit longhurst-group.org.uk/value-for-money.

Corporate Governance

Strong governance and structures are essential for any secure and ambitious organisation to thrive, particularly in a challenging operating environment. The business and governance of an organisation do not work in isolation, and given our substantial growth over the last decade it is important to ensure that all existing arrangements are both fit for purpose and fit for the future and that we have the confidence of our stakeholders, the regulator, and the wider sector. Following a comprehensive review of our governance arrangements across the Group, a new streamlined governance structure came into effect on 1st January 2016.

The new governance structure incorporates a co-terminous Board, known as the Homes Board, which brings together the Boards of the three landlord Group member companies, Spire Homes, Friendship Care and Housing and Longhurst & Havelok Homes. 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. As the Group moves forward with its ambition of creating a unified team with one vision, the co-terminous Homes Board will play a key role in championing this approach.

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
<p>D2</p> <p>Maximum tenure must be agreed for all non-executives which must in total be nine 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.</p>	<p>At the end of the year under review, Rob Lankey was the only serving Board member across the Group whose length of service exceeded 9 years. Rob has been retained as a Group Board member due to his skill and experience in Treasury Management whilst a suitable replacement is identified. Following an exercise to recruit members with the appropriate skills, Rob will be standing down from the Longhurst Group and Libra Board in December 2016</p> <p>During the year some Board Members length of service exceeded 9 years’ tenure; these members were retained to ensure continuity during a period of governance change for the Group and all these relevant members stood down during the year.</p>

Compliance with Governance and Financial Viability Standard

The Board has taken reasonable steps to ensure compliance with the requirements of the Governance and Financial Viability Standard. There have been no serious or material breaches of the law or the Standard as would require notification to the Homes and Communities Agency in accordance with the Governance and Regulatory Standard.

Risk Management

Our robust and comprehensive approach to risk management underpins all our other objectives. A risk management culture is embedded across the whole organisation, with all departments working collaboratively to monitor and mitigate risk through a robust Group-wide system and clearly identified structures and reporting processes.

We will continue to develop these systems to allow us to consistently improve how we record and assess risk in all areas of operation. The Audit and Risk Committee meet regularly to promote and scrutinise our approach and review quarterly risk assurance reports. The role of the Group Board in understanding and managing risk is crucial and will continue to be a key focus. We have ensured that our Boards are highly skilled and have the ability to manage the risks of the business both now and in the future. The strategic risk register is reviewed by the Group Board and Audit & Risk Committee each quarter.



The Board and Executive Team have developed a Contingency Plan that stress-tests all of the actions and controls required to sustain the financial viability of the Group in the event of a series of unlikely scenarios that present potential threats. The Plan has been independently verified by external consultants to ensure it presents a robust response to all serious risks and will be used regularly to test out new scenarios as the environment around us changes.






The Board recognise that the management and provision of new social housing is a long-term business and as such the Board maintain a long-term perspective on managing risk when considering new business initiatives. Any new areas of business or major projects are individually risk-assessed and reported to the Board prior to work commencing. 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.

Our work to implement an Asset and Liability Register was completed by September 2015. The Asset Register being implemented goes beyond the requirement of the new Regulatory Standard and will improve the way we run the business as well as providing assurance to the Regulator on the protection of Social Housing Ass

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 & Impact	Principal Mitigations	Change from Last Year
<p>Delivery of Development Programme</p> <p>The Group aims to provide 3,700 new homes over the next 5 to 6 years.</p>	<ul style="list-style-type: none"> • Business Plan targets could be missed • Property market downturn • Developers' prices rise faster than expected • Cash flow and funding issues if units not delivered in line with Business Plan assumptions. 	<ul style="list-style-type: none"> • Business Plan has prudent assumptions, reviewed by external advisors • Scenario modelling, sensitivity analysis and Group contingency planning in place • Flexibility exists to amend scheme profiles in terms of outright sale to rented • A proportion of the schemes already have agreed prices. 	
<p>Financial Performance</p> <p>Not delivering in line with Business Plan and Investors' expectations.</p>	<ul style="list-style-type: none"> • Rent reduction of 1 percent for next four years • Efficiency targets missed • Credit rating could suffer • Cost of funding could increase • Unable to deliver Business Plan aims and objective. 	<ul style="list-style-type: none"> • BP has prudent assumptions, reviewed by external advisors • Scenario modelling, sensitivity analysis and Group contingency planning in place • Operating costs are to be reduced by 7.5 percent over next four years (with 60 percent of savings identified in first two years) • A proportion of the development schemes already have agreed prices • Financial performance has improved over the last four years • The Group has a rating with Moody's Investment Services of A2 (December 2015) & a HCA rating of V1 (February 2016). 	

<p>Welfare Reform</p> <p>Under-occupancy rules, introduction of Universal Credit, direct payments to customers and LHA benefit caps.</p>	<ul style="list-style-type: none"> • Government policy and austerity measures • Rent element of benefit may not get paid to us as promptly as under previous system • General economic environment faced by our tenants • Pressure on discretionary Housing Benefit payments • Under-occupancy requires customers to make extra payments. 	<ul style="list-style-type: none"> • Income Teams, Money Guidance Officers and Benefit advice is available to customers • Specialist software to establish which arrears cases to focus on is being trialled • Business Plan has made prudent assumptions on arrears levels which may arise • Rent collection performance has improved over the past two years • Our Tenancy Policies have been amended to reflect the changes in welfare reform. 	
<p>Government Policy</p> <p>Housing and Planning Bill and any further changes in policies towards the social housing sector.</p>	<ul style="list-style-type: none"> • Failure to anticipate and be responsive to changes in government policy • Business Plan assumptions and strategies can become outdated or obsolete. 	<ul style="list-style-type: none"> • Engagement and horizon scanning by the Executive Team to ensure key issues are anticipated • Business Plan modelled with various adverse scenarios to ensure financial robustness going forward under various strategies and government policies. 	
<p>Regulation & Reputation</p> <p>The Group places high priority in maintaining excellent standards in line with regulatory requirements and customer expectations.</p>	<ul style="list-style-type: none"> • Rent reduction of 1 percent for next four years • Changes in government policies • Compliance with HCA Regulatory Framework • Meeting customer expectations • Continued drive to improve KPIs. 	<ul style="list-style-type: none"> • Rated as V1 & G1 by the HCA (February 2016) • Our self-assessment on the HCA Regulatory Standards shows compliance • Business Plan sets out targets for continued and improved quality service provision • External and Internal Audit deliver a robust programme of reviews and audits to give assurance on our control environment. 	
<p>Care & Support</p> <p>Providing a quality service and the need for services to be financially viable in the current market of low contract prices.</p>	<ul style="list-style-type: none"> • Continued pressure from Local Authorities to reduce funding • National Living Wage (NLW) legislation • Welfare reform • Reputation risks if service withdrawn. 	<ul style="list-style-type: none"> • A revised Care & Support strategy presented to the Board (Summer 2016) • One Local Authority provider has agreed to increase contract prices to enable improved rates of pay • New tenders and/or renegotiations are made in line with the new NLW 	
<p>EU Referendum</p> <p>Uncertainty within the financial markets following a vote to leave the EU.</p>	<ul style="list-style-type: none"> • Impact on inflation with a possibility that this could increase beyond 3 percent in the next 18 months • Availability and cost of new private finance • Impact on swap rates and our mark to market position • Impact on house prices and how this might affect future sales programmes. 	<ul style="list-style-type: none"> • A robust approach to risk management is in place • We will pay close attention to key risks and ensure that we do not over commit in any one area • Some obvious risks have been considered as part of the stress-testing of our Plan, in particular our future development and growth targets. 	

Review of Financial Performance

We are pleased to present the consolidated Group Financial Statements for the year ending 31st March 2016, these are the first set of Financial Statements to be reported under FRS 102.

Statement of Comprehensive Income		
	2015/16	2014/15
	£'000	£'000
		Restated
Turnover	112,913	106,278
Cost of Sales	(14,627)	(11,956)
Less Operating Expenditure	(65,493)	(62,203)
Operating Surplus	32,793	32,119
(Loss)/Gain on disposal of Property, Plant & Equipment	(623)	703
Interest Receivable	293	288
Interest Payable	(25,365)	(23,777)
Increase in valuation of investment properties	119	75
Surplus before tax	7,217	9,408
Taxation	25	-56
Net Surplus	7,242	9,352
Statement of Financial Position		
	2015/16	2014/15
	£'000	£'000
		Restated
Fixed Assets	912,184	892,092
Current Assets	29,135	26,232
Creditors due within 1 year	(30,711)	(25,552)
Total Assets less current liabilities	910,609	892,772
Creditors due after 1 year	712,848	702,048
Pension Provision	3,165	3,801
Total Net Assets	194,595	186,923
Reserves		
Income & Expenditure Reserve	85,792	76,958
Revaluation Reserve	140,757	141,811
Cashflow hedge reserve	(32,953)	(32,846)
Restricted reserve	1,000	1,000
	194,595	186,923

The consolidated Group surplus for the year was £7.24 million compared to a surplus of £9.35 million in the restated 2014/15 accounts.

The notes to the Financial Statements are shown in detail on pages 31 to 63. A review of the key areas of performance is summarised in the following sections.

Statement of Comprehensive Income

- The Group's turnover grew by £6.64 million to £112.91 million in 2015/16. The increase in turnover was driven by a number of factors. Principally these were from new stock coming into management, rent increases on our existing stock and an increase in turnover on properties developed for sale.
- Operating costs increased by £3.29 million when compared to 2014/15. The increase in operating costs in 2015/16 included a £3.5 million negative movement in costs associated with the defined benefit pension schemes operated through the Social Housing Pension Scheme. These defined benefit schemes are accounted for as defined contribution schemes as it is not possible to accurately allocate the share of assets and liabilities to participating employers. If the effect of the movement on the SHPS pension schemes is stripped out, the overall increase in operating costs was less than 1 percent in the year.
- The operating surplus for 2015/16 is £32.8 million, compared to £32.1 million in 2014/15.
- The surplus on sales of low cost home ownership properties increased from £2.35 million in 2014/15 to £2.97 million in 2015/16, from turnover of £14.92 million in 2015/16 compared to £10.46 million in 2014/15.
- The performance on outright sales resulted in a breakeven position being achieved. The overall performance in this area reflects additional costs which were incurred in buying out the joint venture agreement on a retirement scheme developed by Keystone.
- Net interest costs increased by £1.59 million in the year. The increase in chargeable interest costs arose due to an increase in borrowings to fund the development programme and a reduction in capitalised interest charged in the year of £1.1 million.
- A loss of £623,000 was recorded on homes not developed for sale. The loss arose after writing back grant of £1.6 million (which had previously been abated) in relation to a care home that was sold subject-to-contract at the previous Balance Sheet date. The sale fell through in November 2015.

Statement of Financial Position and Cashflow

- The historical cost of the Group's housing base grew by just over £20 million between 2014/15 and 2015/16 to £912 million. As part of the transition to FRS 102 the Group elected to revalue the properties transferred from East Northamptonshire and Rutland County Council and take these into the Group's accounts as deemed cost. This added over £140 million to the Group's housing assets.
- Work in progress on schemes being developed for outright sale and low cost home ownership sales totalled £13.2 million at the end of March 2016 (£13.5 million March 2015).
- Loans outstanding at 31 March 2016 totalled £480.2 million up from £463.3 million the previous year. The additional net borrowing was used to finance the Group's development programme.
- Deficits from the various defined benefit pension schemes which the Group participates in through the Social Housing Pension Scheme are now reflected on the Balance Sheet as required under FRS 102. The deficit grew to £13.2 million following the latest triennial valuation, compared to £10.061 million in 2014/15.
- Cash generated from operating activities increased from £41.2 million in 2014/15 to £44.3 million in 2015/16.

Treasury Management

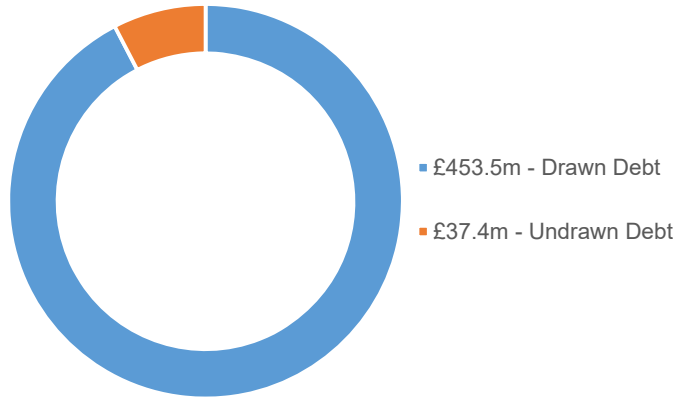
At 31 March 2016, Longhurst Group has agreed loan facilities totalling £490.9m of which £453.5m was drawn. Since the Group's Bond issue and the restructuring of a significant proportion of Bank debt in August 2012, loans are managed through the Group's Special Purpose Vehicle, Libra (Longhurst Group) Treasury plc with the remainder of loans being held within the individual operating company.

Group Loan Facilities

At 31 March 2016 the Group had total loan facilities available of £490.9m of which £37.4m was undrawn.

With the exception of capital repayments in the year, there has been no increase in committed funding since 31 March 2015.

Total committed funding

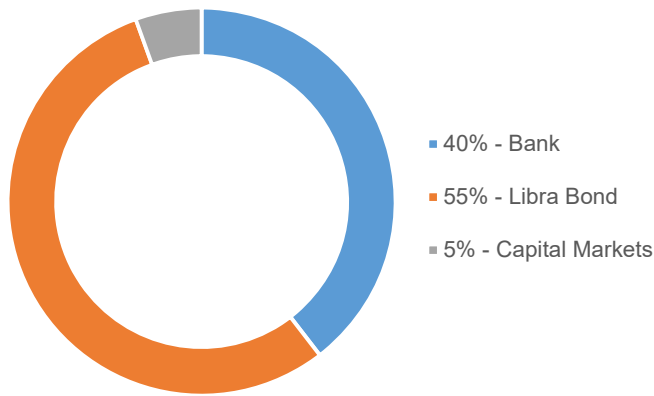


£398 million of total committed facilities has either been issued or is managed under Group Loan facilities by Libra (Longhurst Group) Treasury plc.

Bond and capital markets debt now account for 60 percent of the Group's total debt with the balance being provided through a mix of short, medium and long-term bank debt.

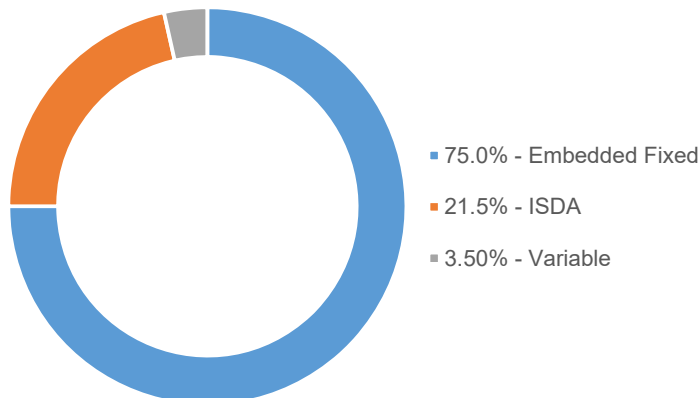
The Group aims to maintain its hedging activity within flexible parameters, as defined within the Treasury Management Policy which states that between 70 percent and 90 percent of drawn funds should be fixed or hedged for periods ranging from 2-30 years. The remaining 10 to 30 percent should be held as variable rate debt or hedged on a short-term basis. However, if appropriate, the Finance & Treasury Committee can approve operating outside of these parameters for a defined period.

Bank v Capital Market



Following the Group funding restructuring and Bond issues in 2012, and the sale of reserve bonds in 2014, the Group's hedging activity is currently in excess of the defined maximum of 90 percent. This exception has been approved by the Libra Board. It is anticipated the ratio of Fixed to Variable debt will return to the usual parameters during 2016-17.

Hedging Activity %



80 percent of the Group's loans have been arranged under long-term facility periods, with 20 percent being arranged as short-term facilities with a final repayment date of between two and five years.

The repayment profile for the drawn and undrawn debt held across the Group is summarised in the chart below:

Debt Repayment Profile

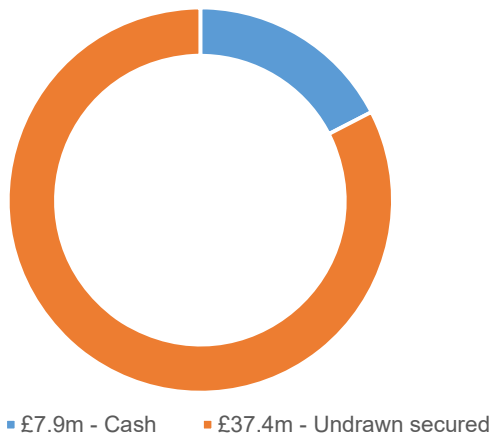


The undrawn committed facilities of £37.4 million comprises of £17.75 million from a long-term amortising facility (2037) and £19.65 million of short-term revolving credit facilities repayable within the next five years.

75 percent of committed facilities mature in more than five years, a majority of which relates to our £250 million, 26-Year (2038) Bond issue.

Liquidity

Available Liquid funds



At 31 March 2016 the Group has available cash of £5.1 million and £52.2 million of undrawn facilities available to draw with two days' notice.

The Group has £25 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 Homes and Spire Homes 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.

L&H Homes and Spire Homes are both party to the Group Security structure; all lenders and Libra

Treasury are beneficiaries of their respective Security Trust Deeds allowing for cross-collateralisation for all Group facilities.

Friendship Care & Housing loans are currently held at company level.

Loan Covenants & 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 of Friendship Care & Housing 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 Libra Board. There were no breaches of any Loan Covenants during the year.

Interest Rate Exposure

At 31 March 2016, the Group had a negative stand-alone interest swap exposure of £30 million (£29.5m in 2014/15), based on £97.5 million (£97.5m in 2014/15) of notional paying fixed-rate/receiving 3 month LIBOR.

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 2016, 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 2016.

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 2015/16	Longhurst Group Board	Homes Board	Libra Board and Finance & Treasury Committee	Keystone Board and Development Committee	Audit & Risk Committee	Remuneration and Nominations Committee
Anne Adamthwaite		£15,521	Chair			✓		✓
Robert Gerrard Wilson		£12,000	Vice Chair			Chair		Chair
Patricia Ann Stanley		£4,831	✓				Chair	
Daniel Elkins		£4,456	✓		✓			✓
Ernest Hendricks		£11,078	✓	Chair				
Julie Doyle	Executive member	£0	✓	✓				
Robert Lankey		£7,149	✓		Chair			✓
Clive Barnett		£583	✓		✓			
Roger Rudd	Resigned 31/12/15	£5,261	✓			✓		✓
John Farrar	Resigned 31/12/15	£8,118	✓			Chair		Chair
Sidney McFarlane	Resigned 31/12/15	£8,118	✓				Chair	
John Robson	Resigned 20/05/15	£2,944	✓		✓			✓
Julie Reader Sullivan	Resigned 31/12/15	£3,312	✓					
Lynda Bowen	Resigned 31/12/15	£3,312	✓					

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 Group Board acknowledges its ultimate responsibility in ensuring that the Company 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 Group'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 Longhurst Group. The Group Board also has overall responsibility for ensuring that the appropriate level of internal control is in place across 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 by the Audit and Risk Committee.

The 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 appointed as Internal Auditors at the beginning of the 2012/13 financial year. The focus of internal audit work in 2015/16 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 rules 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 2015/16. There were no matters which were required to be reported to the HCA. The Group Board has approved a Risk Management Strategy and continues to develop procedures to identify, assess and manage risks to which the Company is exposed.
- iii) 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 and Risk Committee.
- iv) The Group Board has approved a Group-wide Contingency Plan. The Contingency Plan was developed in recognition of the changing nature of the risks faced by our business and the sector as a whole. The Contingency Plan supplements the work undertaken on risk management and incorporates additional stress-testing on the Business Plan.
- v) 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 others.
- vi) 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.
- vii) The establishment of a Group-wide Asset & Liability register.
- viii) A Group-wide Finance & Treasury Committee which meets four times a year focussing on the Group's Treasury Strategy and monitoring compliance with the approved Treasury Policy.
- ix) 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 7 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 22 July 2016 and signed on its behalf by:

.....

R Griffiths FCCA

Company Secretary

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF LONGHURST GROUP LIMITED

We have audited the financial statements of Longhurst Group Limited for the year ended 31 March 2016 on pages 26 to 30. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and Section 137 of the Housing and Regeneration Act 2008. 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 Board's Responsibilities set out on page 22, the Board Members (who are also Directors of the Company for the purposes of Company law) are responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Association's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Group's and Company's affairs as at 31 March 2016 and of their income and expenditure for the year then ended; and
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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.

In our opinion the information given in the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements;

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

In addition, we have nothing to report in respect of the following matter where the Housing and Regeneration Act 2008 requires us to report in our opinion if a satisfactory system of control over transactions has not been maintained.

Maria Hallows (Senior Statutory Auditor)

For and on behalf of

Beever and Struthers

Chartered Accountants and Statutory Auditor

215-219 Chester Road

Manchester, M15 4JE

Dated: 22.07.2016

LONGHURST GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 Mar 2016		Restated Year Ended 31 Mar 2015	
		Consolidated £'000	Parent Company £'000	Consolidated £'000	Parent Company £'000
Turnover	2	112,913	8,584	106,278	7,898
Cost of sales	2	(14,627)	-	(11,956)	-
Operating expenditure	2	<u>(65,493)</u>	<u>(8,925)</u>	<u>(62,203)</u>	<u>(7,755)</u>
Operating surplus/(deficit)		32,793	(341)	32,119	143
(Loss)/Gain on disposal of property, plant and equipment (fixed assets)	6	(623)	-	703	-
Interest receivable		293	2	288	4
Interest and financing costs	7	(25,365)	(32)	(23,777)	(51)
Increase in valuation of investment properties		<u>119</u>	<u>-</u>	<u>75</u>	<u>-</u>
Surplus/(deficit) before tax	8	7,217	(371)	9,408	96
Taxation	9	<u>25</u>	<u>-</u>	<u>(56)</u>	<u>-</u>
Surplus/(deficit) for the year after tax		7,242	(371)	9,352	96
Actuarial gain/(loss) in respect of pension schemes		<u>537</u>	<u>-</u>	<u>(395)</u>	<u>-</u>
Total comprehensive income for the year		<u>7,779</u>	<u>(371)</u>	<u>8,957</u>	<u>96</u>

The financial statements on pages 27 to 31 were approved and authorised for issue by the Board on 22 July 2016 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 31 to 63 form an integral part of these accounts.

