# Onward Homes Limited

# Annual Report and Financial Statements

**FOR THE YEAR ENDED 31 MARCH 2018**

FCA Registration number 31216R

HCA Registration number L4649

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## Annual Report and Financial Statements

# BOARD, SENIOR MANAGMENT AND ADVISORS

## Members of the Board

Non-Executive Directors

**Dr Neil Goodwin** (Chairman)

**Wyn Dignan**

**Breda Dutton**

**Paul High**

**Brian Roebuck** (Deputy Chairman)

**Mike Verrier**

**Charlene Wallace** (resigned June 2018)

Executive Directors

**Bronwen Rapley**, Chief Executive

**Alastair Cooper** Executive Director (Operations)

**Sandy Livingstone** Executive Director (Property) appointed to the Board November 2017

**Lisa Oxley** Executive Director (Finance and ICT)

## Company Secretary

**Tejvinder Minhas** (resigned October 2017)

**William Gill** (appointed October 2017, resigned July 2018)

**Catherine Farrington** (appointed July 2018)

## Principal Banker

**Nat West plc**
33 Piccadilly
Manchester, M1 1LR

## Principal Solicitors

**Devonshires LLP**

30 Finsbury Circus, London EC2M 7DT

**Trowers & Hamlins LLP**

55 Princess Street, Manchester M2 4EW

## External auditor

**KPMG LLP**

1 St Peter's Square, Manchester, M2 3AE

# FORWARD BY THE GROUP CHAIRMAN

I am pleased to report Onward Homes' performance for 2017-18. We have achieved a number of key milestones on our journey to becoming one organisation.

First, we consulted with our residents on our proposals to create one organisation and received their overwhelming support. With the subsequent unanimous agreement of all boards and relevant local authorities we now have a unified board, one management team and we operate under one brand, Onward.

Secondly, we have re-established compliance with the regulatory standards (G2)*. This has involved intensive work on landlord compliance, a comprehensive asset data assurance programme and enhanced governance and risk management including the introduction of standardised policies and reporting.

Our heightened awareness of the risks associated with fire safety, emphasised in the aftermath of the tragic fire at Grenfell, has ensured we have completed several key programmes of fire risk assessment throughout the year across our estate. We have also implemented several priority programmes on compliance to safeguard our customers.

Operationally the focus has been on establishing our regional and neighbourhood approach. The strength and cohesion of our North West base is reflected in three regions and 55 neighbourhoods, enabling us to benefit from the core strength of one organisation with the local