LONGHURST GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
STATEMENT OF FINANCIAL POSITION

		Year ended 31 Mar 2016		Restated Year Ended 31 Mar 2015	
	Notes	Consolidated £'000	Parent Company £'000	Consolidated £'000	Parent Company £'000
Fixed assets					
Tangible fixed assets	13	906,723	443	886,796	588
Investment properties	14	5,461	-	5,296	-
Investment in subsidiaries	15	-	50	-	50
		<u>912,184</u>	<u>493</u>	<u>892,092</u>	<u>638</u>
Current assets					
Stock	16	13,200	-	13,535	-
Trade and other debtors	17	4,481	480	4,239	630
Cash and cash equivalents	18	<u>11,454</u>	<u>757</u>	<u>8,458</u>	<u>570</u>
		<u>29,135</u>	<u>1,237</u>	<u>26,232</u>	<u>1,200</u>
Less: Creditors: amounts falling due within one year	19	<u>(30,711)</u>	<u>(882)</u>	<u>(25,552)</u>	<u>(953)</u>
Net current (liabilities) / assets		<u>(1,576)</u>	<u>355</u>	<u>680</u>	<u>247</u>
Total assets less current liabilities		<u>910,608</u>	<u>848</u>	<u>892,772</u>	<u>885</u>
Creditors: amounts falling due after more than one year	20(a)	712,848	1,870	702,048	1,536
Provisions for liabilities					
Pension provision	12	<u>3,165</u>	-	<u>3,801</u>	-
Total net assets		<u>194,595</u>	<u>(1,022)</u>	<u>186,923</u>	<u>(651)</u>
Reserves					
Non-equity share capital	30	-	-	-	-
Income and expenditure reserve		85,791	(1,022)	76,958	(651)
Revaluation reserve		140,757	-	141,811	-
Cashflow hedge reserve		(32,953)	-	(32,846)	-
Restricted reserve		<u>1,000</u>	-	<u>1,000</u>	-
Total reserves		<u>194,595</u>	<u>(1,022)</u>	<u>186,923</u>	<u>(651)</u>

The financial statements on pages 27 to 31 were approved and authorised for issue by the Board on 22 July 2016 and were signed on its behalf by:

Board Member:

Board Member:

Secretary:

.....

.....

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The notes on pages 31 to 63 form an integral part of these accounts.

LONGHURST GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

Group	Income and expenditure reserve £'000	Restricted reserve £'000	Cashflow hedge reserve £'000	Revaluation reserve £'000	Total £'000
Balance as at 1 April 2014	51,136	1,000	-	-	52,136
FRS102 Adjustment	15,601	-	(21,524)	-	(5,923)
Restated Balance as at 1 April 2014	66,737	1,000	(21,524)	-	46,213
Surplus as stated at 31 March 2015	9,146	-	-	-	9,146
FRS 102 Adjustment	(189)	-	-	-	(189)
Restated Surplus from Statement of Comprehensive Income	8,957	-	-	-	8,957
Transfer from revaluation reserve to income and expenditure reserves	1,264	-	-	(1,264)	-
Fair value movement on financial derivative	-	-	(11,322)	-	(11,322)
FRS102 deemed cost adjustment	-	-	-	<u>143,075</u>	<u>143,075</u>
Balance at 31 March 2015	76,958	1,000	(32,846)	141,811	186,923
Surplus/(deficit) from Statement of Comprehensive Income	7,779	-	-	-	7,779
Transfer from revaluation reserve to income and expenditure reserves	1,054	-	-	(1,054)	-
Fair value movement on financial derivative	-	-	<u>(107)</u>	-	<u>(107)</u>
Balance at 31 March 2016	<u>85,791</u>	<u>1,000</u>	<u>(32,953)</u>	<u>140,757</u>	<u>194,595</u>

The notes on pages 31 to 63 form an integral part of these accounts.

LONGHURST GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
PARENT COMPANY STATEMENT OF CHANGES IN RESERVES

Parent Company	Income and expenditure reserve £'000
Balance as at 1 April 2014	1,075
FRS102 Adjustments (Note 36)	(1,822)
Restated Balance as at 1 April 2014	<u>(747)</u>
Surplus as stated at 31 March 2015	73
FRS 102 Adjustment	23
Restated Surplus from Statement of Comprehensive Income	<u>96</u>
Balance at 31 March 2015	<u>(651)</u>
(Deficit) from Statement of Comprehensive Income	<u>(371)</u>
Balance at 31 March 2016	<u>(1,022)</u>

The notes on pages 31 to 63 form an integral part of these accounts.

LONGHURST GROUP LIMITED
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016
CONSOLIDATED STATEMENT OF CASHFLOWS

	Notes	Year ended 31 Mar 2016 £'000	Restated Year Ended 31 Mar 2015 £'000
Net cash generated from operating activities		44,296	41,163
Cash flow from investing activities			
Purchase of tangible fixed assets		(35,879)	(56,908)
Proceeds from sale of tangible fixed assets		4,836	5,582
Grants received		1,706	1,269
Interest received		41	101
Tax paid		<u>26</u>	<u>(65)</u>
		(29,270)	(50,021)
Cash flow from financing activities			
Interest paid		(25,851)	(22,204)
New secured loans		18,326	39,670
Repayment of borrowings		<u>(4,505)</u>	<u>(8,096)</u>
		(12,030)	9,370
Net change in cash and cash equivalents		<u>2,996</u>	<u>512</u>
Cash and cash equivalents at beginning of the year		<u>8,458</u>	<u>7,946</u>
Cash and cash equivalents at end of the year		<u>11,454</u>	<u>8,458</u>
Note i Cash flow from operating activities		Year ended 31 Mar 2016 £'000	Restated Year Ended 31 Mar 2015 £'000
Surplus for the year		7,243	9,352
Adjustments for non-cash items:			
Depreciation of tangible fixed assets		13,642	12,829
Amortisation of intangible assets		(2,303)	(2,253)
Impairment charges		4	1,056
(Increase) in stock		(1,415)	(597)
Decrease/(increase) in trade and other debtors		2,269	(1,151)
(Increase) in trade and other creditors		(3,568)	(126)
Pension costs less contributions payable		2,803	(658)
Adjustments for investing or financing activities:			
Proceeds from the sale of tangible fixed assets		622	(703)
Movement on valuation of investment properties		(119)	(75)
Interest payable		25,365	23,777
Interest received		<u>(247)</u>	<u>(288)</u>
Net cash generated from operating activities		<u>44,296</u>	<u>41,163</u>

The notes on pages 31 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 has applied the Public Benefit Entity section of 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 £.

The Group's financial statements have been prepared in compliance with FRS102 as it applies for the first time to the financial statements of the Group for the year ended 31 March 2016.

The Group transitioned from previous UK GAAP to FRS102 as at 1 April 2014. An explanation of how the transition to FRS102 has affected the reported financial position and performance, as well as the exemptions taken on transition, is given in note 32.

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 2016.

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. Government's announcements in July 2015 impacting on the future income of the Group have led to a reassessment of the Group's business plan as well as an assessment of imminent or likely future breach in borrowing covenants. No significant concerns have been noted and we consider it appropriate to continue to prepare the financial statements on a going concern basis.

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 35. 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.

1. Principal Accounting Policies (continued)

Other key sources of estimation and assumptions:

- a. **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.
- b. **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 the transition date, 31 March 2015 and 31 March 2016. 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.
- c. **Pension and other post-employment benefits.** The cost of defined benefit pension plans and other post-employment benefits are 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.
- d. **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 the government announced a change in rent policy which resulted in a material impact on the net income expected to be collected in the future for housing properties and the Group have assessed that this represents a trigger for impairment review.

Following a trigger for impairment, the Group perform impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from sales transactions in an arm's length transaction on similar cash generating units (properties) or observable market prices less incremental costs for disposing of the properties. The value in use calculation is based on either a depreciated replacement cost or a discounted cash flow model. The depreciated replacement cost is based on available data of the cost of constructing or acquiring replacement properties to provide the same level of service potential to the Association as the existing property. The cash flows are derived from the business plan for the next 30 years and do not include restructuring activities that the Group is not yet permitted to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Following the assessment of impairment, no impairment losses 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 2. 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 3 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.

1. Principal Accounting Policies (continued)

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.

The Group has chosen to apply hedge accounting on the date of transition to FRS 102.

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.

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in The Statement of Comprehensive Income. 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.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits,
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met, and
- Where timing differences relate to interests in subsidiaries, associates and joint ventures and the Group can control their reversal and such reversal is not considered probable in the foreseeable future.

1. Principal Accounting Policies (continued)

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair value of liabilities acquired and the amount that will be assessed for tax. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

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 & doors	30
• Kitchen	20
• Heating & 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.

1. Principal Accounting Policies (continued)

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 Account. 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 one 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 one year.

1. Principal Accounting Policies (continued)

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 3.02% at 31 March 2014, 1.92% at 31 March 2015 and 2.06% at 31 March 2016. 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	2016			
	Turnover	Cost of sales	Operating Costs	Operating surplus
	£'000	£'000	£'000	£'000
Social housing lettings (note 3a)	86,892	-	(57,417)	29,475
Other social housing activities				
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
Activities other than social housing				
Lettings (Note 3b)	338	-	(36)	302
Properties developed for outright sale	2,682	(2,681)	-	1
Other	1,155	-	(1,457)	(302)
Total	<u>112,913</u>	<u>(14,627)</u>	<u>(65,493)</u>	<u>32,793</u>
	2015			
	£'000	£'000	£'000	£'000
Social housing lettings (notes 3a)	83,314	-	(54,873)	28,411
Other social housing activities				
First tranche low cost home ownership sales	10,464	(8,115)	-	2,349
Charges for support services	451	-	(491)	(40)
Supporting people	2,634	-	(2,523)	111
Development services	1,201	-	(995)	206
Managed associations	1,918	-	(1,772)	146
Other Activities	879	-	(321)	558
Activities other than social housing				
Lettings (Note 3b)	142	-	(14)	128
Properties developed for outright sale	4,015	(3,841)	-	174
Other	1,260	-	(1,214)	46
Total	<u>106,278</u>	<u>(11,956)</u>	<u>(62,203)</u>	<u>32,119</u>

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

Parent Company	2016		
	Turnover £'000	Operating Costs £'000	Operating surplus £'000
Activities other than social housing			
Development	1,562	(1,423)	139
General Management	1,021	(1,891)	(870)
Health & 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	<u>77</u>	<u>-</u>	<u>77</u>
Total	<u>8,584</u>	<u>(8,925)</u>	<u>(341)</u>
	2015		
	£'000	£'000	£'000
Activities other than social housing			
Development	1,326	(1,334)	(8)
General Management	877	(816)	61
Health & Safety	314	(324)	(10)
IT	1,851	(1,892)	(41)
Marketing	615	(598)	17
Human Resources	963	(982)	(19)
Group Financial Services	1,853	(1,809)	44
Other	<u>99</u>	<u>-</u>	<u>99</u>
Total	<u>7,898</u>	<u>(7,755)</u>	<u>143</u>

3(a). Turnover and operating expenditure

Group	General Housing	Supported Housing and Housing for Older People	Low Cost Home Ownership	Care Homes	Total 2016	Total 2015
	£'000	£'000	£'000	£'000	£'000	£'000
Income						
Rent receivable net of identifiable service charge	67,770	4,751	2,831	1,348	76,700	72,910
Service charge income	2,139	1,547	193	449	4,328	3,974
Amortised government grants	1,980	114	170	39	2,303	2,255
Other grants	-	-	-	2,658	2,658	2,738
Other income from Social Housing Lettings	-	17	143	743	903	1,437
Turnover from Social Housing Lettings	71,889	6,429	3,337	5,237	86,892	83,314
Operating expenditure						
Management	13,402	1,115	875	1,174	16,566	14,671
Service charge costs	3,068	1,730	71	4,554	9,423	9,467
Routine maintenance	10,166	502	3	42	10,713	10,284
Planned maintenance	4,562	452	6	91	5,111	5,024
Major repairs expenditure	2,136	215	2	103	2,456	2,049
Bad debts	282	55	-	29	366	362
Depreciation of Housing Properties	11,440	667	309	98	12,514	11,850
Impairment of Housing Properties	4	-	-	-	4	1,057
Other Costs	264	-	-	-	264	109
Operating expenditure on Social Housing Lettings	45,324	4,736	1,266	6,091	57,417	54,873
Operating Surplus/(Deficit) on Social Housing Lettings	26,565	1,693	2,071	(854)	29,475	28,441
Void losses (being rental income lost as a result of property not being let, although it is available for letting)	450	177	-	726	1,353	1,138

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

	2016 £'000	2015 £'000
Lettings		
Market Renting	338	142
Total	<u>338</u>	<u>142</u>

4. Accommodation owned, managed and in development

	2016		2015	
	No. of properties Owned	Managed	No. of properties Owned	Managed
Social Housing				
Under development at end of year:				
General needs housing social rent	165	-	231	-
General needs housing affordable rent	107	-	151	-
General needs housing intermediate rent	230	-	256	-
Market Rent	-	-	31	-
Low-cost home ownership	250	-	337	-
Deferred Equity	10	-	14	-
Help to Buy	-	-	7	-
Outright Sale	-	-	2	-
	<u>762</u>	<u>-</u>	<u>1,029</u>	<u>-</u>
Under management at end of year:				
General needs housing	14,530	187	14,314	193
Supported housing and housing for older people	1,179	-	1,179	-
Low-cost home ownership	1,406	37	1,309	39
Registered Care Homes	116	-	114	-
Leasehold Properties	<u>1,080</u>	<u>155</u>	<u>1,074</u>	<u>155</u>
	<u>18,311</u>	<u>379</u>	<u>17,990</u>	<u>387</u>
	<u>19,073</u>	<u>379</u>	<u>19,019</u>	<u>387</u>
Non-Social Housing				
Under management at end of year:				
Market rented	47	-	47	-
	<u>47</u>	<u>-</u>	<u>47</u>	<u>-</u>
	<u>19,120</u>	<u>379</u>	<u>19,066</u>	<u>387</u>

5. Accommodation managed by others

The Longhurst Group owns property managed by other bodies.

	2016 No. of properties	2015 No. of properties
General Needs	44	43
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>147</u>

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

	Right to Buy & Voluntary Sales £'000	Shared Ownership Staircasing Sales £'000	Total 2016 £'000	Total 2015 £'000
Proceeds of sales	1,951	2,885	4,836	5,581
Less: Costs of sales	<u>(3,343)</u>	<u>(2,116)</u>	<u>(5,459)</u>	<u>(4,878)</u>
(Deficit) / Surplus	(1,392)	769	(623)	703
Capital grant recycled (Note 23)	319	316	635	1,091
Disposal proceeds fund (Note 24)	—	—	—	109
	<u>319</u>	<u>316</u>	<u>635</u>	<u>1,200</u>

7. Interest and financing costs

	Group		Parent Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Deferred benefit pension charge	299	471	32	51
On loans repayable within five years	5,694	3,928	-	-
On loans wholly or partly repayable in more than five years	20,393	21,552	-	-
Costs associated with financing	<u>1,161</u>	<u>1,050</u>	<u>-</u>	<u>-</u>
	<u>27,547</u>	<u>27,001</u>	<u>32</u>	<u>51</u>
Less: interest capitalised on housing properties under construction	<u>(2,182)</u>	<u>(3,224)</u>	<u>-</u>	<u>-</u>
	<u>25,365</u>	<u>23,777</u>	<u>32</u>	<u>51</u>

The weighted average interest on borrowings of 5.851% (2015: 6%) was used for calculating capitalised finance costs.

8. Surplus/(deficit) on ordinary activities

	Group		Parent Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
The operating surplus is stated after charging/(crediting):-				
Auditors remuneration (excluding VAT):				
Audit of the group financial statements	10	9	10	9
Audit of Subsidiaries	66	53	-	-
Fees payable to the company's auditor and its associates for other services to the group:	24	36	11	23
Operating lease rentals:				
- Motor Vehicles	726	744	231	222
- Land and buildings	55	53	-	-
- Office equipment	23	-	7	-
Impairment losses of housing properties	4	1,057	-	-
Depreciation of housing properties	12,514	11,850	-	-
Depreciation of other fixed assets	999	1,113	391	460
Surplus on sale of other fixed assets	<u>623</u>	<u>(703)</u>	<u>-</u>	<u>-</u>

9. Tax on Surplus/(deficit) on ordinary activities

	Group		Parent Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Current tax				
UK corporation tax on surplus for the year	<u>(25)</u>	56	-	-
Tax on surplus on ordinary activities	<u>(26)</u>	<u>56</u>	<u>-</u>	<u>-</u>
Deferred tax	-	-	-	-
Net origination and reversal of timing differences	-	-	-	-
	<u>(26)</u>	<u>56</u>	<u>-</u>	<u>-</u>

The tax assessed in the year is lower than the standard rate of corporation tax in the United Kingdom at 20% (2015: 21%). The differences are explained as follows:

	Group		Parent Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Total tax reconciliation				
Surplus on ordinary activities before tax	<u>7,217</u>	<u>9,408</u>	<u>(371)</u>	<u>96</u>
Theoretical tax at UK corporation tax rate 20% (2015: 21%)	1,443	1,976	(74)	15
- Profits arising in non-taxable charitable entities	(1,541)	(1,905)	-	-
- Expenses not deductible for tax purposes	-	(2)	-	(2)
- Other short term timing differences	21	2,351		
- Increase in losses carried forward	(21)	(2,378)		
- Movement on deferred tax other fixed assets and short term timing differences	74	14	74	14
- Marginal relief	(1)	-		
- Group relief surrendered free of charge	=	=	=	(27)
Current tax charge for the period	<u>(25)</u>	<u>56</u>	<u>-</u>	<u>-</u>

10(a). Directors' remuneration – Group

	2016	2015
	£'000	£'000
The aggregate emoluments paid to or receivable by non-executive Directors and former non-executive directors	<u>131</u>	183
The aggregate emoluments paid to or receivable by executive Directors and former executive directors	<u>1,135</u>	1,311
The aggregate amount of Directors or past Directors pensions, excluding amounts payable under a properly funded pension scheme	<u>73</u>	85
The aggregate amount of any consideration payable to Directors for loss of office	<u>444</u>	80
The emoluments paid to the highest paid Director excluding pension contributions (Chief Executive – Mr R V Walder 2016 and 2015)	<u>186</u>	155

10(b). Directors' remuneration – Parent Company

	2016	2015
	£'000	£'000
The aggregate emoluments paid to or receivable by non-executive Directors and former non-executive directors	<u>39</u>	54
The aggregate emoluments paid to or receivable by executive Directors and former executive directors	<u>701</u>	501
The emoluments paid to the highest paid Director excluding pension contributions (Chief Executive - Mr R V Walder 2016 and 2015)	<u>186</u>	155
The aggregate amount of Directors or past Directors pensions, excluding amounts payable under a properly funded pension scheme	<u>49</u>	35
The aggregate amount of any consideration payable to Directors for loss of office	<u>261</u>	-

The Chief Executive (Ms J Doyle from 1 July 2015) is an ordinary member of the pension scheme. The pension scheme is a final salary 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 £13,839 was paid in addition to the personal contributions of the Chief Executive.

Mr R V Walder was Chief Executive until 30 June 2015. Mr Walder was an ordinary member of the pension scheme. The pension scheme is a final salary scheme funded by annual contributions by the employer and employee. The association paid a contribution of £3,447 during the year (2015: £12,199) in addition to the personal contributions of the Chief Executive. As part of the exit arrangements for Mr Walder, an AVC account within the SHPS pension scheme was opened on behalf of Mr Walder and the Company made a contribution of £94,000.

11. Employee information

	Group		Parent Company	
	2016 No.	2015 No.	2016 No.	2015 No.
The average number of persons employed during the year expressed in full time equivalents (36.25 hours per week) was:				
Office staff	370	375	132	128
Wardens, caretakers and cleaners	<u>344</u>	<u>341</u>	<u>3</u>	<u>2</u>
	<u>714</u>	<u>716</u>	<u>135</u>	<u>130</u>
	£'000	£'000	£'000	£'000
Staff costs (for the other persons)				
Wages and salaries	19,153	19,331	4,978	4,669
Social Security costs	1,318	1,326	391	361
Other pension costs	<u>5,224</u>	<u>1,589</u>	<u>876</u>	<u>346</u>
	<u>25,695</u>	<u>22,246</u>	<u>6,245</u>	<u>5,376</u>
Aggregate number of full time equivalent staff whose remuneration exceeded £60,000 in the period:	No.	No.	No.	No.
£60,000 - £70,000	6	4	3	3
£70,000 - £80,000	4	6	2	2
£80,000 - £90,000	4	2	3	1
£90,000 - £100,000	1	-	1	-
£100,000 - £110,000	1	3	1	2
£110,000 - £120,000	2	1	1	1
£120,000 - £130,000	-	-	-	-
£130,000 - £140,000	-	1	-	-
£140,000 - £150,000	-	2	-	1
£150,000 - £160,000	1	1	1	-
£160,000 - £170,000	1	-	-	-
£170,000 - £180,000	-	-	-	-
£180,000 - £190,000	-	-	-	-
£190,000 - £200,000	1	-	1	-
£200,000 - £210,000	1	-	1	-
£210,000 - £220,000	-	-	-	-
£220,000 - £230,000	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>
	<u>23</u>	<u>20</u>	<u>15</u>	<u>10</u>

12. Pension obligations

Social Housing Pension Scheme and Pensions Trust Growth Plan

SHPS deficit payment agreement

Longhurst Group parent company has a contractual obligation under an agreement to pay additional deficit payments to SHPS of £53,775 per annum for 11 years to 2026/27.

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	10,061	10,371	1,748	1,822
Additional liabilities in the year	4,072	484	577	78
Interest for the year	183	295	32	52
Released to expenditure in the year	<u>(1,133)</u>	<u>(1,089)</u>	<u>(212)</u>	<u>(204)</u>
	<u>13,183</u>	<u>10,061</u>	<u>2,145</u>	<u>1,748</u>

12. Pension obligations (continued)

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 1st April 2007. For new entrants to the scheme from 1st 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 7.35% for the final salary scheme and 8.05% for the career average scheme plus a monthly lump sum to fund past deficit amounts. Contributions by members varied between 8.45% and 12.45% depending on their age and which scheme they are in. At the balance sheet date there were 93 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 £4,446m revealing a shortfall of assets compared with the value of liabilities of £1,323m.

Following a change in legislation in September 2005, 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 2014 has been calculated as £14,231,905.

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% 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 30th September 2015 by a professionally qualified actuary. The valuation revealed a shortfall in assets of £206.9m, equivalent to a funding level of 81%.

The estimated amount of employer debt on withdrawal liability for Longhurst Group Ltd as at 30 September 2015 has been calculated as £41,369

12. Pension obligations (continued)

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 2016 were £93k (2015: £170k), of which employer's contributions totalled £90k (2015: £181k) and employees' contributions totalled £3k (2015: £9k). The agreed employer contribution rates for future years are 19.4% for the Northamptonshire County Council scheme and x19.37% for the Leicestershire County Council scheme.

Principal Actuarial Assumptions

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

	At 31 March 2016	At 31 March 2015
Rate of increase in salaries	3.65%	4.15%
Rate of increase for pensions	2.15%	2.25%
Discount rate for scheme liabilities	3.45%	3.15%

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 2016	At 31 March 2015
<i>Retiring today</i>	<i>years</i>	<i>years</i>
Males	22.25	22.25
Females	24.3	24.3
<i>Retiring in 20 years</i>		
Males	24.1	24.1
Females	26.6	26.6

	As 31 March 2016	As 31 March 2015
	£'000	£'000
Analysis of the amount charged to operating costs in the Statement of Comprehensive Income		
Contributions by employer including unfolded	199	170
Current service cost	<u>(59)</u>	<u>(51)</u>
Total operating charge	<u>140</u>	<u>119</u>
Analysis of pension finance income / (costs)		
Interest on Assets	135	158
Interest costs	<u>(208)</u>	<u>(249)</u>
Amounts charged/credited to financing costs	<u>(73)</u>	<u>(91)</u>
Amounts of gains and losses recognised in the Statement of Comprehensive Income		
Actuarial gains/(losses) on pension scheme assets	(102)	349
Actuarial gains/(losses) on scheme liabilities	<u>535</u>	<u>(558)</u>
Actuarial gain/(loss) recognised	433	<u>(209)</u>

12. Pension obligations (continued)

Movement in surplus/(deficit) during year	As 31 March 2016	As 31 March 2015
	£'000	£'000
(Deficit) in scheme at 1 April	(2,422)	(2,241)
Movement in year:		
Current service costs	(59)	(51)
Interest income on plan assets	135	158
Interest cost on defined benefit obligation	(208)	(249)
Employer contributions	199	170
Change in financial assumptions	535	(558)
Return on assets, excluding net interest	<u>(102)</u>	<u>349</u>
(Deficit) in scheme at 31 March	<u>(1,922)</u>	<u>(2,422)</u>
Asset and Liability Reconciliation	As 31 March 2016	As 31 March 2015
	£'000	£'000
Reconciliation of liabilities		
Opening defined benefit obligation	6,751	6,074
Current service cost	59	51
Interest cost	208	249
Contributions by Scheme participants	14	15
Change in financial assumptions	(535)	558
Estimated benefits paid net of transfers in	<u>(248)</u>	<u>(196)</u>
Closed defined benefit obligation	<u>6,249</u>	<u>6,751</u>
Reconciliation of assets		
Opening fair value of Fund Assets	4,329	3,833
Interest on assets	135	158
Return on asset less interest	(102)	349
Contributions by employer including unfunded	199	170
Contributions by Fund participants	14	15
Estimated benefits paid plus unfunded net of transfers in	<u>(248)</u>	<u>(196)</u>
Closing fair value of fund assets	<u>4,327</u>	<u>4,239</u>

The total return on the fund assets for the year to 31 March 2016 is £33k (2015: £507k).

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 2016 were £93k (2015: £190k), of which employer's contributions totalled £90k (2015: £181k) and employees' contributions totalled £3k (2015: £9k). The agreed contribution rates for future years are 19.4% for employers.

Principal Actuarial Assumptions

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

	At 31 March 2016	At 31 March 2015
Rate of increase in salaries	3.75%	3.75%
Rate of increase for pensions in payment/inflation	2.00%	2.00%
Discount rate for scheme liabilities	3.50%	3.20%
Inflation assumption (CPI)	2.00%	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 2016	At 31 March 2015
<i>Retiring today</i>	<i>years</i>	<i>years</i>
Males	23	23
Females	25.7	25.6
<i>Retiring in 20 years</i>		
Males	25.3	25.2
Females	28	28

	As 31 March 2016	As 31 March 2015
	£'000	£'000
Analysis of the amount charged to operating costs in the Statement of Comprehensive Income		
Contributions by employer including unfolded	<u>90</u>	<u>181</u>
Total operating charge	<u>90</u>	<u>181</u>
Analysis of pension finance income / (costs)		
Interest on Assets	92	115
Interest costs	<u>(135)</u>	<u>(160)</u>
Amounts charged/credited to financing costs	<u>(43)</u>	<u>(45)</u>
Amounts of gains and losses recognised in the Statement of Comprehensive Income		
Actuarial gains/(losses) on pension scheme assets	(102)	285
Actuarial gains/(losses) on scheme liabilities	<u>206</u>	<u>(538)</u>
Actuarial gain/(loss) recognised	<u>104</u>	<u>(253)</u>

12. Pension obligations (continued)

Movement in surplus/(deficit) during year	As 31 March 2016	As 31 March 2015
	£'000	£'000
(Deficit) in scheme at 1 April	(1,379)	(1,141)
Movement in year:		
Employer service cost (net of employee contributions)	(4)	30
Employer contributions	90	(181)
Past service cost	-	-
Net interest/return on assets	(43)	45
Re-measurements	103	253
Curtailements and settlements	-	91
(Deficit) in scheme at 31 March	<u>(1,233)</u>	<u>(903)</u>
 Asset and Liability Reconciliation	 As 31 March 2016	 As 31 March 2015
	£'000	£'000
Reconciliation of liabilities		
Opening defined benefit obligation	4,305	3,829
Current service cost	14	30
Interest cost	135	160
Contributions by Scheme participants	3	9
Change in financial assumptions	(206)	538
Estimated benefits paid net of transfers in	(179)	(352)
Past service cost	-	-
Past service costs, including curtailments	-	91
Closed defined benefit obligation	<u>4,072</u>	<u>4,305</u>
 Reconciliation of assets		
Opening fair value of Fund Assets	2,926	2,688
Interest on assets	92	115
Return on asset less interest	(102)	285
Administration expenses	(1)	-
Contributions by employer including unfunded	90	181
Contributions by Fund participants	3	9
Estimated benefits paid plus unfunded net of transfers in	(179)	(352)
Closing fair value of fund assets	<u>2,829</u>	<u>2,926</u>

The total return on the fund assets for the year to 31 March 2016 is £10k (2015: £400k)

LONGHURST GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

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
Cost									
At start of the year	866,873	18,490	56,652	15,087	957,102	13,335	1,221	8,399	980,057
Additions to properties	3,081	20,070	784	4,186	28,121	-	-	542	28,663
Works to existing properties	9,303	-	-	-	9,303	-	-	-	9,303
Schemes completed in year	24,301	(24,301)	7,318	(7,318)	-	-	-	-	-
Components Replaced	(1,926)	-	-	-	(1,926)	-	-	-	(1,926)
Disposals	(3,465)	-	(1,589)	-	(5,054)	-	-	(4,061)	(9,115)
At end of the year	<u>898,167</u>	<u>14,259</u>	<u>63,165</u>	<u>11,955</u>	<u>987,546</u>	<u>13,335</u>	<u>1,221</u>	<u>4,880</u>	<u>1,006,982</u>
Depreciation and impairment									
At start of the year	82,553	-	2,468	-	85,021	1,665	219	6,356	93,261
Charge for the year	11,113	-	241	-	11,354	77	18	904	12,353
Disposals	(1,242)	-	(56)	-	(1,298)	-	-	(4,061)	(5,359)
Impairment losses	4	-	-	-	4	-	-	-	4
At end of the year	<u>92,428</u>	<u>-</u>	<u>2,653</u>	<u>-</u>	<u>95,081</u>	<u>1,742</u>	<u>237</u>	<u>3,199</u>	<u>100,259</u>
Net book value at the end of the year	<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>1,681</u>	<u>906,723</u>
Net book value at the start of the year	<u>784,320</u>	<u>18,490</u>	<u>54,184</u>	<u>15,087</u>	<u>872,081</u>	<u>11,670</u>	<u>1,002</u>	<u>2,043</u>	<u>886,797</u>
Housing Properties comprise:				2016	2015				
				£'000	£'000				
Freeholds				892,465	871,948				
Long leaseholds				-	133				
Total				892,465	872,081				
Cost of properties includes £790k (2015:£1,201k) for direct administrative costs capitalised during the year									
Expenditure on works to existing properties in the year				2016	2015				
				£'000	£'000				
Components capitalised				9,303	14,906				
Amounts charged to expenditure				2,456	2,049				
Total				11,759	16,955				
The aggregate amount of interest and finance costs included in the cost of housing properties				8,507	6,726				

13(b). Tangible fixed assets

Parent Company	Computer Equipment £'000	Furniture and office equipment £'000	Total fixed assets £'000
Cost			
At start of the year	1,821	64	1,885
Additions	246	-	246
Disposals	<u>(542)</u>	<u>(15)</u>	<u>(557)</u>
At end of the year	<u>1,525</u>	<u>49</u>	<u>1,574</u>
Depreciation			
At start of the year	1,262	35	1,297
Charge for the year	381	10	391
Disposals	<u>(542)</u>	<u>(15)</u>	<u>(557)</u>
At end of the year	<u>1,101</u>	<u>30</u>	<u>1,131</u>
Net book value at the end of the year	<u>424</u>	<u>19</u>	<u>443</u>
Net book value at the start of the year	<u>559</u>	<u>29</u>	<u>588</u>

14. Investment properties held for letting

	Group		Parent Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
At start of year	5,296	-	-	-
Additions	46	5,221	-	-
Gain from adjustment in value	<u>119</u>	<u>75</u>	-	-
At end of year	<u>5,461</u>	<u>5,296</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	2016 £'000	2015 £'000
This represents the parent company's investment in Libra (Longhurst Group) Treasury PLC (Libra). The Company owns 100% of the share capital of Libra.	<u>50</u>	<u>50</u>

16. Stock

	Group		Parent Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Properties held for sale				
Completed	6,328	5,668	-	-
Work in progress	<u>6,872</u>	<u>7,867</u>	-	-
Total	<u>13,200</u>	<u>13,535</u>	<u>-</u>	<u>-</u>

17. Trade and other debtors

Amounts falling due within one year

	Group		Parent Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Rent arrears	4,157	4,423	-	-
Less: provision for bad debts	(1,930)	(2,069)	-	-
Social Housing Grant receivable	-	23	-	-
Other debtors	829	616	97	69
Prepayments and accrued income	1,278	1,136	201	142
Deferred Tax Credit	92	92	92	92
Amount Owed by Group Companies	-	-	90	327
Other Taxation	<u>55</u>	<u>18</u>	<u>-</u>	<u>-</u>
Total	<u>4,481</u>	<u>4,239</u>	<u>480</u>	<u>630</u>

18. Cash and cash equivalents

	Group		Parent Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Money market investments	11	12	-	-
Cash at bank	<u>11,443</u>	<u>8,446</u>	<u>757</u>	<u>570</u>
	<u>11,454</u>	<u>8,458</u>	<u>757</u>	<u>570</u>

In the above are balances totalling £2,981k (2015: £2,738k) which are held in trust for leaseholders.

19. Creditors: amounts falling due within one year

	Group		Parent Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Loans and overdrafts (Note 21b)	9,049	255	-	-
Funders Interest	2,267	3,907	-	-
Trade creditors	2,542	2,642	57	48
Social Housing Grant received in advance	-	-	-	-
Amounts owed to group undertakings	-	-	64	281
Rents and service charges paid in advance	1,750	1,457	-	-
Service charge balances held on behalf of leaseholders	2,748	2,667	-	-
Corporation tax	-	56	-	-
Other taxation and social security payable	713	683	242	198
Accruals and deferred income	5,415	8,245	244	214
SHPS pension agreement plan (Note 12)	1,559	1,133	275	212
Deferred Capital Grant (Note 22)	2,263	2,253	-	-
Recycled Capital Grant Fund (Note 23)	941	850	-	-
Disposal proceeds fund (Note 24)	-	-	-	-
Other creditors	1,464	1,404	-	-
	<u>30,711</u>	<u>25,552</u>	<u>882</u>	<u>953</u>

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

	Group		Parent Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Loans (Note 20b)	471,193	463,005	-	-
Deferred Capital Grant (Note 21)	228,260	228,034	-	-
Recycled capital grant fund (Note 22)	1,661	1,973	-	-
SHPS pension agreement plan (Note 12)	11,624	8,928	1,870	1,536
Disposal proceeds fund (Note 23)	110	109	-	-
	<u>712,848</u>	<u>702,049</u>	<u>1,870</u>	<u>1,536</u>

20(b). Debt analysis

	Group	
	2016	2015
	£'000	£'000
Loans repayable by instalments:		
Within one year	1,900	255
In one year or more but less than two years	8,314	1,863
In two years or more and less than five years	18,639	14,752
In five years or more	87,476	92,871
Loans not repayable by instalments:		
Within one year	7,149	-
In one year or more but less than two years	51,602	5,400
In two years or more and less than five years	20,041	61,300
In five years or more	293,016	295,413
Less: loan issue costs	(7,895)	(8,594)
Total loans	<u>480,242</u>	<u>463,260</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 2016 was 5.71%. (2015: 5.85%).

21. Deferred capital grant

	Group	
	2016	2015
	£'000	£'000
At start of the year	230,287	232,706
Grant received in the year	3,008	3,018
Grant disposed of in the year	(1,240)	(3,675)
Released to income in the year	(2,156)	(1,762)
Transferred from RCGF	624	-
At the end of the year	<u>230,523</u>	<u>230,287</u>
	£'000	£'000
Amount due to be released < 1 year	2,263	2,253
Amount due to be released > 1 year	<u>228,260</u>	<u>228,034</u>
	<u>230,523</u>	<u>230,287</u>

22. Recycled capital grant fund

	Group	
	2016	2015
	£'000	£'000
At the start of the year	2,823	3,174
Inputs: Grants recycled	635	1,091
Interest accrued	7	11
Recycling: New build	(624)	(351)
Major repairs	(239)	(1,102)
At the end of the year	<u>2,602</u>	<u>2,823</u>
Amount 3 years or older where repayment may be required	==	==
This grant is from the HCA.		

23. Disposal proceeds fund

	2016 £'000	2015 £'000
At start of year:	109	34
Funds recycled	-	109
Net PRTB receipts	1	-
Interest accrued		
Use/allocation of funds:		
New build	-	-
Major repairs and works to existing stock	-	(34)
Repayment of funds to the HCA/GLA	-	-
At end of year	110	109
Amounts three 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 future minimum lease payments as follows:

	Group		Parent Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Land and buildings:				
Within one year	138	168	-	-
In two years or more and less than five years	224	360	-	-
In five years or more	-	-	-	-
Others:				
Within one year	551	629	196	197
In two years or more and less than five years	901	1,029	312	306
Over five years	-	-	-	-
	<u>1,814</u>	<u>2,186</u>	<u>508</u>	<u>503</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 balance sheet date.

26. Grant and financial assistance

	2016 £'000	2015 £'000
The total accumulated government grant and financial assistance received or receivable at 31 March:		
Held as deferred capital grant	230,523	230,287
Recognised as income in statement of Comprehensive Income	<u>45,140</u>	<u>42,837</u>
	<u>275,663</u>	<u>273,124</u>

27. Related parties

Tenant Board Members

At the balance sheet date there were no tenant Board members within Longhurst Group. At the 31 March 2015 there were four tenant Board members of Friendship Care & Housing and two of Longhurst & Havelok Homes, and they were charged a combined rent and service of £28,179 during that year, resulting in a credit balance at the balance sheet date of £476. Combined expenses of £2,076 were reimbursed during that year. All tenant Board members resigned at 31 December 2015 as part of the Group wide governance review.

Transactions with Regulated Group Members

Longhurst Group has taken advantage of the exemption conferred to it in FRS102 not to disclose related party transactions with its wholly owned subsidiaries (note 29).

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 £294k for the year (2015: £223k). 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 & 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 & Housing.

Other

Spire Homes, Longhurst and Havelok Homes and Friendship Care & 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 & 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 & 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 2016 the fair value of the £250m bond stock was £308,617,907 (2015: £323,160,871) compared to the book value of £249,077,723 (2015: £249,066,336) following the sale of £25m reserve bonds in July 2014.

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 company is not currently exposed to fluctuations where loans are subject to a variable rate of interest as the company's loans are currently 96.5% fixed either on an embedded basis or by the use of Interest Rate SWAPS.

The company's strategy is to maintain its hedging activity within flexible parameters, as defined within the Treasury Management Policy being:

- between 70% and 90% of drawn funds should be fixed or hedged for periods ranging from 2 to 30 years
- the remaining 10% to 30% should be held as variable rate debt or hedged on a short-term basis. However, if appropriate, the Libra Board can approve operating outside of these parameters for a defined period.

Due to the company's funding and bond issue in 2012-13 the company's hedging activity is currently in excess of the defined maximum of 90% as approved by the Libra board. It is anticipated that the ratio of fixed to variable debt will return to the usual parameters during 2016.

Any fluctuations in interest rates are fully borne by each group borrower being Longhurst & Havelok Homes Ltd and Spire Homes (LG) Ltd.

Interest rate risk of financial instruments

The risk of movement in interest rates is fully mitigated by the company charging the full movement to Longhurst & Havelok Homes Ltd and Spire Homes (LG) Ltd

Financial assets & 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.

29. Financial instruments (continued)

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 2016 the fair value of derivative financial instruments held by Libra is £32.953m (2015: £32.846m). A reduction in fair value of £107k 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.

30. Shared 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 2016 £'000	Group 2015 £'000
Capital expenditure that has been contracted for but not provided for in the accounts	93,466	48,784
Capital expenditure that has been authorised by the Board but has not yet been contracted for	<u>22,200</u>	<u>33,689</u>
	<u>115,666</u>	<u>82,473</u>
The Group expects these commitments to be financed with:		
Social housing grant	722	1,484
Proceeds from the sale of properties	25,696	-
Committed loan facilities	<u>89,248</u>	<u>80,989</u>
	<u>115,666</u>	<u>82,473</u>

LONGHURST GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

32. First time adoption of FRS 102

On adoption of FRS 102 the Group and Association have restated the comparatives, the impact on reserves is as follows:

Group	Note	I&E Reserve as at transition date 1 April 2014 £'000	Surplus Year ended 31 March 2015 £'000	I&E Reserve 31 March 2015 £'000	Restricted Reserve 31 March 2015 £'000	Revaluation Reserve 31 March 2015 £'000	Cashflow Hedge Reserve 31 March 2015 £'000	Total Reserves 31 March 2015 £'000
As previously stated under former UK GAAP		51,136	9,144	60,280	1,000	-	-	61,280
Transitional adjustments								
Revaluation to deemed cost of housing properties	a	-	-	-	-	143,075	-	143,075
Increase in depreciation of housing properties	b	(15,178)	(1,750)	(16,928)	-	-	-	(16,928)
Creation of cashflow hedge reserve		-	-	-	-	-	(21,524)	(21,524)
Fair value movement of financial derivative		-	-	-	-	-	(11,322)	(11,322)
Increase in amortisation of grants relating to housing properties	c	40,582	1,761	42,343	-	-	-	42,343
Adjustment for non-government grant to reserves	d	567	-	567	-	-	-	567
Inclusion of holiday pay accrual	e	-	(51)	(51)	-	-	-	(51)
Inclusion of SHPS pension deficit payment liability	f	(10,370)	446	(9,924)	-	-	-	(9,924)
Change to measurement of net finance cost on defined benefit pension schemes	g	-	(135)	(135)	-	-	-	(135)
Fair value adjustment for investment properties	h	-	75	75	-	-	-	75
Additional cost of sales for revalued properties	i	-	(533)	(533)	-	-	-	(533)
Additional depreciation transferred from revaluation reserve	i	-	-	731	-	(731)	-	-
Additional cost of sales transferred from revaluation reserve	i	-	-	533	-	(533)	-	-
As stated in accordance with FRS102		<u>66,737</u>	<u>8,957</u>	<u>76,958</u>	<u>1,000</u>	<u>141,811</u>	<u>(32,846)</u>	<u>186,923</u>

32. First time adoption of FRS 102 (continued)

Parent Company	Note	Reserves as at transition date 1 Apr 2014 £'000	Surplus/(deficit) Year ended 31 Mar 2015 £'000	Reserves as at 31 Mar 2015 £'000
As previously stated under former UK GAAP		1,075	73	1,148
Transitional adjustments				
Inclusion of holiday pay accrual	e	-	(51)	(51)
Inclusion of SHPS pension deficit payment liability	f	<u>(1,822)</u>	<u>74</u>	<u>(1,748)</u>
As stated in accordance with FRS102		<u>(747)</u>	<u>96</u>	<u>(651)</u>

Explanation of changes to previously reported profit and equity:

- a. On transition to FRS102 the Board has elected to measure housing properties which were transferred from East Northamptonshire Council and Rutland County Council at fair value at the date of transition. The effect is to increase reserves and the carrying amount of fixed assets in the association and group. The change has no effect on the surplus for the year ended 31 March 2016.
- b. FRS102 requires that capital grant previously deducted from the cost of fixed assets, is treated as creditors where the fixed assets are carried at cost. The effect compared to current UK GAAP is an increase to the carrying cost of housing properties resulting in an increase in the depreciation at transition of £15,178k and a decrease in the surplus for the year ended 31 March 2015 of £1,750k.
- c. FRS102 requires that government capital grant previously deducted from the carrying cost of housing properties is treated as a deferred capital grant creditor and released to the statement of comprehensive income over the useful life of the associated assets. The effect compared to current UK GAAP is an increase in income recognised on transition of £40,582k, and £1,761k increase in surplus for the year ended 31 March 2015.
- d. FRS102 requires that grant received from non-government sources is recognised in the Statement of Comprehensive Income when performance conditions are met. The effect compared to current UK GAAP is to increase reserves at transition by £567k. The change has no effect on the surplus for the year ended 31 March 2015.
- e. FRS102 requires that the cost of unused entitlement and short term employee benefits is measured and recognised in the reporting period. The effect is that unused holiday entitlement has now been recognised as an accrual at the reporting period date. This has resulted in a decrease in the surplus for the year ended 31 March 2016 of £51k.
- f. FRS102 requires that a liability is recognised for the contributions that arise from an agreement to fund a deficit in a multi-employer pension scheme. The effect is that a liability for the SHPS payment plan has been recognised at the present value of the contributions payable using the discount rate specified in note 12. This has resulted in a decrease in reserves of £10,370k (Parent Company £1,822k) at transition and an increase in the surplus in the year ended 31 March 2015 of £446k (Parent Company £74k).
- g. FRS102 requires the recognition in profit or loss of a net interest cost (or income) on defined benefit pension schemes. The effect of this, when compared to previous UK GAAP, has been to reduce reported profits for the year ended 31 March 2015 by £135k. The change has had no effect on reported equity as the measurement of the net defined pension scheme liability (or asset) has not changed. Instead, the decrease in reported profit is mirrored by an increase in actuarial gains which are presented within other comprehensive income.
- h. FRS102 requires that changes in the fair value of investment properties are recognised in profit or loss for the period. This change has increased reported profit for the year ended 31 March 2015 by £75K.
- i. FRS102 allowed a revalued cost of housing properties to be accepted deemed cost at the transition date. This has resulted in an increase in the cost of properties sold during the year ended 31 March 2015 of £533k and additional depreciation of £731k. These additional costs were then transferred to the revaluation reserve.

Exemptions taken on transition to FRS102:

- (1) The election to measure some property, plant and equipment (fixed assets) at fair value deemed cost at the transition date

VALUATION REPORT

The following valuation report (the "**Valuation Report**") relates to the properties which will be charged in favour of the Security Trustee on the Closing Date (the "**Initial Properties**") and allocated to secure the Bonds. Accordingly, on the Closing Date the Issuer's Designated Security will be comprised of the Initial Properties.

The Valuation Report was prepared by JLL (the "**Valuer**"). The Valuation Report is included in this Prospectus, in the form and context in which it is included, with the consent of the Valuer and the Valuer has authorised the contents of this section.

The Valuer does not have a material interest in the Issuer or the Borrowers.

Summary of valuations

A summary of the values of the Initial Properties set out in the Valuation Report is set out below:

EUV-SH / MV-ST as appropriate				
Units No.	Valued on EUV-SH basis	Units No.	Valued on MV-ST basis	Total
749	£41,990,000	1,936	£134,630,000	£157,060,000



Valuation Advisory

Valuation of 2,806 Affordable Housing units owned by Axiom Housing Association Limited, Friendship Care and Housing Limited, Longhurst & Havelok Homes Limited and Spire Homes (LG) Limited

11 May 2018





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Prudential Trustee Company Limited as Bond Trustee and
Security Trustee
Laurence Pountney Hill
London
EC4R 0HH

Your ref
Our ref RXPMB
Direct line 020 7087 5978
marc.burns@eu.jll.com

Libra (Longhurst Group) Treasury No 2 Plc as Issuer
Leverett House
Gilbert Drive
Endeavour Park
Boston
Lincolnshire
PE21 7TQ

Lloyds Bank plc as a Joint Bookrunner
10 Gresham Street
London
EC2V 7AE

NatWest Markets Plc as a Joint Bookrunner
250 Bishopsgate
London
EC2M 4AA

11 May 2018

Dear Sirs

Valuation of 2,806 Affordable Housing units owned by Axiom Housing Association Limited, Friendship Care And Housing Limited, Longhurst & Havelok Homes Limited and Spire Homes (LG) Limited

We are pleased to attach our Report in connection with the above.

This Report is issued for the benefit and use of the Addressees and for inclusion in the prospectus for the issue of the £250,000,000 3.250 per cent. secured bonds due 2043 issued by the Issuer (the "prospectus" and the "Bond Issue") and may only be used in connection with the prospectus and the Bond Issue. We hereby give our consent to the publication of this Report within the prospectus and accept responsibility for the information contained in this Report.

To the best of our knowledge (having taken all reasonable care to ensure that such is the case) the information given in this Report is in accordance with the facts and does not omit anything likely to affect the import of such information.





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Before this Report or any part of it is reproduced or referred to in any document, circular or statement (other than the prospectus in respect of the Bonds), our written approval as to the form and context of such publication must be obtained.

If you have any questions about this Report, or require further information, please contact Marc Burns.

Yours faithfully

A handwritten signature in black ink, appearing to read 'M Burns', written over a light blue horizontal line.

Marc Burns
Director
For and on behalf of
Jones Lang LaSalle Limited

T 020 7087 5978 (Direct)
M 07792 309 183 (Mobile)
marc.burns@eu.jll.com

Yours faithfully

A handwritten signature in blue ink, appearing to read 'R Petty', written over a light blue horizontal line.

Richard Petty FRICS
Director
For and on behalf of
Jones Lang LaSalle Limited

T 020 7087 5971 (Direct)
M 07767 413 631 (Mobile)
richard.petty@eu.jll.com



Executive Summary

This summary should be read in conjunction with the main body of our Report. Section numbers are supplied where relevant.

Introduction

The date of this Report is 11 May 2018.

Jones Lang LaSalle Limited has been instructed to value a portfolio of 2,806 properties for loan security purposes (the "Portfolio"). The Portfolio is broken down as follows (section 3):

- 23 Affordable Rent units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 4);
- 135 Affordable Rent units for which it has been confirmed that there are no title restrictions and these have been valued on the basis of MV-T (section 4);
- 274 general needs units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 5);
- 1,435 general needs units for which it has been confirmed that there are no title restrictions and these have been valued on the basis of MV-T (section 5);
- 40 extra care units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 6);
- 63 intermediate rent units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 7);
- 104 intermediate rent units for which it has been confirmed that there are no title restrictions and these have been valued on the basis of MV-T (section 7);
- 1 Market Rent unit for which it has been confirmed that there is no title restriction and has been valued on the basis of MV-T (section 8);
- 6 sheltered units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 9);
- 259 sheltered units for which it has been confirmed that there are no title restrictions and these have been valued on the basis of MV-T (section 9);
- 68 supported units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 10);
- 2 supported units for which it has been confirmed that there are no title restrictions and these have been valued on the basis of MV-T (section 10);
- 275 shared ownership properties which we have valued on the basis of EUV-SH (section 11); and
- 121 units which have been sold on long leases and included at nil value.

We have inspected the exterior of all units in the Portfolio, and have seen a representative sample of 5.0% of the Portfolio internally (section 3).

Valuations

The valuation date is 11 May 2018.

Our valuation of all 749 properties being valued on the basis of EUV-SH, in aggregate (section 12), is:

£41,990,000
(forty one million, nine hundred and ninety thousand pounds)

Our valuation of all 1,936 properties being valued on the basis of MV-T, in aggregate, (section 12) is:

£134,630,000
(one hundred and thirty four million, six hundred and thirty thousand pounds)

The following tables summarise our valuations:

Freehold properties

Category	Unit Count	EUV-SH	MV-T
Affordable Rent Restricted	23	£1,320,000	-
Affordable Rent Unrestricted	134	£8,360,000	£11,070,000
Extra Care Restricted	40	£3,100,000	-
General Needs Restricted	274	£14,490,000	-
General Needs Unrestricted	1,435	£75,450,000	£98,260,000
Intermediate Rent Restricted	63	£4,620,000	-
Intermediate Rent Unrestricted	104	£7,550,000	£9,380,000
Market Rent	1	-	£80,000
Shared Ownership	268	£15,210,000	-
Sheltered Restricted	6	£290,000	-
Sheltered Unrestricted	259	£12,710,000	£15,680,000
Supported Restricted	68	£2,650,000	-
Supported Unrestricted	2	£70,000	£90,000
Total	2,677	£145,820,000	£134,560,000

Leasehold properties

Category	Unit Count	EUV-SH	MV-T
Affordable Rent Unrestricted	1	£50,000	£70,000
Shared Ownership	7	£310,000	-
Total	8	£360,000	£70,000

Stock

The stock, excluding the nil value properties, is summarised as follows:

Property Type	Unit Count
Room	56
Studio flat	6
1 bed flat	403
2 bed flat	489
3 bed flat	21
1 bed house	82
2 bed house	544
3 bed house	697
4 bed house	74
5 bed house	13
6 bed house	5
1 bed bungalow	121
2 bed bungalow	174
Total	2,685

We have been informed by the Issuer that the gross annual rent receivable for the Portfolio is £12,152,196. We have relied on this information as being accurate, and have not verified the rent roll otherwise.

A summary of the range of our assumptions for the main cashflows is provided in the tables below and overleaf.

General Needs Assumptions

Assumption	EUV-SH	MV-T
Discount rate (income)	5.75%	7.5%
Discount rate (sales)	N/A	9.75%
Sales rate (houses)	N/A	3.5%
Sales rate (flats)	N/A	3.5%
Management costs	£625	10% of Gross Income
Management cost growth inflator	0.5%	N/A
Total repairs costs (Year 1)	£1,432	£3,200
Repair cost growth inflator	1.0%	1.0%
Rental income growth - houses (Year 1)	1.0%	25.1%
Rental income growth - flats (Year 1)	1.0%	18.8%
Bad debts and voids (Year 1)	2.5%	8.0%

Affordable Rent Assumptions

Assumption	EUV-SH	MV-T
Discount rate (income)	6.0%	7.25%
Discount rate (sales)	N/A	9.75%
Sales rate (houses)	N/A	3.5%
Sales rate (flats)	N/A	6.0%
Management costs	£625	10% of Gross Income
Management cost growth inflator	0.5%	N/A
Total repairs costs (Year 1)	£1,391	£3,200
Repair cost growth inflator	1.0%	1.0%
Rental income growth - houses (Year 1)	1.0%	20.5%
Rental income growth - flats (Year 1)	1.0%	17.8%
Bad debts and voids (Year 1)	2.5%	8.0%

Extra Care Assumptions

Assumption	EUV-SH
Discount rate (income)	6.0%
Management costs	£625
Management cost growth inflator	0.5%
Total repairs costs (Year 1)	£1,525
Repair cost growth inflator	1.0%
Rental income growth - flats (Year 1)	1.0%
Bad debts and voids (Year 1)	2.0%

Intermediate Rent Assumptions

Assumption	EUV-SH	MV-T
Discount rate (income)	6.0%	7.25%
Discount rate (sales)	N/A	9.75%
Sales rate (houses)	N/A	3.5%
Sales rate (flats)	N/A	15.0%
Management costs	£625	10% of Gross Income
Management cost growth inflator	0.5%	N/A
Total repairs costs (Year 1)	£1,370	£3,200
Repair cost growth inflator	1.0%	1.0%
Rental income growth - houses (Year 1)	1.0%	16.8%
Rental income growth - flats (Year 1)	1.0%	18.3%
Bad debts and voids (Year 1)	3.0%	8.0%

Sheltered Assumptions

Assumption	EUV-SH	MV-T
Discount rate (income)	6.0%	7.5%
Discount rate (sales)	N/A	10.25%
Sales rate (houses)	N/A	2.0%
Sales rate (flats)	N/A	1.5%
Management costs	£625	10% of Gross Income
Management cost growth inflator	0.5%	N/A
Total repairs costs (Year 1)	£1,437	£2,200

Assumption	EUV-SH	MV-T
Repair cost growth inflator	1.0%	1.0%
Rental income growth - houses (Year 1)	1.0%	22.5%
Rental income growth - flats (Year 1)	1.0%	18.3%
Bad debts and voids (Year 1)	2.0%	8.0%

Supported Assumptions

Assumption	EUV-SH	MV-T
Discount rate (income)	6.0%	7.25%
Management costs	£625	10% of Gross Income
Management cost growth inflator	0.5%	N/A
Total repairs costs (Year 1)	£1,339	£3,200
Repair cost growth inflator	1.0%	1.0%
Rental income growth - flats (Year 1)	1.0%	12.8%
Bad debts and voids (Year 1)	2.5%	8.0%

Shared Ownership Assumptions

Assumption	EUV-SH
Discount rate (income)	5.0%
Discount rate (sales)	8.25%
Management Costs	6% of Gross Income
Sales rate (yrs 0-2)	6 tranche sales p.a.
Sales rate (yrs 3-15)	13 tranche sales p.a.
Sales rate (yrs 16-25)	7 tranche sales p.a.
Sales rate (yrs 26-50)	3 tranche sales p.a.

This summary should be read in conjunction with the remainder of the valuation Report and must not be relied upon in isolation.

Contents

1	Introduction.....	1
1.1	Background.....	1
1.2	Compliance.....	1
1.3	Instructions.....	2
1.4	Status of Valuer	2
1.5	Portfolio.....	2
1.6	Changes to Social Housing Rental Growth from March 2016	3
2	Methodology.....	5
2.1	Valuation Model	5
2.2	Information Provided.....	5
2.3	Inspections.....	5
2.4	Market Research.....	6
3	General Commentary.....	7
3.2	Locations	7
3.3	Property Types.....	7
3.4	Condition.....	8
3.5	Caveats and Disclaimers	9
4	Affordable Rent Commentary	10
4.1	Introduction	10
4.2	Tenancies	10
4.3	Rental Income.....	10
4.4	EUV-SH – Rental Growth.....	11
4.5	MV-T – Rental Growth	11
4.6	Outgoings	12
4.7	Bad Debts and Voids	12
4.8	Management Costs.....	12
4.9	Repairs and Maintenance	13
4.10	Relet and Sales Rates	14
4.11	Discount Rate	14
4.12	House Price Growth.....	15
5	General Needs Commentary.....	16
5.1	Introduction	16
5.2	Tenancies	16
5.3	Rental Income.....	16
5.4	EUV-SH – Rental Growth.....	17
5.5	MV-T – Rental Growth	17
5.6	Bad Debts and Voids	18
5.7	Management Costs.....	18
5.8	Repairs and Maintenance	18
5.9	Relet and Sales Rates	19
5.10	Discount Rate	19
5.11	House Price Growth.....	19
6	Extra Care Commentary.....	20
6.1	Introduction	20

6.2	Tenancies	20
6.3	Rental Income.....	20
6.4	EUV-SH – Rental Growth.....	20
6.5	Bad Debts and Voids	20
6.6	Management Costs.....	20
6.7	Repairs and Maintenance	20
6.8	Discount Rate	21
7	Intermediate Rent Commentary.....	22
7.1	Introduction	22
7.2	Tenancies	22
7.3	Rental Income.....	22
7.4	EUV-SH – Rental Growth.....	22
7.5	MV-T – Rental Growth	22
7.6	Bad Debts and Voids	23
7.7	Management Costs.....	23
7.8	Repairs and Maintenance	23
7.9	Sales Rates.....	24
7.10	Discount Rate	24
7.11	House Price Growth.....	24
8	Market Rent Commentary.....	25
8.1	Introduction	25
8.2	Tenancies	25
8.3	Rental Income.....	25
8.4	MV-T – Rental Growth	25
8.5	Bad Debts and Voids	25
8.6	Management Costs.....	25
8.7	Repairs and Maintenance	25
8.8	Discount Rate	26
9	Sheltered Commentary.....	27
9.1	Introduction	27
9.2	Tenancies	27
9.3	Rental Income.....	27
9.4	EUV-SH – Rental Growth.....	27
9.5	MV-T – Rental Growth	27
9.6	Bad Debts and Voids	28
9.7	Management Costs.....	28
9.8	Repairs and Maintenance	28
9.9	Relet and Sales Rates	29
9.10	Discount Rate	29
9.11	House Price Growth.....	29
10	Supported Commentary	30
10.1	Introduction	30
10.2	Tenancies	30
10.3	Rental Income.....	30
10.4	EUV-SH – Rental Growth.....	30
10.5	MV-T – Rental Growth	30
10.6	Bad Debts and Voids	31
10.7	Management Costs.....	31

10.8	Repairs and Maintenance	31
10.9	Sales Rates.....	32
10.10	Discount Rate	32
10.11	House Price Growth.....	32
11	Shared Ownership Commentary	33
11.2	Rental Levels	33
11.3	Rental Growth.....	33
11.4	Outgoings	33
11.5	Void and Bad Debts	33
11.6	Repairs and Maintenance	33
11.7	Discount Rate	33
11.8	Rate of Sales	34
12	Valuation.....	35
12.1	Background.....	35
12.2	Valuation.....	35
12.3	Freehold Properties	35
12.4	Leasehold Properties	36
12.5	Summary Table.....	36
13	Bases of Valuation.....	37
13.2	Existing Use Value for Social Housing.....	37
13.3	Market Value.....	37
13.4	Expenses	38
13.5	Tax.....	38
13.6	VAT.....	38
14	Sources and Verification of Information.....	39
14.1	General	39
14.2	Tenure	39
14.3	Title	39
14.4	Nomination Agreements	39
14.5	Measurements/Floor Areas.....	39
14.6	Structural Surveys.....	40
14.7	Deleterious Materials	40
14.8	Site Conditions.....	40
14.9	Environmental Contamination.....	40
14.10	Energy Performance Certificates (EPCs).....	40
14.11	Market Rental Values.....	41
14.12	Insurance	41
14.13	Planning.....	41
14.14	Outstanding Debts	41
14.15	Services	41
14.16	Plans and Maps	41
14.17	Compliance with Building Regulations and Statutory Requirements.....	41

Appendices

Appendix 1List of Addresses
Appendix 2 Location Plan
Appendix 3Photographs
Appendix 4Market Commentary

1 Introduction

1.1 Background

1.1.1 Jones Lang LaSalle Limited ("JLL") has been instructed to prepare a valuation of 2,806 affordable housing units owned by Axiom Housing Association Limited ("Axiom"), Friendship Care And Housing Limited ("FCH"), Longhurst & Havelok Homes Limited ("L&H") and Spire Homes (LG) Limited ("Spire", and together with Axiom, FCH and L&H, the "Chargors").

1.2 Compliance

1.2.1 This Report has been prepared by Marc Burns, a Director of JLL under the supervision of Richard Petty FRICS (Valuer number: #0089005), Head of Affordable Housing and a Director of JLL.

1.2.2 Our valuations have been prepared in accordance with the current RICS Valuation – Global Standards 2017 published by the Royal Institution of Chartered Surveyors and the RICS Valuation - Professional Standards UK, January 2014 (revised April 2015) (commonly known as the "Red Book").

1.2.3 In accordance with PS 2.3 of the Red Book, we confirm that we have sufficient knowledge and skills to undertake this valuation competently.

1.2.4 The date of valuation is 11 May 2018.

1.2.5 For the avoidance of doubt, we confirm that it would not be appropriate or possible to compare this valuation with any values appearing in the Chargors' accounts. This Report has been prepared in accordance with the Red Book. The valuations are prepared on this basis so that we can determine the value recoverable if the charges over the properties were enforced at the date of this Report. We understand that values given in the Chargors' accounts are prepared on an historic cost basis which considers how much the properties have cost and will continue to cost the Chargors. This is an entirely different basis of valuation from that used for loan security purposes.

1.2.6 This valuation qualifies as a Regulated Purpose Valuation ("RPV") as defined by the Red Book. A RPV is a valuation which is intended for the information of third parties in addition to the Addressees. It is a requirement of UKVS 4.3 of the Red Book in relation to disclosures that we declare our prior involvement with the Chargors', or the properties being valued, to ensure that there is no conflict of interest.

1.2.7 We confirm that the total fee income earned from the Chargors is substantially less than 5% of the fee income earned by JLL in our last financial year (ending 31 December 2017) and that we do not anticipate this situation changing in the foreseeable future.

1.3 Instructions

1.3.1 Our Report is prepared in accordance with the Issuer's formal instructions.

1.3.2 We have been instructed to prepare our valuations on the following bases:

- Existing Use Value for Social Housing ("EUV-SH"); and
- Market Value subject to existing Tenancies ("MV-T").

1.3.3 Please note that the properties that have been valued on the basis of MV-T have also been valued on the basis of EUV-SH, for information purposes only.

1.4 Status of Valuer

1.4.1 In preparing this Report, we confirm that JLL is acting as an external valuer as defined in the Red Book. We can also confirm that we consider ourselves to be independent for the purposes of this instruction.

1.4.2 In accordance with RICS guidance, and our own rotation policy, we recommend that a rotation of overall responsibility within JLL is considered no later than the end of 2023.

1.5 Portfolio

1.5.1 The Portfolio comprises the following properties as described in section 3, schedules of which form Appendix 1:

- 23 Affordable Rent units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 4);
- 135 Affordable Rent units for which it has been confirmed that there are no title restrictions and these have been valued on the basis of MV-T (section 4);
- 274 general needs units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 5);
- 1,435 general needs units for which it has been confirmed that there are no title restrictions and these have been valued on the basis of MV-T (section 5);
- 40 extra care units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 6);
- 63 intermediate rent units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 7);
- 104 intermediate rent units for which it has been confirmed that there are no title restrictions and these have been valued on the basis of MV-T (section 7);
- 1 Market Rent unit for which it has been confirmed that there is no title restriction and has been valued on the basis of MV-T (section 8);

- 6 sheltered units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 9);
- 259 sheltered units for which it has been confirmed that there are no title restrictions and these have been valued on the basis of MV-T (section 9);
- 68 supported units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 10);
- 2 supported units for which it has been confirmed that there are no title restrictions and these have been valued on the basis of MV-T (section 10); and
- 275 shared ownership properties which we have valued on the basis of EUV-SH (section 11).

1.5.2 In addition there are 121 units in the Portfolio which have been sold on long leases or fully staircased. The Chargers' interest in the properties is considered to be de minimis for the purpose of this exercise (or treated as being such) and so they are included at nil value. Please note that these units are not included in any unit counts or other statistics in this Report (with the exception of the front cover of the Report), but are listed in Appendix 1.

1.5.3 Consequently, the valuation and summaries included hereafter refer to the 2,685 units being valued.

1.6 Changes to Social Housing Rental Growth from March 2016

1.6.1 Under the Welfare Reform and Work Act 2016 ("the Act"), all Registered Providers are required to reduce their rents charged on social housing by 1% each year, for four years from 2016 up to and including 1st April 2019.

1.6.2 Social housing, as defined in the Housing and Regeneration Act 2008, includes all forms of housing let at below market rents, however Shared Ownership and Low Cost Home Ownership is expressly excluded from the Act, together with other property in the ownership of RPs which is listed as exceptions in The Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016 ("the Regulations"). These include, but are not limited to:

- intermediate rent accommodation (defined in the Regulations to include inter alia properties let on sub-market rents, let on Assured Shorthold Tenancies which have not previously been let at social rents and are not let at Affordable Rent);
- specialised supported housing (defined in the Regulations to include inter alia supported housing of bespoke design in which a high level of support is offered to tenants);
- temporary social housing (meaning low cost rental accommodation made available to a person who is homeless, within the meaning of the Housing Act 1996);
- student accommodation;
- accommodation where the rent registered under the Rent Act 1977 is lower than the social rent rate;
- care homes; and
- accommodation where the rent payable by the tenant was temporarily reduced or waived for any period during the previous relevant year.

- 1.6.3 Supported Housing was exempt from the first year of cuts but rents will be reduced by 1% for the remaining years up to and including 2019.
- 1.6.4 It was announced by the government on 4 October 2017 that once the period of cuts has ended, in April 2020, Registered Providers will be allowed to increase their rents by CPI plus 1%, in line with the rent regime previously introduced in April 2015. However, as will be evident from the recent shifts, there can be no absolute certainty over government policy on the rent regime and there is therefore a degree of risk that we may see further changes by April 2020.
- 1.6.5 This heightened risk is reflected in the discount rate applied to this valuation. However, this component of risk is not new – there has always been an element of legislative or regulatory risk in social housing valuations, where gross and net rental incomes are assessed over a long period; and this risk has always been reflected in the discount rates applied to valuations.
- 1.6.6 However, the Act includes provisions for either a mortgagee in possession, or a receiver, and its successor in title (which could be either a Registered Provider or a non-regulated purchaser) to be exempt from the need to make future cuts after the date of acquisition. These exceptions are contained in Section 24 of the Act.
- 1.6.7 In our opinion, neither a mortgagee in possession (or receiver), nor any purchaser acquiring stock from the same, would choose to implement rent cuts over the period 2016-2019; and would actively use a legal right to avoid reducing the gross rental income from a housing portfolio. We have therefore prepared our valuation on the basis of EUV-SH on the express assumption that no further reductions in rent would be made after the hypothetical sale at the valuation date. This is consistent with our reading of the Act and with the interpretation of the Act by the Regulator of Social Housing (RSH) (previously the Homes and Communities Agency (HCA) which would, in effect, be powerless to prevent even a Registered Provider from choosing not to reduce rents over this period.
- 1.6.8 Our Report now follows and is divided into five main parts:
- Methodology;
 - Commentaries;
 - Valuation;
 - Bases of Valuation; and
 - Sources and Verification of Information.

2 Methodology

2.1 Valuation Model

- 2.1.1 We have undertaken our valuation of the housing stock using fully explicit discounted cashflow models, over a 50-year period, with the net income in the final year capitalised into perpetuity.
- 2.1.2 Against the income receivable for each portfolio, we have made allowances for voids and bad debts; the costs of management and administration; major repairs; cyclical maintenance; day-to-day repairs; and for future staircasing (where applicable). We have assumed an appropriate level of future growth in these costs (expenditure inflation).
- 2.1.3 We have then discounted the resulting net income stream at an appropriate rate which reflects our judgement of the overall level of risk associated with the long term income. A more detailed explanation of the discount rate is included in section 4.

2.2 Information Provided

- 2.2.1 The principal source of background data for the Portfolio has been the rent roll for each property provided by the Chargors. This detailed the number and type of units, the rent payable, and equity retained by the association (where applicable).
- 2.2.2 This information was supplemented with our market research and other data we have gathered from similar instructions undertaken recently and involving comparable stock. From these sources we have collated information on the following:
- rents;
 - bad debts, voids and arrears;
 - cost of maintenance and repairs; and
 - management and administration expenses.
- 2.2.3 A location plan of the Portfolio is provided as Appendix 2.

2.3 Inspections

- 2.3.1 We derived our inspections strategy by giving full regard to:
- the geographical spread of the stock;
 - the concentration (and thereby its exposure to risk); and
 - the property types.

2.3.2 We have satisfied ourselves as to the quality of location and the general condition and level of fixtures and fittings provided to the properties, and we have derived our valuation assumptions accordingly.

2.3.3 In accordance with our instructions, we have inspected all schemes externally and a representative sample of 10% of the stock was inspected internally. Our inspections were undertaken between 26 February 2018 and 23 March 2018.

2.3.4 A representative selection of photographs is provided as Appendix 3.

2.4 Market Research

2.4.1 In arriving at our valuation, we have undertaken a comprehensive programme of research to supplement our knowledge and understanding of the properties. This has included:

- researching local vacant possession values through conversations with local estate agents together with internet research and using RightmovePlus, a bespoke tool for comparable evidence;
- examining local benchmark affordable rents and comparing these with the Chargors' rents; and
- analysing data provided by the Chargors.

3 General Commentary

3.1.1 Schedules summarising the following data for each property within the Portfolio form Appendix 1 of this Report:

- address;
- unit type;
- number of bedrooms; and
- tenure.

3.2 Locations

3.2.1 The Issuer has provided us with a summary of the housing stock as at today's date, upon which we have based our valuations. The properties within the Portfolio are summarised in the table below. A location plan is provided at Appendix 2.

Counties	Unit Count
Cambridgeshire	355
Derbyshire	356
Humberside	13
Leicestershire	107
Lincolnshire	709
Norfolk	28
Northamptonshire	591
Nottinghamshire	44
Warwickshire	90
West Midlands	392
Total	2,685

3.3 Property Types

3.3.1 The Portfolio has been valued as rented properties as set out in this Report.

3.3.2 The majority of the properties (2,629) provide self-contained accommodation (i.e. having independent kitchens, bathrooms, living-rooms and bedrooms), and are physically suitable for open market letting and sales, notwithstanding any use class restrictions. The remaining 56 properties are care and support rooms with shared facilities.

3.3.3 The following table summarises the different property types within the Portfolio:

Property Type	Unit Count
Room	56
Studio flat	6
1 bed flat	403
2 bed flat	489
3 bed flat	21
1 bed house	82
2 bed house	544
3 bed house	697
4 bed house	74
5 bed house	13
6 bed house	5
1 bed bungalow	121
2 bed bungalow	174
Total	2,685

3.4 Condition

3.4.1 We have not carried out a condition survey, this being outside the scope of our instructions.

3.4.2 The properties in the Portfolio are a mixture of ages as shown in the table below:

Age	Unit Count
Pre-1919	153
1920-1949	255
1950-1979	688
1980s	437
1990s	293
2000s	710
Post 2010	149
Total	2,685

3.4.3 Based on our inspections, we are satisfied that the properties we inspected internally, are being maintained to an acceptable social housing standard, in line with RSH regulatory requirements and commensurate with the likely demands of the target tenant group.

3.4.4 Overall we have assumed that each property has a useful economic life of at least 50 years provided that the properties continue to be properly maintained in the future.

3.5 Caveats and Disclaimers

3.5.1 In carrying out our valuations we have made assumptions relating to the following factors which are either beyond the remit of our instructions, or for which we have not received information:

- ground conditions;
- environmental considerations;
- planning;
- tenure;
- titles; and
- nomination agreements.

3.5.2 These factors are discussed in section 14.

4 Affordable Rent Commentary

4.1 Introduction

4.1.1 There are 135 Affordable Rent properties in the Portfolio that we have valued on the basis of EUV-SH and MV-T. We can confirm that these units are not subject to restrictions on the title which would prevent a successor in title from letting or selling the properties on the open market.

4.1.2 There are 23 Affordable Rent properties in the Portfolio that are either subject to restrictions on the title that prohibit the use of the properties for any purpose other than affordable housing for any successors of the borrower or any successors of a mortgagee in possession, or where there are non-financial obligations outstanding. In light of this, we have restricted the value of these units to EUV-SH.

4.1.3 The 158 Affordable Rent properties are summarised as follows:

Bedrooms	Houses	Flats	Total	%age
1	10	30	40	25.3%
2	76	16	92	58.2%
3	25	-	25	15.8%
4	1	-	1	0.6%
Total	112	46	158	100.0%
%age	70.9%	29.1%	100.0%	

4.2 Tenancies

4.2.1 The majority of the properties (153) are let on assured tenancies. We have assumed that these are 'standard' assured tenancies although we have not seen example tenancy agreements. The remaining 5 units are let on secure tenancies.

4.3 Rental Income

4.3.1 The total gross rent receivable from the 158 Affordable Rent properties in the Portfolio amounts to £823,575 per annum (based on a 52-week year).

4.3.2 We are unable to verify the accuracy of the rent roll provided to us by the Issuer.

4.3.3 According to the Valuation Office, the Local Reference Rent (LRR) is the 30th centile point between what in the local Rent Officer's opinion are the highest and lowest non-exceptional rents in a given Broad Rental Market Area. This analysis looks at local properties and differentiates by bedroom number but not by property type (i.e. houses and flats). These statistics are used as a reference for housing benefit and are a good indication of rent levels which are affordable in a given area.

4.3.4 The following table sets out a comparison of the Chargors' average rents with the average LRRs in the Portfolio and also our opinion of Market Rents in the same areas (rents are shown on the basis of 52 weeks).

Bedrooms	The Chargors' Properties	Average LRRs	Market Rent
1	£80.80	£114.30	£116.53
2	£101.35	£145.36	£150.60
3	£125.94	£161.30	£167.17
4	£132.99	£172.50	£190.00
Average	£100.24	£140.19	£144.63

4.3.5 The prevailing passing rents are approximately 28% lower than the LRRs for the properties.

4.3.6 In addition, we have looked at the passing rents as a proportion of local net weekly earnings as reported by the Office of National Statistics in its Annual Survey of Hours and Earnings. The table below sets out the average passing rent as a percentage of the average net weekly earnings for each locality. This, in our opinion, demonstrates that the rents being charged by the Chargors are affordable.

Government Office Region	Average Weekly Passing Rent	Net Weekly Average Earnings	Average Net Rent as a % of Average Earnings
England	£100.24	£425.04	23.6%
East Midlands	£101.01	£397.57	25.4%
East of England	£97.90	£437.62	22.4%

4.4 EUV-SH – Rental Growth

4.4.1 In accordance with section 1.6.7 we have assumed that a purchaser of the stock with the benefit of protection from the rent cuts set out in the Welfare Reform and Work Act would increase rents by CPI plus 1.0% into perpetuity and have modelled rental growth in our EUV-SH valuation models accordingly.

4.5 MV-T – Rental Growth

4.5.1 Passing rents are currently below market levels, resulting in good prospects for future rental growth when considering the market value of the Portfolio.

4.5.2 We have assumed that it will take approximately 2 years for assured rents to increase to market levels and thereafter for rents to rise at 1.0% (real) per annum. The average increase we have modelled is 20.5% for houses and 17.8% per year for flats.

4.6 Outgoings

4.6.1 In forming our opinion of the net rental income the Portfolio will generate we have considered the following outgoings:

- bad debts and voids;
- management costs; and
- repair and maintenance costs.

4.6.2 We emphasise that, under the definitions of the bases of valuation we have been instructed to adopt, we are not valuing the Chargors' stewardship of the stock – rather we are assessing what a hypothetical purchaser in the market would pay for the stock, based on the market's judgement of the capabilities of the Portfolio.

4.6.3 The assumptions we have made in our appraisal reflect our opinion of the view the market would adopt on the future performance of the Portfolio. In forming our opinion, we have had regard to other recent valuations we have undertaken of comparable stock.

4.7 Bad Debts and Voids

4.7.1 We have incorporated into our valuation the potential for future voids and bad debts. The rate applied is similar to allowances used by other RPs providing a management and maintenance service in the areas where the properties are situated.

4.7.2 Any loss of income for void properties is reflected in a deduction made from the gross rental income. Similarly we have also made an allowance for bad debts.

4.7.3 In our EUV-SH valuation we have adopted an average rate for bad debts and voids of 2.5% of gross income for the Portfolio.

4.7.4 In our MV-T valuation, we have adopted an average rate of 8.0% of gross income for the first 3 years of our MV-T cashflow, 5.0% in years 4 and 5 and 5.0% in all years thereafter.

4.7.5 This is because we are assuming greater increases in rents than a social landlord would impose. In our opinion, these rent increases would inevitably be reflected in a higher level of voids and bad debts than would otherwise be the case. The associated risk has been factored into our MV-T discount rate.

4.8 Management Costs

4.8.1 We have adopted rates for management and administration, based on our experience of other RPs operating in similar areas to the Chargors. Our rates are shown below and are subject to an annual inflator of 0.5% over inflation for the duration of the cashflow reflecting long-term earnings, growth predictions and potential management savings.

4.8.2 We have adopted an average rate of £625 per unit for management and administration in our valuation on the basis of EUV-SH.

4.8.3 We have assumed that a mortgagee in possession would expect to spend 10% of rental income on management and administration in our valuation on the basis of MV-T.

4.9 Repairs and Maintenance

4.9.1 Although the majority of the properties are generally in a reasonable or good condition, renewal, day-to-day and cyclical maintenance will be required to keep the stock in its present condition.

4.9.2 The following table sets out the various assumptions we have made in our cashflows. Both of our appraisals assume that these costs will inflate at 1.0% (real) per annum.

Category of Expenditure	EUV-SH	MV-T
Major repairs and renewals – Year 1	£691	£2,500
Cyclical repairs – Year 1	£325	£325
Day-to-day repairs	£375	£375
Total Average Costs	£1,391	£3,200

4.9.3 We have adopted higher costs for major repairs in the first 2 years of our MV-T model as some of the properties will require refurbishment and redecoration in order to attract buyers or to be let on the open market. After this initial period, our costs settle to a lower level as shown below:

Years	Major Repairs Costs
Year 1	£2,500
Year 2	£2,500
Year 3	£696
Year 4	£696
Year 5	£696
Years 6-10	£721
Years 11-15	£746
Years 16-20	£796
Years 21-25	£846
Years 26-30	£896

4.10 Relet and Sales Rates

4.10.1 Our EUV-SH model allows for a rate at which secure tenancies are relet as assured tenancies. We have adopted average rates of 3.0% (houses) and 5.0% (flats) and have assumed that those properties will be relet at the prevailing average target rent. In addition, we have included an allowance for incidental voids as outlined in section 4.7.

4.10.2 Following announcements made in the Budget delivered on 8 July 2015 we anticipate that the tenants of some of the properties within the Portfolio may in future have either the Right to Buy (RTB) or the Right to Acquire (RTA). The National Housing Federation (NHF) put an offer to Government in September 2015 in which it proposed the implementation of an extended RTB on a voluntary basis (VRTB). This offer was described as a compromise with a view to securing the independence of housing associations and the best deal on compensation (for discounts) and flexibilities (the ability to refuse the RTB in relation to certain properties). In the Autumn Statement 2016 it was announced that the Government would fund a large-scale regional pilot of the RTB for housing association tenants. It is expected that over 3,000 tenants will be able to buy their own home with RTB discounts under this extended pilot scheme. The pilot scheme, which is expected to run for one year, is aimed at testing two aspects of the voluntary agreement that the original pilots did not cover, namely:

- one-for-one replacement; and
- portability of discounts.

4.10.3 However, the government is yet to announce the specific terms and locations of this pilot and, more broadly, the wider terms of the overall extension of RTB and therefore any consideration of the impact of RTB or RTA on valuations would be speculative. We consider it imprudent to reflect additional value from capital receipts and we have therefore assumed that neither RTB nor RTA will be available to exercise at the date of valuation.

4.10.4 In our MV-T cashflows we have assumed that some of the units which become void are sold on the open market and have included average sales rates of 3.5% per annum for houses and 6.0% per annum for flats.

4.11 Discount Rate

4.11.1 Our cashflow valuations are based on constant prices and therefore explicitly exclude inflation. The chosen discount rate reflects our judgement of the economic conditions at the time of the valuation and the level of risk involved in each cashflow, taking all factors and assumptions into account. To determine the risk involved we have looked at:

- the sustainability of the existing rental income;
- the likely rate of future rental growth;
- the condition of the Portfolio;
- the level of outgoings required to maintain the maximum income stream;
- the likely performance of the Portfolio in relation to its profile and location;
- the real cost of borrowing; and

- the long-term cost of borrowing.

4.11.2 For our EUV-SH valuation we have adopted an average discount rate of 6.0% on net rental income.

4.11.3 In our MV-T model we have adopted a higher rate on rental income to reflect additional risk resulting from the significant rental growth that we have assumed during the first 2 years. In addition, we have adopted a higher rate on income from sales to reflect the additional premium on the yield which an investor would expect from a sales income stream.

4.11.4 We have adopted average discount rates of 7.25% (rental income) and 9.75% (sales) for our MV-T cashflow.

4.12 House Price Growth

4.12.1 We have assumed house prices will grow in real terms at 0% in the first 3 years of our cashflow models and in the long term at a rate of 1.0% per annum.

5 General Needs Commentary

5.1 Introduction

5.1.1 There are 1,435 general needs properties in the Portfolio that we have valued on the basis of EUV-SH and MV-T. We can confirm that these units are not subject to restrictions on the title which would prevent a successor in title from letting or selling the properties on the open market.

5.1.2 There are 274 general needs properties in the Portfolio that are either subject to restrictions on the title that prohibit the use of the properties for any purpose other than affordable housing for any successors of the borrower or any successors of a mortgagee in possession, or where there are non-financial obligations outstanding. In light of this, we have restricted the value of these units to EUV-SH.

5.1.3 The 1,709 properties are summarised as follows:

Bedrooms	Houses/Bungalows	Flats	Total	%age
1	91	251	342	20.0%
2	343	414	757	44.3%
3	518	20	538	31.5%
4	56	-	56	3.3%
5	11		11	0.6%
6	5		5	0.3%
Total	1,024	685	1,709	100.0%
%age	59.9%	40.1%	100.0%	

5.2 Tenancies

5.2.1 The majority of the properties (1,462) are let on assured tenancies. We have assumed that these are 'standard' assured tenancies although we have not seen example tenancy agreements. The remaining 247 units are let on secure tenancies.

5.3 Rental Income

5.3.1 The total gross rent receivable from the general needs properties in the Portfolio amounts to £7,936,379 per annum (based on a 52-week year).

5.3.2 We are unable to verify the accuracy of the rent roll provided to us by the Issuer.

5.3.3 The following table sets out a comparison of the Chargors' average rents with the average LRRs in the Portfolio and also our opinion of Market Rents in the same areas (rents are shown on the basis of 52 weeks).

Bedrooms	The Chargors' Properties	Average LRRs	Market Rent
1	£75.46	£100.38	£108.37
2	£86.69	£128.60	£126.80
3	£98.69	£157.99	£159.36
4	£108.98	£184.44	£182.02
Average	£89.31	£134.23	£136.33

5.3.4 The prevailing passing rents are approximately 33.5% lower than the LRRs for the properties.

5.3.5 In addition, we have looked at the passing rents as a proportion of local net weekly earnings as reported by the Office of National Statistics in its Annual Survey of Hours and Earnings. The table below sets out the average passing rent as a percentage of the average net weekly earnings for each locality. This, in our opinion, demonstrates that the rents being charged by the Chargors are affordable.

Government Office Region	Average Weekly Passing Rent	Net Weekly Average Earnings	Average Net Rent as a % of Average Earnings
England	£89.31	£425.04	21.0%
Yorkshire and The Humber	£91.99	£380.63	24.2%
East Midlands	£88.69	£397.57	22.3%
West Midlands	£89.49	£394.64	22.7%
East of England	£92.53	£437.62	21.1%

5.4 EUV-SH – Rental Growth

5.4.1 In accordance with section 1.6.7 we have assumed that a purchaser of the stock with the benefit of protection from the rent cuts set out in the Welfare Reform and Work Act would increase rents by CPI plus 1.0% into perpetuity and have modelled rental growth in our EUV-SH valuation models accordingly.

5.5 MV-T – Rental Growth

5.5.1 Passing rents are currently below market levels, resulting in good prospects for future rental growth when considering the market value of the Portfolio.

5.5.2 We have assumed that it will take approximately 2 years for assured rents to increase to market levels and thereafter for rents to rise at 1% (real) per annum. The average increase we have modelled is 25.1% for houses and 18.8% per year for flats.

5.6 Bad Debts and Voids

5.6.1 In our EUV-SH valuation we have adopted an average rate for bad debts and voids of 2.5% of gross income for the Portfolio.

5.6.2 In our MV-T valuation, we have adopted an average rate of 8.0% of gross income for the first 3 years of our MV-T cashflow, 5.0% in years 4 and 5 and 5.0% in all years thereafter.

5.7 Management Costs

5.7.1 We have adopted an average rate of £625 per unit for management and administration in our valuation on the basis of EUV-SH.

5.7.2 We have assumed that a mortgagee in possession would expect to spend 10% of rental income on management and administration in our valuation on the basis of MV-T.

5.8 Repairs and Maintenance

5.8.1 Although the majority of the properties are generally in a reasonable or good condition, renewal, day-to-day and cyclical maintenance will be required to keep the stock in its present condition.

5.8.2 The following table sets out the various assumptions we have made in our cashflows. Both of our appraisals assume that these costs will inflate at 1.0% (real) per annum.

Category of Expenditure	EUV-SH	MV-T
Major repairs and renewals – Year 1	£732	£2,500
Cyclical repairs – Year 1	£325	£325
Day-to-day repairs	£375	£375
Total Average Costs	£1,432	£3,200

5.8.3 We have adopted higher costs for major repairs in the first 2 years of our MV-T model as some of the properties will require refurbishment and redecoration in order to attract buyers or to be let on the open market. After this initial period, our costs settle to a lower level as shown below:

Years	Major Repairs Costs
Year 1	£2,500
Year 2	£2,500
Year 3	£738
Year 4	£738

Years	Major Repairs Costs
Year 5	£738
Years 6-10	£763
Years 11-15	£788
Years 16-20	£813
Years 21-25	£838
Years 26-30	£863

5.9 Relet and Sales Rates

5.9.1 Our EUV-SH model allows for a rate at which secure tenancies are relet as assured tenancies. We have adopted average rates of 3.0% (houses) and 5.0% (flats) and have assumed that those properties will be relet at the prevailing average target rent. In addition, we have included an allowance for incidental voids as outlined in section 5.6.

5.9.2 We have not allowed for any RTB sales in our valuation.

5.9.3 In our MV-T cashflows we have assumed that some of the units which become void are sold on the open market and have included average sales rates of 3.5% per annum for houses and 3.5% per annum for flats.

5.10 Discount Rate

5.10.1 For our EUV-SH valuation we have adopted a discount rate of 5.75% on net rental income.

5.10.2 We have adopted average discount rates of 7.5% (rental income) and 9.75% (sales) for our MV-T cashflow.

5.11 House Price Growth

5.11.1 We have assumed house prices will grow in real terms at 0% in the first 3 years of our cashflow models and in the long term at a rate of 1.0% per annum.

6 Extra Care Commentary

6.1 Introduction

6.1.1 There are 40 extra care properties in the Portfolio that we have valued on the basis of EUV-SH.

6.2 Tenancies

6.2.1 All of the properties are let on assured tenancies. We have assumed that these are 'standard' assured tenancies although we have not seen example tenancy agreements.

6.3 Rental Income

6.3.1 The total gross rent receivable from the extra care properties in the Portfolio amounts to £243,559 per annum (based on a 52-week year).

6.3.2 We are unable to verify the accuracy of the rent roll provided to us by the Issuer.

6.4 EUV-SH – Rental Growth

6.4.1 In accordance with section 1.6.2 we have assumed that a purchaser of the stock with the benefit of protection from the rent cuts set out in the Welfare Reform and Work Act would increase rents by CPI plus 1.0% into perpetuity and have modelled rental growth in our EUV-SH valuation models accordingly.

6.5 Bad Debts and Voids

6.5.1 In our EUV-SH valuation we have adopted an average rate for bad debts and voids of 2.0 % of gross income for the Portfolio.

6.6 Management Costs

6.6.1 We have adopted an average rate of £625 per unit for management and administration in our valuation on the basis of EUV-SH.

6.7 Repairs and Maintenance

6.7.1 Although the majority of the properties are generally in a reasonable or good condition, renewal, day-to-day and cyclical maintenance will be required to keep the stock in its present condition.

6.7.2 The following table sets out the various assumptions we have made in our cashflows. Our appraisal assumes that these costs will inflate at 1.0% (real) per annum.

Category of Expenditure	EUV-SH
Major repairs and renewals – Year 1	£800
Cyclical repairs – Year 1	£325
Day-to-day repairs	£400
Total Average Costs	£1,525

6.8 Discount Rate

6.8.1 For our EUV-SH valuation we have adopted a discount rate of 6.0% on net rental income.

7 Intermediate Rent Commentary

7.1 Introduction

7.1.1 There are 104 intermediate rent properties in the Portfolio that we have valued on the basis of EUV-SH and MV-T. We can confirm that these units are not subject to restrictions on the title which would prevent a successor in title from letting or selling the properties on the open market.

7.1.2 There are 63 intermediate rent properties in the Portfolio that are either subject to restrictions on the title that prohibit the use of the properties for any purpose other than affordable housing for any successors of the borrower or any successors of a mortgagee in possession, or where there are non-financial obligations outstanding. In light of this, we have restricted the value of these units to EUV-SH.

7.2 Tenancies

7.2.1 All of the properties are let on assured tenancies. We have assumed that these are 'standard' assured tenancies although we have not seen example tenancy agreements.

7.3 Rental Income

7.3.1 The total gross rent receivable from the intermediate rent properties in the Portfolio amounts to £967,307 per annum (based on a 52-week year).

7.3.2 We are unable to verify the accuracy of the rent roll provided to us by the Issuer.

7.4 EUV-SH – Rental Growth

7.4.1 In accordance with section 1.6.2 intermediate rent properties are exempt from the rent cuts set out in the Welfare Reform and Work Act 2016 and have therefore modelled rental growth in our EUV-SH valuation models at CPI plus 1% into perpetuity accordingly.

7.5 MV-T – Rental Growth

7.5.1 Passing rents are currently below market levels, resulting in good prospects for future rental growth when considering the market value of the Portfolio.

7.5.2 We have assumed that it will take approximately 2 years for assured rents to increase to market levels and thereafter for rents to rise at 1.0% (real) per annum. The average increase we have modelled is 16.8% for houses and 18.3% per year for flats.

7.6 Bad Debts and Voids

7.6.1 In our EUV-SH valuation we have adopted an average rate for bad debts and voids of 3.0% of gross income for the Portfolio.

7.6.2 In our MV-T valuation, we have adopted an average rate of 8.0% of gross income for the first 3 years of our MV-T cashflow, 5.0% in years 4 and 5 and 5.0% in all years thereafter.

7.7 Management Costs

7.7.1 We have adopted an average rate of £625 per unit for management and administration in our valuation on the basis of EUV-SH.

7.7.2 We have assumed that a mortgagee in possession would expect to spend 10% of rental income on management and administration in our valuation on the basis of MV-T.

7.8 Repairs and Maintenance

7.8.1 Although the majority of the properties are generally in a reasonable or good condition, renewal, day-to-day and cyclical maintenance will be required to keep the stock in its present condition.

7.8.2 The following table sets out the various assumptions we have made in our cashflows. Both of our appraisals assume that these costs will inflate at 1.0% (real) per annum.

Category of Expenditure	EUV-SH	MV-T
Major repairs and renewals – Year 1	£670	£2,500
Cyclical repairs – Year 1	£325	£325
Day-to-day repairs	£375	£375
Total Average Costs	£1,370	£3,200

7.8.3 We have adopted higher costs for major repairs in the first 2 years of our MV-T model as some of the properties will require refurbishment and redecoration in order to attract buyers or to be let on the open market. After this initial period, our costs settle to a lower level as shown below:

Years	Major Repairs Costs
Year 1	£2,500
Year 2	£2,500
Year 3	£671
Year 4	£671

Years	Major Repairs Costs
Year 5	£671
Years 6-10	£696
Years 11-15	£721
Years 16-20	£771
Years 21-25	£821
Years 26-30	£871

7.9 Sales Rates

7.9.1 In our MV-T cashflows we have assumed that some of the units which become void are sold on the open market and have included average sales rates of 3.5% per annum for houses and 15.0% per annum for flats.

7.10 Discount Rate

7.10.1 For our EUV-SH valuation we have adopted a discount rate of 6.0% on net rental income.

7.10.2 We have adopted average discount rates of 7.25% (rental income) and 9.75% (sales) for our MV-T cashflow.

7.11 House Price Growth

7.11.1 We have assumed house prices will grow in real terms at 0% in the first 3 years of our cashflow models and in the long term at a rate of 1.0% per annum.

8 Market Rent Commentary

8.1 Introduction

8.1.1 There is one Market Rent property in the Portfolio that we have valued on the basis of MV-T.

8.2 Tenancies

8.2.1 The property is let on an assured shorthold tenancy. We have assumed that this is a 'standard' assured shorthold tenancy although we have not seen the tenancy agreement.

8.3 Rental Income

8.3.1 The total gross rent receivable from the Market Rent property amounts to £5,367 per annum (based on a 52-week year).

8.3.2 We are unable to verify the accuracy of the rent roll provided to us by the Issuer.

8.4 MV-T – Rental Growth

8.4.1 We have assumed that the rent will increase by 1.0% in real terms per annum.

8.5 Bad Debts and Voids

8.5.1 In our MV-T valuation, we have adopted a rate of 5.0% of gross income for bad debts and voids.

8.6 Management Costs

8.6.1 We have assumed that a mortgagee in possession would expect to spend 10% of rental income on management and administration in our valuation on the basis of MV-T.

8.7 Repairs and Maintenance

8.7.1 The following table sets out the various assumptions we have made in our cashflow. Our appraisal assumes that these costs will inflate at 1.0% (real) per annum.

Category of Expenditure	MV-T
Major repairs and renewals – Year 1	£750
Cyclical repairs – Year 1	£325

Category of Expenditure	MV-T
Day-to-day repairs	£400
Total Average Costs	£1,475

8.8 Discount Rate

8.8.1 We have adopted a discount rate of 7.25% on rental income.

9 Sheltered Commentary

9.1 Introduction

9.1.1 There are 259 sheltered properties in the Portfolio that we have valued on the basis of EUV-SH and MV-T. We can confirm that these units are not subject to restrictions on the title which would prevent a successor in title from letting or selling the properties on the open market.

9.1.2 There are 6 sheltered properties in the Portfolio that are either subject to restrictions on the title that prohibit the use of the properties for any purpose other than affordable housing for any successors of the borrower or any successors of a mortgagee in possession, or where there are non-financial obligations outstanding. In light of this, we have restricted the value of these units to EUV-SH.

9.2 Tenancies

9.2.1 The majority of the properties (174) are let on assured tenancies. We have assumed that these are 'standard' assured tenancies although we have not seen example tenancy agreements. The remaining 91 units are let on secure tenancies.

9.3 Rental Income

9.3.1 The total gross rent receivable from the sheltered properties in the Portfolio amounts to £1,198,590 per annum (based on a 52-week year).

9.3.2 We are unable to verify the accuracy of the rent roll provided to us by the Issuer.

9.4 EUV-SH – Rental Growth

9.4.1 In accordance with section 1.6.7 we have assumed that a purchaser of the stock with the benefit of protection from the rent cuts set out in the Welfare Reform and Work Act would increase rents by CPI plus 1.0% into perpetuity and have modelled rental growth in our EUV-SH valuation models accordingly.

9.5 MV-T – Rental Growth

9.5.1 Passing rents are currently below market levels, resulting in good prospects for future rental growth when considering the market value of the Portfolio.

9.5.2 We have assumed that it will take approximately 2 years for assured rents to increase to market levels and thereafter for rents to rise at 1.0% (real) per annum. The average increase we have modelled is 22.5% for bungalows and 18.3% per year for flats.

9.6 Bad Debts and Voids

9.6.1 In our EUV-SH valuation we have adopted an average rate for bad debts and voids of 2.0% of gross income for the Portfolio.

9.6.2 In our MV-T valuation, we have adopted an average rate of 8.0% of gross income for the first 3 years of our MV-T cashflow, 5.0% in years 4 and 5 and 5.0% in all years thereafter.

9.7 Management Costs

9.7.1 We have adopted an average rate of £625 per unit for management and administration in our valuation on the basis of EUV-SH.

9.7.2 We have assumed that a mortgagee in possession would expect to spend 10% of rental income on management and administration in our valuation on the basis of MV-T.

9.8 Repairs and Maintenance

9.8.1 Although the majority of the properties are generally in a reasonable or good condition, renewal, day-to-day and cyclical maintenance will be required to keep the stock in its present condition.

9.8.2 The following table sets out the various assumptions we have made in our cashflows. Both of our appraisals assume that these costs will inflate at 1.0% (real) per annum.

Category of Expenditure	EUV-SH	MV-T
Major repairs and renewals – Year 1	£737	£1,500
Cyclical repairs – Year 1	£325	£325
Day-to-day repairs	£375	£375
Total Average Costs	£1,437	£2,200

9.8.3 We have adopted higher costs for major repairs in the first 2 years of our MV-T model as some of the properties will require refurbishment and redecoration in order to attract buyers or to be let on the open market. After this initial period, our costs settle to a lower level as shown below:

Years	Major Repairs Costs
Year 1	£1,500
Year 2	£1,500
Year 3	£738
Year 4	£738

Years	Major Repairs Costs
Year 5	£738
Years 6-10	£763
Years 11-15	£788
Years 16-20	£813
Years 21-25	£838
Years 26-30	£863

9.9 Relet and Sales Rates

9.9.1 Our EUV-SH model allows for a rate at which secure tenancies are relet as assured tenancies. We have adopted average rates of 3.0% (bungalows) and 5.0% (flats) and have assumed that those properties will be relet at the prevailing average target rent. In addition, we have included an allowance for incidental voids as outlined in section 9.6.

9.9.2 In our MV-T cashflows we have assumed that some of the units which become void are sold on the open market and have included average sales rates of 2.0% per annum for bungalows and 1.5% per annum for flats.

9.10 Discount Rate

9.10.1 For our EUV-SH valuation we have adopted a discount rate of 6.0% on net rental income.

9.10.2 We have adopted average discount rates of 7.5% (rental income) and 10.25% (sales) for our MV-T cashflow.

9.11 House Price Growth

9.11.1 We have assumed house prices will grow in real terms at 0% in the first 3 years of our cashflow models and in the long term at a rate of 1.0% per annum.

10 Supported Commentary

10.1 Introduction

10.1.1 There are 2 supported properties in the Portfolio that we have valued on the basis of EUV-SH and MV-T. We can confirm that these units are not subject to restrictions on the title which would prevent a successor in title from letting or selling the properties on the open market.

10.1.2 There are 68 supported properties in the Portfolio that are either subject to restrictions on the title that prohibit the use of the properties for any purpose other than affordable housing for any successors of the borrower or any successors of a mortgagee in possession, or where there are non-financial obligations outstanding. In light of this, we have restricted the value of these units to EUV-SH.

10.2 Tenancies

10.2.1 All of the properties are let on assured tenancies. We have assumed that these are 'standard' assured tenancies although we have not seen example tenancy agreements.

10.3 Rental Income

10.3.1 The total gross rent receivable from the supported properties in the Portfolio amounts to £280,553 per annum (based on a 52-week year).

10.3.2 We are unable to verify the accuracy of the rent roll provided to us by the Issuer.

10.4 EUV-SH – Rental Growth

10.4.1 In accordance with section 1.6.2 we have assumed that a purchaser of the stock with the benefit of protection from the rent cuts set out in the Welfare Reform and Work Act would increase rents by CPI plus 1.0% into perpetuity and have modelled rental growth in our EUV-SH valuation models accordingly.

10.5 MV-T – Rental Growth

10.5.1 Passing rents are currently below market levels, resulting in good prospects for future rental growth when considering the market value of the Portfolio.

10.5.2 We have assumed that it will take approximately 3 years for assured rents to increase to market levels and thereafter for rents to rise at 1.0% (real) per annum. The average increase we have modelled is 12.8% per year for the flats.

10.6 Bad Debts and Voids

- 10.6.1 In our EUV-SH valuation we have adopted an average rate for bad debts and voids of 2.5% of gross income for the Portfolio.
- 10.6.2 In our MV-T valuation, we have adopted an average rate of 8.0% of gross income for the first 3 years of our MV-T cashflow, and 5.0% in all years thereafter.

10.7 Management Costs

- 10.7.1 We have adopted an average rate of £625 per unit for management and administration in our valuation on the basis of EUV-SH.
- 10.7.2 We have assumed that a mortgagee in possession would expect to spend 10% of rental income on management and administration in our valuation on the basis of MV-T.

10.8 Repairs and Maintenance

- 10.8.1 Although the majority of the properties are generally in a reasonable or good condition, renewal, day-to-day and cyclical maintenance will be required to keep the stock in its present condition.
- 10.8.2 The following table sets out the various assumptions we have made in our cashflows. Both of our appraisals assume that these costs will inflate at 1.0% (real) per annum.

Category of Expenditure	EUV-SH	MV-T
Major repairs and renewals – Year 1	£614	£2,500
Cyclical repairs – Year 1	£325	£325
Day-to-day repairs	£400	£400
Total Average Costs	£1,339	£3,225

- 10.8.3 We have adopted higher costs for major repairs in the first 2 years of our MV-T model as some of the properties will require refurbishment and redecoration in order to attract buyers or to be let on the open market. After this initial period, our costs settle to a lower level as shown below:

Years	Major Repairs Costs
Year 1	£2,500
Year 2	£2,500
Year 3	£500
Year 4	£500

Years	Major Repairs Costs
Year 5	£500
Years 6-10	£525
Years 11-15	£550
Years 16-20	£600
Years 21-25	£650
Years 26-30	£700

10.9 Sales Rates

10.9.1 We have not allowed for any sales in our MV-T valuation.

10.10 Discount Rate

10.10.1 For our EUV-SH valuation we have adopted a discount rate of 6.0% on net rental income.

10.10.2 We have adopted average discount rates of 7.25% (rental income) and 9.75% (sales) for our MV-T cashflow.

10.11 House Price Growth

10.11.1 We have assumed house prices will grow in real terms at 0% in the first 3 years of our cashflow models and in the long term at a rate of 1.0% per annum.

11 Shared Ownership Commentary

11.1.1 There are 275 shared ownership properties within the Portfolio. The Chargors currently own 54.5% of the equity in the units and a rent is charged on this percentage.

11.2 Rental Levels

11.2.1 According to the information provided by the Issuer, the average gross weekly rental level is £48.73 against the average retained equity. All rents are expressed on the basis of 52 rent weeks per year.

11.3 Rental Growth

11.3.1 The HCA's restriction on future rental growth through section 2.4.5 of the Capital Funding Guide allows a maximum of 0.5% real growth per annum only. The imposition of this formula effectively constrains the net present value of the cashflow to the basis of EUV-SH.

11.3.2 It should also be noted that although, in general, rents in the sector will be linked to CPI, the rents for shared ownership properties will grow as set out in the signed leases for each property. We have not had sight of these leases and assume that they have the standard rent review provisions (upwards only, indexed linked at RPI plus 0.5%) set out in the model shared ownership lease, published by the National Housing Federation.

11.3.3 We have grown rents at a rate of RPI plus 0.5% per annum.

11.4 Outgoings

11.4.1 In forming an opinion of the net rental income the Portfolio will generate, we have allowed 6.0% of gross rental income for management.

11.5 Voids and Bad Debts

11.5.1 We understand that all of the properties are now let and so we would not expect any voids going forward. We have allowed for the incidence of bad debts in the discount rate.

11.6 Repairs and Maintenance

11.6.1 We have assumed any repair obligations will lie with the leaseholders. We would expect that repair/renewal, day-to-day and cyclical maintenance would be required to keep the stock in its present condition. However, we have assumed that, where appropriate, service charge income fully covers expenditure.

11.7 Discount Rate

11.7.1 For our EUV-SH valuation we have adopted a discount rate of 5.0% on rental income and 8.25% on sales.

11.8 Rate of Sales

11.8.1 We have adopted what we would expect to be a long-term sustainable rate of sales of further tranches over the 50 years of our cashflow model. We have assumed that equity is sold in 25% tranches.

11.8.2 The rates we have adopted in our cashflows are as follows:

Years	Tranche sales
Sales rate (yrs 0-2)	6 tranche sales p.a.
Sales rate (yrs 3-15)	13 tranche sales p.a.
Sales rate (yrs 16-25)	7 tranche sales p.a.
Sales rate (yrs 26-50)	3 tranche sales p.a.

11.8.3 It is difficult to judge when tenants will purchase additional tranches so the income from sales proceeds has been discounted at a higher rate, in line with section 11.7, to reflect the additional risk of realising the value. However, it should be noted that in our valuation, the majority of the value (circa 67.1%) is attributed to the rental income.

12 Valuation

12.1 Background

12.1.1 We have prepared our valuations on the following bases:

- Existing Use Value for Social Housing ("EUV-SH"); and
- Market Value subject to existing Tenancies ("MV-T").

12.1.2 Apportionments of the valuations have been calculated and are included in the schedules at Appendix 1. These are not valuations of the individual properties, and should not be relied upon or treated as such.

12.1.3 The valuations below represent our opinion of the Portfolio as a whole. It is important to note that a prospective purchaser would seek a discount to reflect the quantity of the properties concerned. Conversely, there is also potential for additional value being added to the Portfolio if it were to be broken up and sold piecemeal. We stress that, in forming our opinion of the value of the Portfolio as a whole, we have neither applied a discount for quantum nor added a premium to reflect break-up potential.

12.1.4 The definitions of the bases of valuation are set out in full in section 13 of this Report.

12.2 Valuation

12.2.1 Our valuation of all 749 properties being valued on the basis of EUV-SH, in aggregate, is:

£41,990,000
(forty one million, nine hundred and ninety thousand pounds)

12.2.2 Our valuation of all 1,936 properties being valued on the basis of MV-T, in aggregate, is:

£134,630,000
(one hundred and thirty four million, six hundred and thirty thousand pounds)

12.3 Freehold Properties

12.3.1 Our valuation of all 742 freehold properties being valued on the basis of EUV-SH, in aggregate as at the date of valuation, is:

£41,680,000
(forty one million, six hundred and eighty thousand pounds)

12.3.2 Our valuation of all 1,935 freehold properties being valued on the basis of MV-T, in aggregate as at the date of valuation, is:

£134,560,000
(one hundred and thirty four million, five hundred and sixty thousand pounds)

12.4 Leasehold Properties

12.4.1 Our valuation of the 7 leasehold properties that have been valued on the basis of EUV-SH, in aggregate as at the date of valuation, is:

£310,000
(three hundred and ten thousand pounds)

12.4.2 Our valuation of the 1 leasehold property that has been valued on the basis of MV-T, in aggregate as at the date of valuation, is:

£70,000
(seventy thousand pounds)

12.5 Summary Table

12.5.1 The following table summarises the valuations shown above by individual category:

Category	Unit Count	Basis of Valuation	EUV-SH	MV-T
Affordable Rent Restricted	23	EUV-SH	£1,320,000	-
Affordable Rent Unrestricted	135	MV-T	£8,410,000	£11,140,000
General Needs Restricted	274	EUV-SH	£14,490,000	-
General Needs Unrestricted	1,435	MV-T	£75,450,000	£98,260,000
Extra Care Restricted	40	EUV-SH	£3,100,000	-
Intermediate Rent Restricted	63	EUV-SH	£4,620,000	-
Intermediate Rent Unrestricted	104	MV-T	£7,550,000	£9,380,000
Market Rent	1	MV-T	-	£80,000
Sheltered Restricted	6	EUV-SH	£290,000	-
Sheltered Unrestricted	259	MV-T	£12,710,000	£15,680,000
Supported Restricted	68	EUV-SH	£2,650,000	-
Supported Unrestricted	2	MV-T	£70,000	£90,000
Shared Ownership	275	EUV-SH	£15,520,000	-
Total	2,685		£146,180,000	£134,630,000

13 Bases of Valuation

13.1.1 Our valuations have been prepared in accordance with the RICS Red Book.

13.2 Existing Use Value for Social Housing

13.2.1 The basis of Existing Use Value for Social Housing is defined in UKVS 1.12 of the Red Book as follows:

“Existing use value for social housing (EUV-SH) is an opinion of the best price at which the sale of an interest in a property would have been completed unconditionally for a cash consideration on the valuation date, assuming:

- *a willing seller;*
- *that prior to the valuation date there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest for the agreement of the price and terms and for the completion of the sale;*
- *that the state of the market, level of values and other circumstances were on any earlier assumed date of exchange of contracts, the same as on the date of valuation;*
- *that no account is taken of any additional bid by a prospective purchaser with a special interest;*
- *that both parties to the transaction had acted knowledgeably, prudently and without compulsion;*
- *that the property will continue to be let by a body pursuant to delivery of a service for the existing use;*
- *that at the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor's ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body's requirements;*
- *that properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession; and*
- *that any subsequent sale would be subject to all the same assumptions above.”*

13.3 Market Value

13.3.1 The basis of Market Value is defined in VPS 4.4 of the Red Book as follows:

“The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

13.3.2 Market Value subject to Tenancies is in accordance with the above definition, with the addition of the point below:

“That the properties would be subject to any secure or assured tenancies that may prevail, together with any other conditions or restrictions to which property may be subject.”

13.4 Expenses

13.4.1 No allowance is made in our valuations for any expenses of realisation.

13.5 Tax

13.5.1 No allowance is made in our valuations for any liability for payment of Corporation Tax, or for any liability for Capital Gains Tax, whether existing or which may arise in the future.

13.6 VAT

13.6.1 Our valuations are exclusive of VAT on disposal.

14 Sources and Verification of Information

14.1 General

- 14.1.1 We have relied upon the property descriptions provided to us by the Issuer and have verified their accuracy where we have inspected properties internally.
- 14.1.2 We have also relied upon the tenancy types and current rental income for each unit as provided. We have not audited the rent roll, nor have we been able to verify the accuracy of the data. However, we consider that the general rent levels in the Portfolio to be reasonable in the context of affordable housing and we have relied on the information provided as being current and accurate.

14.2 Tenure

- 14.2.1 The Chargors hold a freehold interest or long leasehold interest with not less than 80 years unexpired in respect of its properties, unless otherwise stated in this Report. We confirm that there will be no material difference in the MV-T and EUV-SH cashflow valuations between these two holding interests.

14.3 Title

- 14.3.1 We have reviewed the certificate of title prepared by Wright Hassall LLP and Winckworth Sherwood LLP (the "Certificates") and can confirm that our valuations fully reflect the disclosures contained therein.
- 14.3.2 In respect of each property that we have valued on the basis of MV-T we confirm that we have reviewed the Certificates and confirm that each such property can be disposed of on an unfettered basis (subject only to existing tenancies disclosed in the Certificates but not subject to any security interest, option of other encumbrance or to any restriction preventing or restricting its sale to or use by any person for residential use).

14.4 Nomination Agreements

- 14.4.1 Our valuations are prepared on the basis that there are no nomination agreements. If any nomination rights are found to be in existence, they are assumed not to be binding on a mortgagee in possession unless otherwise stated in this Report

14.5 Measurements/Floor Areas

- 14.5.1 We have not measured the properties, this being outside the scope of a valuation of a portfolio of this nature, unless otherwise stated in this Report.

14.6 Structural Surveys

14.6.1 Unless expressly instructed, we do not carry out a structural survey, nor do we test the services and we, therefore, do not give any assurance that any property is free from defect. We seek to reflect in our valuations any readily apparent defects or items of disrepair, which we note during our inspection, or costs of repair which are brought to our attention. Otherwise, we assume that each building is structurally sound and that there are no structural, latent or other material defects.

14.6.2 In our opinion the economic life of each property should exceed 50 years providing the properties are properly maintained.

14.7 Deleterious Materials

14.7.1 We do not normally carry out or commission investigations on site to ascertain whether any building was constructed or altered using deleterious materials or techniques (including, by way of example high alumina cement concrete, woodwool as permanent shuttering, calcium chloride or asbestos). Unless we are otherwise informed, our valuations are on the basis that no such materials or techniques have been used.

14.8 Site Conditions

14.8.1 We do not normally carry out or commission investigations on site in order to determine the suitability of ground conditions and services for the purposes for which they are, or are intended to be, put; nor do we undertake archaeological, ecological or environmental surveys. Unless we are otherwise informed, our valuations are on the basis that these aspects are satisfactory and that, where development is contemplated, no extraordinary expenses, delays or restrictions will be incurred during the construction period due to these matters.

14.9 Environmental Contamination

14.9.1 Unless expressly instructed, we do not carry out or commission site surveys or environmental assessments, or investigate historical records, to establish whether any land or premises are, or have been, contaminated. Therefore, unless advised to the contrary, our valuations are carried out on the basis that properties are not affected by environmental contamination. However, should our site inspection and further reasonable enquiries during the preparation of the valuation lead us to believe that the land is likely to be contaminated we will discuss our concerns with you.

14.10 Energy Performance Certificates (EPCs)

14.10.1 We have not been provided with copies of any Energy Performance Certificates by the borrower. The Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 make it unlawful for landlords in the private rented sector to let properties that have an EPC rating of F or G, from 1 April 2018. The Regulations do not apply to the majority of properties owned by Registered Providers. Based on our inspections and our wider knowledge of energy ratings within the social housing sector, we do not consider this issue to present a material valuation risk.

14.11 Market Rental Values

14.11.1 Our assessment of rental values is formed purely for the purposes of assisting in the formation of an opinion of MV-T and is generally on the basis of Market Rent, as defined in the “the Red Book”. Such figures should not be used for any other purpose other than in the context of this valuation.

14.12 Insurance

14.12.1 Unless expressly advised to the contrary we assume that appropriate cover is and will continue to be available on commercially acceptable terms.

14.13 Planning

14.13.1 We have prepared our valuations on the basis that each property exists in accordance with a valid planning permission.

14.14 Outstanding Debts

14.14.1 In the case of property where construction works are in hand, or have recently been completed, we do not normally make allowance for any liability already incurred, but not yet discharged, in respect of completed works, or obligations in favour of contractors, subcontractors or any members of the professional or design team.

14.15 Services

14.15.1 We do not normally carry out or commission investigations into the capacity or condition of services. Therefore we assume that the services, and any associated controls or software, are in working order and free from defect. We also assume that the services are of sufficient capacity to meet current and future needs.

14.16 Plans and Maps

14.16.1 All plans and maps included in our Report are strictly for identification purposes only, and, whilst believed to be correct, are not guaranteed and must not form part of any contract. All are published under licence and may include mapping data from Ordnance Survey © Crown Copyright. All rights are reserved.

14.17 Compliance with Building Regulations and Statutory Requirements

14.17.1 We have assumed that the properties conform to the Fire Precaution Regulations and any other statutory requirements.

Appendix 1

List of Addresses

Valuation Schedule

Issuer: Libra (Longhurst Group) Treasury No 2 Plc

Value: JLL

Date of Valuation: 11 May 2018

Valuation of Bond Security

LRPS	Owned By	House / Flat No	Building Name	Street Name	Borough	Postcode	Title No	Tenure
311446010006	Friendship Care & Housing		Nether Street	Nether Street				
3403297784	Friendship Care & Housing	178A	Stephenson Avenue	Beechdale		WS2 7DU	WN688080	FH
340329780A	Friendship Care & Housing	180A	Stephenson Avenue	Beechdale		WS2 7DU	WN688080	FH
340329782A	Friendship Care & Housing	182A	Stephenson Avenue	Beechdale		WS2 7DU	WN688080	FH
340329784B	Friendship Care & Housing	184B	Stephenson Avenue	Beechdale		WS2 7DU	WN688080	FH
340329786B	Friendship Care & Housing	186B	Stephenson Avenue	Beechdale		WS2 7DU	WN688080	FH
340329790A	Friendship Care & Housing	190A	Stephenson Avenue	Beechdale		WS2 7DU	WN688080	FH
340329214A	Friendship Care & Housing	214A	Stephenson Avenue	Beechdale		WS2 7DU	WN688080	FH
34023023A	Friendship Care & Housing	23A	Kelvin Road	Beechdale		WS2 7DR	WN688080	FH
34023035A	Friendship Care & Housing	35A	Kelvin Road	Beechdale		WS2 7DR	WN688080	FH
34023035B	Friendship Care & Housing	35B	Kelvin Road	Beechdale		WS2 7DR	WN688080	FH
34034040	Friendship Care & Housing	50	Ramsay House	Ramsay Road	Beechdale	WS2 7DZ	WN688080	FH
330650010001	Friendship Care & Housing	1	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650010002	Friendship Care & Housing	2	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650020008	Friendship Care & Housing	8	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650020010	Friendship Care & Housing	10	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650030010	Friendship Care & Housing	10	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650030017	Friendship Care & Housing	17	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650030018	Friendship Care & Housing	18	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650030032	Friendship Care & Housing	32	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650030038	Friendship Care & Housing	38	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650070044	Friendship Care & Housing	44	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650080047	Friendship Care & Housing	47	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650100063	Friendship Care & Housing	63	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650110066	Friendship Care & Housing	66	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650110067	Friendship Care & Housing	67	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650110070	Friendship Care & Housing	70	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650120073	Friendship Care & Housing	73	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650120074	Friendship Care & Housing	74	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650120075	Friendship Care & Housing	75	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650130080	Friendship Care & Housing	80	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650130081	Friendship Care & Housing	81	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650130084	Friendship Care & Housing	84	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330650130085	Friendship Care & Housing	85	Friargate Court	Friargate		DE1 1HE	DY34770	FH
330200110073	Friendship Care & Housing	73	Weyer Street	Weyer Street		DE22 3TR	DY34507	FH
331070010004	Friendship Care & Housing	4	Lanesborough Court	Lanesborough Court	Leicestershire	LE11 2EU	DY34507	FH
331070010006	Friendship Care & Housing	6	Lanesborough Court	Lanesborough Court	Leicestershire	LE11 2EU	LT100713 and LT90199	FH
331070040022	Friendship Care & Housing	22	Lanesborough Court	Lanesborough Court	Leicestershire	LE11 2EU	LT100713 and LT90199	FH
331070040021	Friendship Care & Housing	21	Lanesborough Court	Lanesborough Court	Leicestershire	LE11 2EU	LT100713 and LT90199	FH
331070050029	Friendship Care & Housing	29	Lanesborough Court	Lanesborough Court	Leicestershire	LE11 2EU	LT100713 and LT90199	FH
363000460001	Friendship Care & Housing	46	Romsey Avenue	Weddington	Leicestershire	LE11 2EU	WRK335642	FH
331840010002	Friendship Care & Housing	2	Newhaven Close	Rupert Street	Warwickshire	CV10 0DW	WM671305	LH
331730020007	Friendship Care & Housing	7	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730020011	Friendship Care & Housing	10	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730030015	Friendship Care & Housing	11	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730030015	Friendship Care & Housing	15	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730030020	Friendship Care & Housing	20	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730040024	Friendship Care & Housing	24	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730050027	Friendship Care & Housing	27	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730050028	Friendship Care & Housing	28	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730050029	Friendship Care & Housing	29	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730050034	Friendship Care & Housing	34	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730050036	Friendship Care & Housing	36	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730060042	Friendship Care & Housing	42	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730060044	Friendship Care & Housing	44	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730060045	Friendship Care & Housing	45	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730070048	Friendship Care & Housing	48	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730070051	Friendship Care & Housing	51	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730070052	Friendship Care & Housing	52	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730070055	Friendship Care & Housing	55	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730070056	Friendship Care & Housing	56	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730070058	Friendship Care & Housing	58	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730070059	Friendship Care & Housing	59	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730070060	Friendship Care & Housing	60	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730080064	Friendship Care & Housing	64	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730080068	Friendship Care & Housing	68	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730080069	Friendship Care & Housing	69	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
331730080070	Friendship Care & Housing	70	Stephenson Court	Station Road	Glenfield	LE3 8BX	LT101848	FH
34017002	Friendship Care & Housing	2	Harper Road	Station Road	Glenfield	WS2 7LU	WN688080	FH
330650090056	Friendship Care & Housing	56	Samuel Close	Friargate		DE1 1HE	DY34770	FH
7909200010	Styre Homes	1	Uppington	Uppington	Lincoln	LN1 3UJ	LN2426815	FH
10756001	L & H Homes	2	Sobraon Heights	Cambrai Close	Lincoln	LN1 3UJ	LN248025	FH
10756009	L & H Homes	3	Sobraon Heights	Cambrai Close	Lincoln	LN1 3UJ	LN248025	FH
10756034	L & H Homes	4	Sobraon Heights	Cambrai Close	Lincoln	LN1 3UJ	LN248025	FH

Valuation Schedule

Issuer:
 JLL
 Date of Valuation:
 11 May 2018
 Valuation of Bond Security

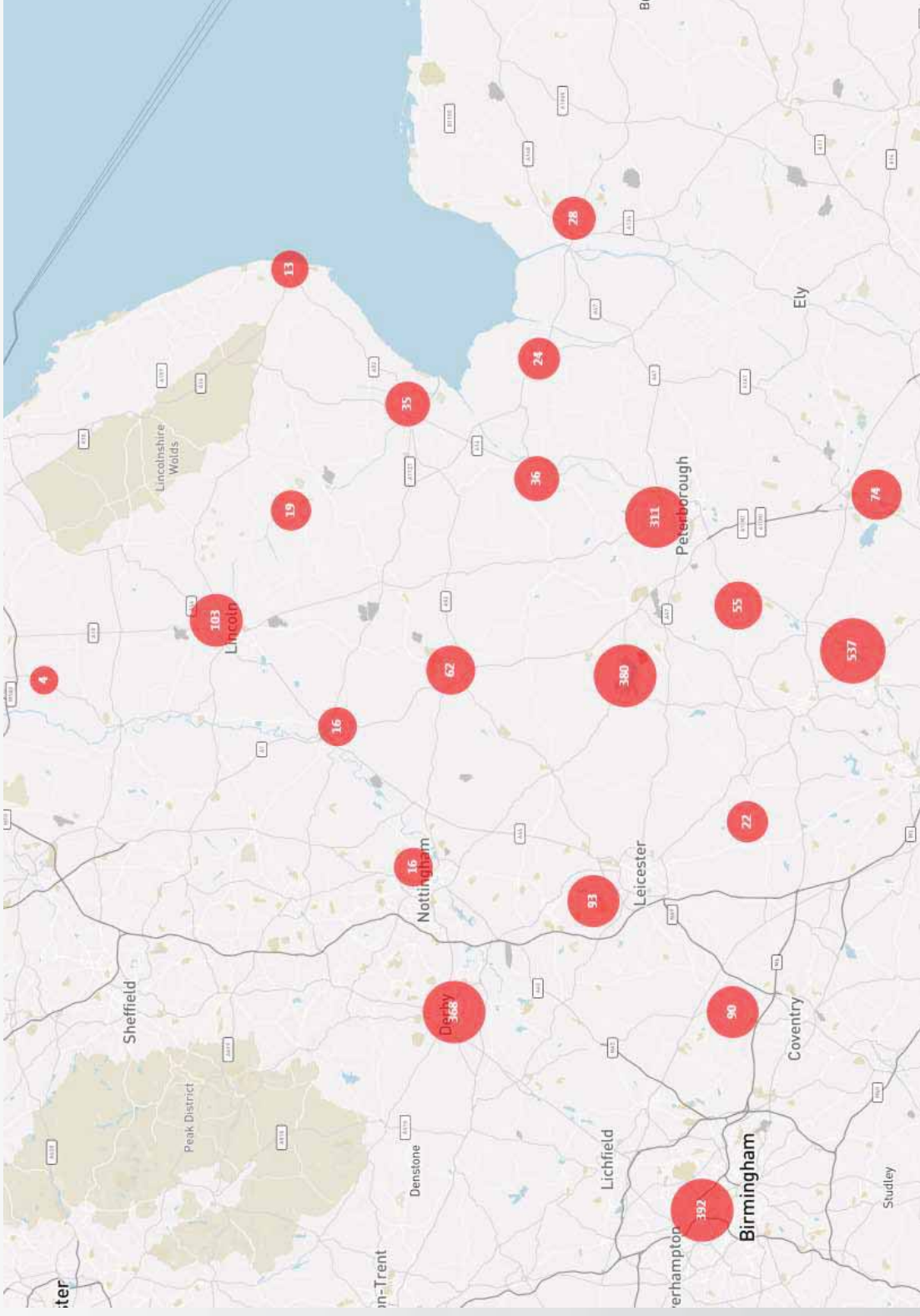
Libra (Loughurst Group) Treasury No 2 Plc
 Valuation of Bond Security

URNS	Owned By	House / Flat No	Building Name	Street Name	Borough	Postcode	TPL No	Tenure
10756031	L & H Homes	5	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756017	L & H Homes	6	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756023	L & H Homes	7	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756018	L & H Homes	8	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756019	L & H Homes	9	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756024	L & H Homes	10	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756013	L & H Homes	11	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756025	L & H Homes	12	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10860001	L & H Homes	43	Chedington Avenue	Mappertley	Nottinghamshire	NG3 5SG	NT442968	FH
7128001280	Spire Homes	128	High Street	Inflingborough	Wellingborough	NN9 5PX	NN219741	FH
7128001320	Spire Homes	130	High Street	Inflingborough	Wellingborough	NN9 5PX	NN219741	FH
7128001340	Spire Homes	132	High Street	Inflingborough	Wellingborough	NN9 5PX	NN219741	FH
7128001360	Spire Homes	134	High Street	Inflingborough	Wellingborough	NN9 5PX	NN219741	FH
7128001380	Spire Homes	136	High Street	Inflingborough	Wellingborough	NN9 5PX	NN219741	FH
7128001400	Spire Homes	140	High Street	Inflingborough	Wellingborough	NN9 5PX	NN219741	FH
7128001420	Spire Homes	142	High Street	Inflingborough	Wellingborough	NN9 5PX	NN219741	FH
80142004	Axiom HA	101	Park Road	Inflingborough	Wellingborough	PE9 3TZ	CB418811	FH
80142004	Axiom HA	101	Park Road	Inflingborough	Wellingborough	PE9 3TZ	CB418811	FH
80842002	L & H Homes	7	Ollman Close	Beaton	Lincoln	PE21 7GD	LL288007	FH
801 94010	Axiom HA	10	Axiom Court	Beaton	Lincoln	PE21 7GD	LL288007	FH
801 94016	Axiom HA	16	Axiom Court	Beaton	Lincoln	PE21 7GD	LL288007	FH
330650030015	Spire Homes	14	Queens Road	Uppingham	Stamford	PE9 2NU	LL342256	FH
34023013A	Spire Homes	15	Queens Road	Uppingham	Stamford	PE9 2NU	LL342256	FH
10756002	Friendship Care & Housing	15	Queens Road	Uppingham	Rutland	LE15 9SH	LT426815	FH
34023013A	Friendship Care & Housing	15	Queens Road	Uppingham	Rutland	LE15 9SH	LT426815	FH
10756012	Friendship Care & Housing	13A	Friargate Court	Uppingham	Rutland	DE1 1HE	DY34770	FH
10756012	Friendship Care & Housing	13A	Friargate Court	Uppingham	Rutland	DE1 1HE	DY34770	FH
10756012	Friendship Care & Housing	38	Kelvin Road	West Town	Walsall	WS2 7DT	WN988080	FH
10756012	Friendship Care & Housing	38	Kelvin Road	West Town	Walsall	WS2 7DT	WN988080	FH
10756012	Friendship Care & Housing	33	Sobraon Heights	Cambrai Close	Peterborough	PE3 6DD	CB386937	FH
10756012	Friendship Care & Housing	33	Sobraon Heights	Cambrai Close	Peterborough	PE3 6DD	CB386937	FH
10756012	Friendship Care & Housing	1	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756012	Friendship Care & Housing	1	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756012	Friendship Care & Housing	15	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756012	Friendship Care & Housing	15	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756012	Friendship Care & Housing	16	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756012	Friendship Care & Housing	16	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756012	Friendship Care & Housing	20	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756012	Friendship Care & Housing	20	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756012	Friendship Care & Housing	23	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756012	Friendship Care & Housing	23	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756012	Friendship Care & Housing	24	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756012	Friendship Care & Housing	24	Sobraon Heights	Cambrai Close	Lincoln	LNI 3JU	LL248025	FH
10756012	Friendship Care & Housing	32	Baker Street	Inflingborough	Wellingborough	LNI 3JU	LL248025	FH
10756012	Friendship Care & Housing	32	Baker Street	Inflingborough	Wellingborough	LNI 3JU	LL248025	FH
10756012	Friendship Care & Housing	46	Baker Street	Inflingborough	Wellingborough	NN9 5PX	NN219741	FH
10756012	Friendship Care & Housing	46	Baker Street	Inflingborough	Wellingborough	NN9 5PX	NN219741	FH
10756012	Friendship Care & Housing	45	Park Road	Inflingborough	Wellingborough	NN9 5PX	NN219741	FH
10756012	Friendship Care & Housing	45	Park Road	Inflingborough	Wellingborough	NN9 5PX	NN219741	FH
10756012	Friendship Care & Housing	1	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
10756012	Friendship Care & Housing	1	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
10756012	Friendship Care & Housing	2	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
10756012	Friendship Care & Housing	2	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
10756012	Friendship Care & Housing	3	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
10756012	Friendship Care & Housing	3	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
10756012	Friendship Care & Housing	4	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
10756012	Friendship Care & Housing	4	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
10756012	Friendship Care & Housing	5	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
10756012	Friendship Care & Housing	5	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
10756012	Friendship Care & Housing	6	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
10756012	Friendship Care & Housing	6	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
10756012	Friendship Care & Housing	7	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
10756012	Friendship Care & Housing	7	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
10756012	Friendship Care & Housing	8	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
10756012	Friendship Care & Housing	8	Sharpe's Plan	Ketton	Wellingborough	PE9 3RZ	LT412605	FH
34023015A	Friendship Care & Housing	15A	Kelvin Road	Ketton	Walsall	WS2 7DT	WN988080	FH

Appendix 2

Location Plan

Libra (Longhurst Group) Treasury No 2 Plc Bond Security 2018



Appendix 3

Photographs



B13 8AB, 13 Park Road, Moseley



CV10 7BH, 8 The Bull Ring



DE1 1HE, 23 Friargate Court, Friargate



DE22 3BB, 21 Kniveton Close, Derby



DE22 3TH, 72 Boyer Street, Derby



DE24 9NT, 21 Swallowdale Road, Sinfen



LE15 9TB, 7 Samuel Close, Uppingham



LE16 9FJ, 29 Bradford Street, Market Harborough



NG31 6NZ, 26 Union Street, Grantham



NN10 0FT, 18 Allen Road, Rushden



NN10 8AQ, 4 Borough Court, Higham Ferrers



PE8 4QP, 70 Hillfield Road, Oundle

Appendix 4

Market Commentary

UK Housing Market Overview

The UK housing market is adjusting to varying levels of political and legislative change. Interest rates increasing from 0.25% to 0.5%, inflation continuing to outpace wage growth, and uncertainty surrounding Brexit all factor into a slowing UK economy. Despite this, house prices continue to rise and unemployment remains low. The outlook for UK economic growth is steady and robust.

Annual housing transaction volumes were lower in the three months to December compared with a year earlier, but have increased from Q3 2017 to Q4 2017.

National house prices continue to rise and house price growth in the UK for the year to December 2017 was 5.2%, up from 5.0% three months earlier and in line with 5.2% a year earlier.

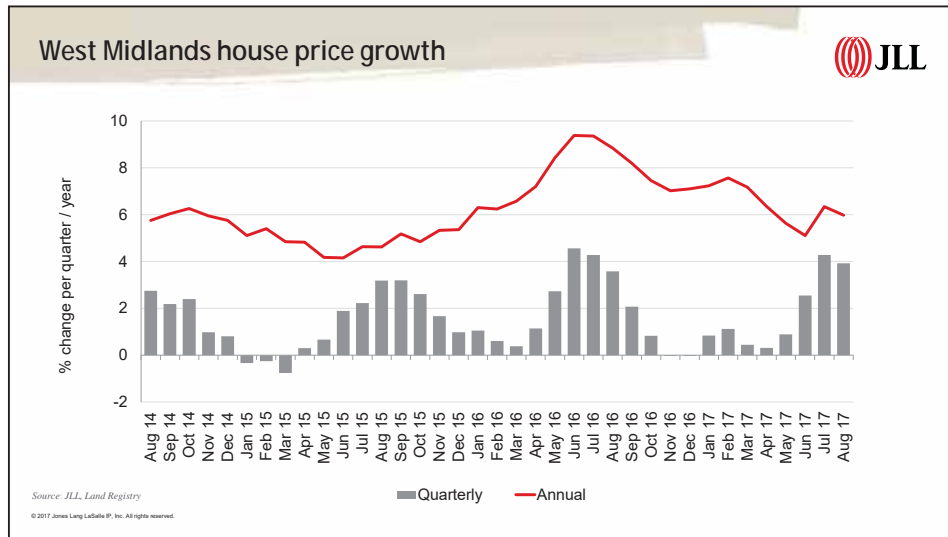
According to the December 2017 RICS survey, demand has increased while sales have stabilised at the national level. There were fewer properties on the market in the three months to January 2018 than the previous quarter, but sales remained in line.

Annual house price growth was positive across all regions for the year ending December 2017. House price growth was the highest in the South West at 7.5%, followed by the East Midlands at 6.3%. House price was equally strong between the North and South regions in the year to December 2017. House price growth in London was 2.5%, below the UK average of 5.2% and the lowest growth of all UK regions.

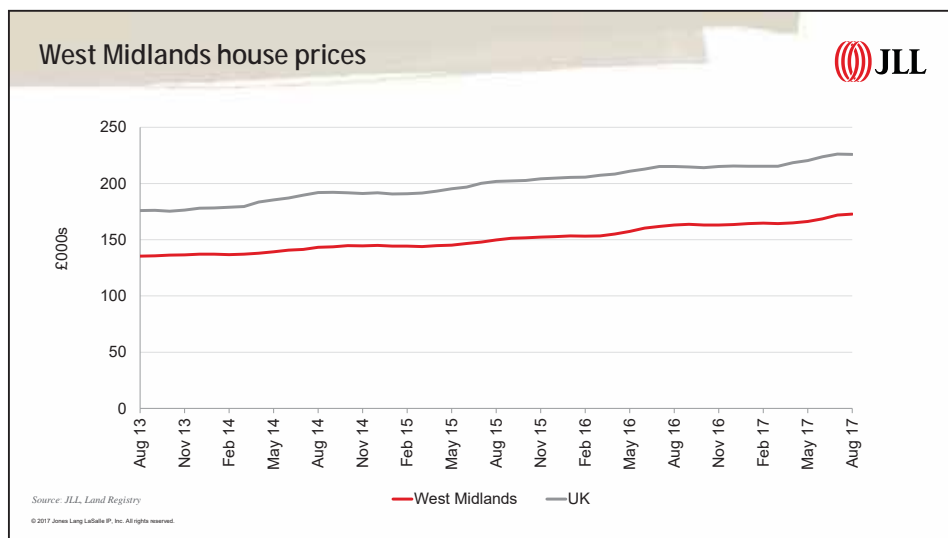
Annual construction starts in England in Q3 2017 were in line with the previous quarter, while completions increased over the same period. The number of annual starts now stands at 164,890 and the number of completions at 154,500. These are some of the highest levels recorded since 2008.

West Midlands Housing Market

House prices in the West Midlands increased by 4.0% in the three months to end-August 2017. This is higher than the increase of 2.7% in prices across the UK. The 4.0% rise in prices follows 0.9% increase in the three months to end-May 2017 and a rise of 1.1% in the preceding three months. In the year to end-August 2017, house prices in the West Midlands increased by 6.0%, which is higher than the 5.0% annual growth seen across the UK (Source: Land Registry).

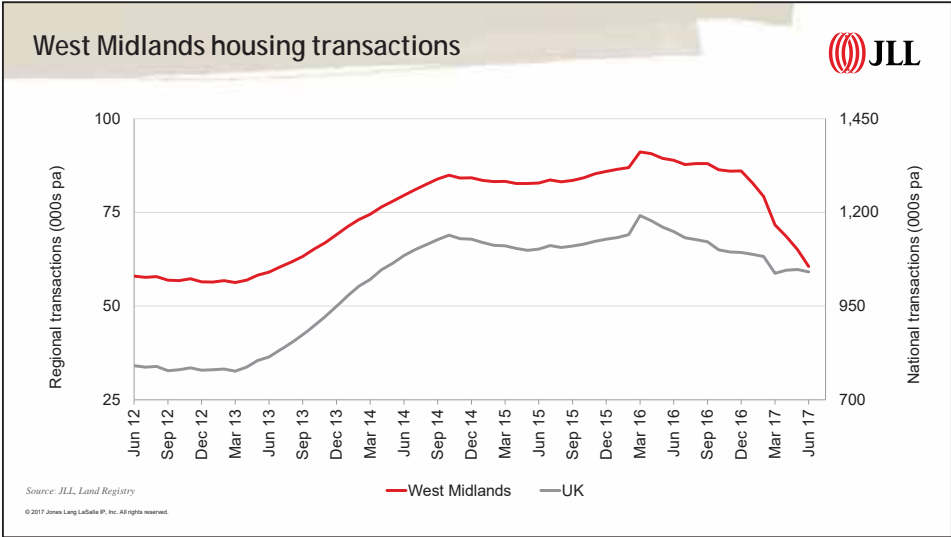


House prices in the West Midlands are below the average of the UK. The average house price in the West Midlands was £172,808 in August 2017, which compares with £225,956 in the UK. For much of the past five years, average house prices in the West Midlands have slowly fallen behind those across the UK, but in the last year this trend has reversed slightly (Source: Land Registry).



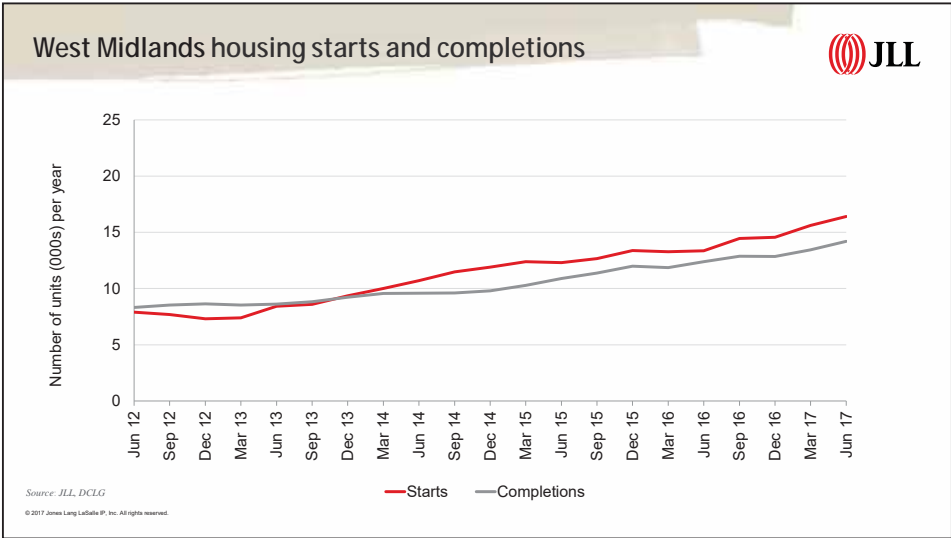
There has been a sharp decrease in the annual number of property transactions in the West Midlands. Transaction levels in the West Midlands in the year to June 2017 have decreased by 31.8%, this compares with a decrease of 9.3% across the UK over the same period.

The current level of transactions in the West Midlands, at 60,600 p.a., is 47.7% lower than the 2006 average which compares with 34.2% lower than the average in across the UK. The annual number of transactions in the West Midlands is below the 10-year average by 9.9%. In comparison, housing transactions in the UK over the same period exceeded the 10-year average by 11.9% (Source: Land Registry).



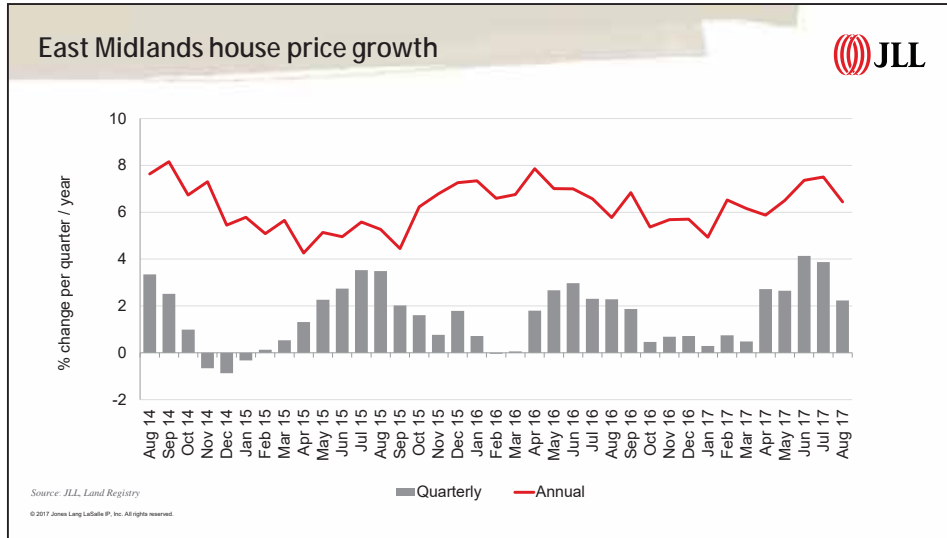
The number of development starts per year has risen by 22.8% compared with a year earlier. At 16,410 the number of housing starts is the highest seen since Q4 2007. This number is 6.1% above 2006-2007 levels and 49.1% higher than the 10-year average.

The number of development completions in the year to Q2 2017, at 14,200 units, is 14.6% more than a year earlier, 7.1% below 2006-2007 levels but 30.1% above the 10-year average (Source: DCLG).

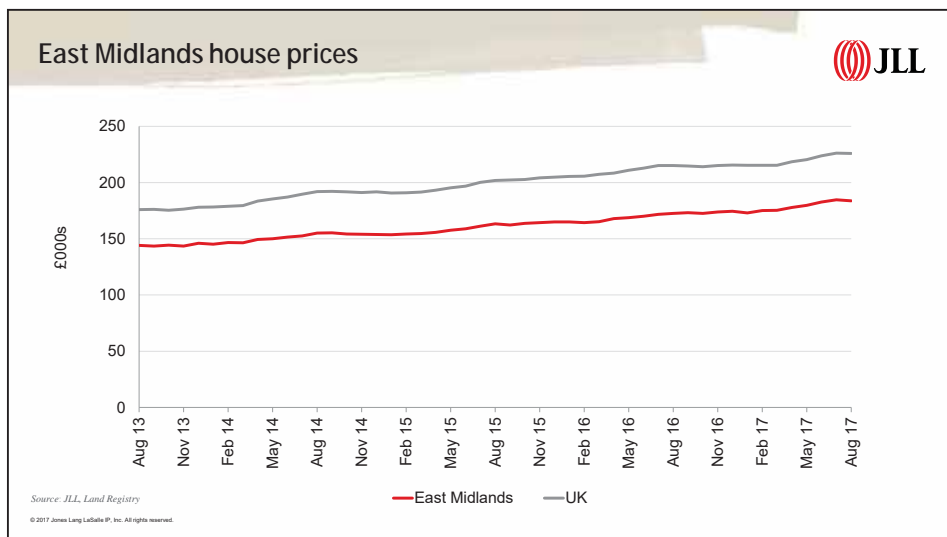


East Midlands Housing Market

House prices in the East Midlands rose by 2.5% in the three months to end-August 2017, which compares with an increase of 2.7% across the UK. The rise of 2.5% follows an increase of 2.4% in the three months to end-May 2017 and a rise of 0.8% in the preceding three months. In the year to end-August 2017 house prices in the East Midlands increased by 6.4% which compares with a 5.0% increase across the UK (Source: Land Registry).



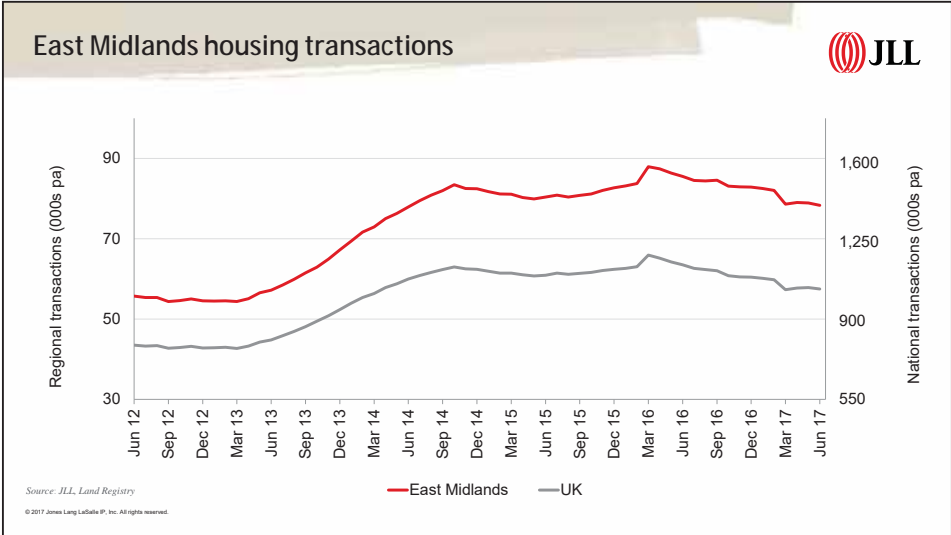
House prices in the East Midlands are below the average across the UK. The average house price in the East Midlands was £183,762 in August 2017 compared with £225,956 across the UK. Average house prices in the East Midlands have slowly fallen behind those in the UK (Source: Land Registry).



The annual number of property transactions in the East Midlands decreased slightly during the three months to June 2017. Compared with a year earlier, annual transaction levels decreased by 8.4% for the year ending June 2017. This decrease

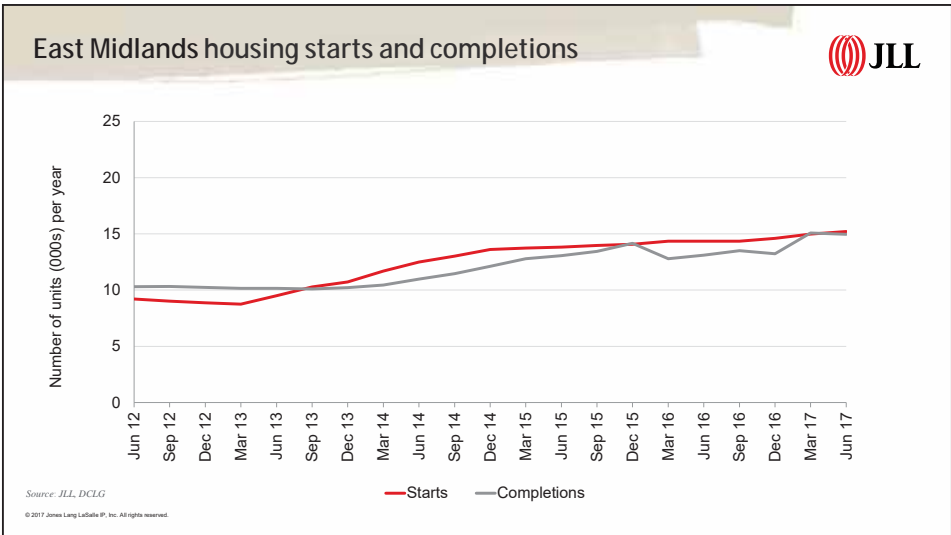
is slightly below UK average, which saw a fall of 9.3% across the same period. The current level of transactions in the East Midlands, at 78,300 p.a., is 27.2% lower than the 2006 average which compares with 34.2% lower across the UK.

The annual number of transactions in the East Midlands is 16.9% higher than the 10-year average which compares with 11.9% higher across the UK (Source: Land Registry).



The number of development starts in the East Midlands in the year to Q2 2017 has increased by 5.9% compared with a year earlier. At 15,210, the number of housing starts in the past year is 14.4% below 2006-2007 levels but 27.4% higher than the 10-year average.

The number of development completions in the year to Q2 2017, at 14,970 units, is 14.2% higher than a year earlier, 15.1% below 2006-2007 levels but 17.5% higher than the 10-year average (Source: DCLG).





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TAXATION

United Kingdom Taxation

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Bonds in relation to the issue and transfer of Bonds. It is based on current law and the practice of HMRC, which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of the Bonds. The comments relate only to the position of persons who are absolute beneficial owners of the Bonds.

The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Bondholders who are in any doubt as to their tax position should consult their professional advisers. Bondholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Bonds. In particular, Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

UK Withholding Tax on the Bonds

The Bonds will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange. Whilst the Bonds are and continue to be quoted Eurobonds, payments of interest on the Bonds may be made without withholding or deduction for or on account of United Kingdom income tax.

Securities will be "listed on a recognised stock exchange" for this purpose if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and they are included in the Official List of the UK Listing Authority (within the meaning of Part 6 of the FSMA).

The London Stock Exchange is a recognised stock exchange, and accordingly the Bonds will constitute quoted Eurobonds provided they are and continue to be included in the United Kingdom official list and admitted to trading on the Regulated Market of that Exchange.

In all cases falling outside the exemption described above, interest on the Bonds may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply.

Other Rules Relating to United Kingdom Withholding Tax

1. Bonds issued at an issue price of less than 100 per cent of their principal amount. Any discount element on any such Bonds will not generally be subject to any United Kingdom withholding tax pursuant to the provisions mentioned above.
2. Where Bonds are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax as outlined above.
3. Where interest has been paid under deduction of United Kingdom income tax, Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.
4. The references to "**interest**" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Bonds or any related documentation. Bondholders should seek their own professional advice as regards the withholding tax treatment of any payment on the Bonds which

does not constitute "interest" or "principal" as those terms are understood in United Kingdom tax law.

5. The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the issuer pursuant to Condition 16 of the Bonds or otherwise and does not consider the tax consequences of any such substitution.

The proposed financial transactions tax ("FTT")

On 14 February, 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances.

Under the Commission's proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional Member States of the European Union may decide to participate.

Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

The Joint Bookrunners have, pursuant to a subscription agreement (the "**Subscription Agreement**") dated 11 May, 2018, jointly and severally agreed to subscribe or procure subscribers for the Bonds (other than the Retained Bonds) at the issue price of 98.366 per cent. of the principal amount of the Bonds (other than the Retained Bonds), less a combined selling and underwriting commission. The Issuer shall also reimburse the Joint Bookrunners in respect of certain of its expenses. In addition, the Issuer has agreed to indemnify each of the Joint Bookrunners against certain liabilities incurred in connection with the issue and offering of the Bonds. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each of the Joint Bookrunners has represented and agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver Bonds (a) as part of its distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of Bonds within the United States by any dealer (that is not participating in the offering) may violate the registration requirements of the Securities Act.

Terms used above have the meanings given to them by Regulation S under the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each of the Joint Bookrunners has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the European Economic Area. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or
- (b) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each of the Joint Bookrunners has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 (*Restrictions on financial promotion*) of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

General

Each of the Joint Bookrunners has agreed that it will, to the best of its knowledge and belief, comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Bonds or possesses or distributes this Prospectus and will obtain any consent, approval or permission which is, to the best of its knowledge and belief, required by it for the purchase, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries.

None of the Issuer, the Bond Trustee or the Joint Bookrunners represents that Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

GENERAL INFORMATION

Authorisation

The creation and issue of the Bonds has been approved by a resolution of the Board of Directors of the Issuer dated 11 April, 2018. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds as required under the laws of the United Kingdom.

Listing of Bonds

It is expected that the official listing of the Bonds will be granted on or about 15 May, 2018 subject only to the issue of the Temporary Global Bond. Application has been made to the UK Listing Authority for the entire class of Bonds (including any Retained Bonds) to be admitted to the Official List and to the London Stock Exchange for the entire class of Bonds (including any Retained Bonds) to be admitted to trading on the London Stock Exchange's regulated market.

The Issuer estimates that the total expenses related to the admission to trading will be £4,200. The Borrowers shall pay to the Issuer, *inter alia*, an amount equal to such expenses in accordance with the Loan Agreement.

Documents on display

For the period of 12 months following the date of this Prospectus, copies of the following documents will, when published, be available for inspection during normal business hours from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

- (a) the constitutional documents of the Issuer and each Borrower;
- (b) the audited financial statements of each Borrower in respect of the financial years ended 31 March, 2016 and 31 March, 2017, together with the audit reports prepared in connection therewith. Each Borrower currently prepares audited accounts on an annual basis;
- (c) the audited financial statements of the Group in respect of the financial years ended 31 March, 2016 and 31 March, 2017, together with the audit reports prepared in connection therewith. The Group currently prepares audited accounts on an annual basis;
- (d) the most recently published audited annual financial statements (if any) of the Issuer and the most recently published unaudited interim financial statements (if any) of the Issuer in each case together with any audit or review reports prepared in connection therewith;
- (e) the Bond Trust Deed, the Bond Security Deed, the Agency Agreement, the Account Agreement, the Custody Agreement, the Retained Bond Custody Agreement, the Loan Agreement, the Security Trust Deeds and the Legal Mortgages;
- (f) the Valuation Report;
- (g) a copy of this Prospectus; and
- (h) any future offering circulars, prospectuses and information memoranda relating to the Bonds and any other documents incorporated therein by reference.

Clearing Systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS1817419705 and the Common Code is 181741970.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Characteristics of underlying assets

The Loan Agreement has characteristics that demonstrate capacity to produce funds to service the payments due and payable on the Bonds.

Significant or Material Change

There has been no material adverse change in the financial or trading position or prospects of the Issuer since its date of incorporation.

There has been no significant change in the financial or trading position of any of the Borrowers since 31 March, 2017 and there has been no material adverse change in the prospects of any of the Borrowers since 31 March, 2017.

There has been no significant change in the financial or trading position of the Group since 31 March, 2017 and there has been no material adverse change in the prospects of the Group since 31 March, 2017.

Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) since the date of its incorporation which may have or have had in the recent past, significant effects on the Issuer's financial position or profitability.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which a Borrower is aware) in the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, significant effects on any Borrower's financial position or profitability.

No member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which any Borrower is aware) in the 12 months preceding the date of this Prospectus which may have or has in such period had a significant effect on the financial position or profitability of any Borrower.

Auditors

The auditors of the Issuer are Beever and Struthers, Chartered Accountants and Statutory Auditor. As at the date of this Prospectus no financial statements have been prepared in respect of the Issuer. The auditors of the Issuer have no material interest in the Issuer.

The auditors of the Borrowers are Beever and Struthers, Chartered Accountants and Statutory Auditor, who have audited the Borrowers' accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the two financial years ended on 31 March, 2016 and 31 March, 2017. The auditors of the Borrowers have no material interest in any Borrower.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to the Bonds, the Issuer Security or the Underlying Security, other than as required pursuant to Condition 6.2 (*Information Covenants*).

Joint Bookrunners transacting with the Issuer or the Borrowers

The Joint Bookrunners and each of their respective affiliates have engaged, and may in the future engage in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and/or the Borrowers and their affiliates in the ordinary course of business.

The Joint Bookrunners and their respective affiliates may have positions, deal or make markets in the Bonds, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and/or any Borrower and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Joint Bookrunners and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or

related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and/or the Borrowers or their affiliates. The Joint Bookrunners and their respective affiliates that have a lending relationship with the Issuer and/or the Borrowers routinely hedge their credit exposure to the Issuer and/or the Borrowers consistent with their customary risk management policies. Typically, the Joint Bookrunners and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Bonds. Any such positions could adversely affect future trading prices of the Bonds. The Joint Bookrunners and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

LEI

The Legal Entity Identifier code of the Issuer is 213800V39AD5P9CS4E77.

INDEX OF DEFINED TERMS

£.....	iii	FTT.....	111
Acceleration Notice.....	51	Global Bonds.....	1, 37
Account Agreement.....	39	Gross Redemption Yield.....	48
Account Bank.....	39	Group.....	1
Accounting Profit.....	39	Group Board.....	84
Accrual Date.....	46	Guaranteed Interest and Fee Amounts.....	63
Act.....	23	Guaranteed Principal Amount.....	8, 63
Actual Advance Amount.....	59	HMRC.....	32
Additional Properties.....	1, 63	holder of Bonds.....	38
Agency Agreement.....	39	Homes Board.....	85
Appointee.....	39	IDA.....	85
Auditor.....	i, 98	IGAs.....	85
Axiom.....	1, 13, 82	IMD.....	ii
Axiom Loan.....	1, 2, 58	Initial Cash Security Account.....	4, 40
Axiom Security Trust Deed.....	42	Initial Properties.....	63
Benchmark Gilt.....	48	interest.....	110
Bond Trust Deed.....	39	Interest Cover Test.....	40, 64
Bond Trustee.....	39	Interest Payment Date.....	2, 45
Bondholder.....	38	Investor Put Amount.....	3, 40, 49
Bondholder Specific Withholding.....	39	Investor Put Option.....	3, 40, 49
Bondholders.....	39	Investor's Currency.....	32
Bonds.....	1, 39	Issue Date.....	1, 40
Borrower.....	1, 40	Issuer.....	1, 39
Borrower Default.....	3, 40, 68	Issuer Charged Property.....	40, 43
Borrowers.....	1, 40	Issuer Security.....	4, 40, 43
Business Day.....	47	Joint Bookrunners.....	i
Cancelled Retained Proceeds.....	40	Keystone.....	81
Cash Sub-Accounts.....	76	L&H.....	1, 82
Charged Disposal Proceeds.....	40	L&H Loan.....	1, 2
Charitable Group Member.....	6	L&H Security Trust Deed.....	42
Clearstream, Luxembourg.....	1, 37	LCC.....	28
Closing Date.....	1	Legal Mortgages.....	40
Co-Arrangers.....	i	LG.....	81
Commission's proposal.....	111	LGDB.....	28
Commitment.....	58	LGPS.....	28
Compliance Certificate.....	40, 62	LHA.....	18
Couponholders.....	39	Libra.....	81
Coupons.....	39	Loan.....	41, 58
CRA Regulation.....	1, 5, 84	Loan Agreement.....	1, 41, 58
Custodian.....	40	Loan Interest Period.....	60
Custody Account.....	40, 76	Loan Maturity Date.....	61
Custody Agreement.....	40	Loan Payment Date.....	60
Custody Sub-Accounts.....	76	Loan Payment Day.....	41
Determination Date.....	48	Loan Prepayment Date.....	48
Disposal Proceeds Account.....	40	Loan Repayment Date.....	49
distributor.....	ii	Loans.....	1, 2, 58
DWP.....	19	London Stock Exchange.....	1, 12
EEA.....	ii	Longhurst.....	13
Equivalent Rating.....	5	LSE.....	20
Euroclear.....	1, 37	Maturity Date.....	1, 2, 47
EUV-SH.....	63	MHCLG.....	20
Event of Default.....	51	MiFID II.....	1
Exchange Date.....	1, 37	Minimum Value.....	63
Exchange Event.....	37	Moody's.....	1, 5
Final Charging Date.....	63	MV-ST.....	64
Friendship.....	1, 13	NatWest Markets.....	i
Friendship Loan.....	1, 2, 58	NCC.....	28
Friendship Security Trust Deed.....	42	NHF.....	19

Nominated Financial Adviser.....	48	Retained Bonds	41
ONS	23	Retained Proceeds	4, 41, 58
Original Commitment.....	58	Retained Proceeds Par Amount	64
Outstanding Commitment.....	64	S&P.....	5
participating Member States.....	111	Secured Parties.....	42
Paying Agents	39	Securities Act	1
Payment Day.....	47	Security Trust Deed	42
Permanent Global Bond.....	1, 37	Security Trustee	42
Permitted Investment Profit.....	6, 41	SHPS	27
Permitted Investments	41	Spire.....	1, 13, 82
Permitted Reorganisation	41, 69	Spire Loan	1, 2, 58
Post-enforcement Priority of Payment	10, 44	Spire Security Trust Deed.....	42
Potential Event of Default	41	Spire Security Trustee.....	13
Pre-enforcement Priority of Payment.....	10, 43	STABILISING MANAGER.....	iii
PRIPs Regulation.....	ii	Standards	23
Principal Paying Agent.....	39	Sterling	iii
Properties	64	Subscription Agreement.....	112
Property.....	64	Substitute Property.....	66
Put Option Date.....	3, 41, 49	Talons	39
Registered Provider of Social Housing	41, 62	Taxes	42, 50
Regulation S.....	1	Temporary Global Bond	1, 37
Regulatory Framework	16	Total Finance Costs.....	66
Relevant Date.....	41	Transaction Account	42
Relevant Jurisdiction	41	Transaction Documents	42
Reserve Bond Compliance Certificate	62	Transaction Parties	42
Reserve Bond Custodian.....	1	UK Government Gilt.....	42
Reserve Bond Custody Account.....	77	UK Listing Authority	1
Reserve Bond Custody Agreement	1	Underlying Security	7
Reserve Bonds	1, 42	Valuation Report	109
Reserved Matter	54	Value	64
Retained Bond Actual Advance Amount.....	59	Valuer	i, 109
Retained Bond Premium Amount	41	WMMA	28
Retained Bond Profit	41		

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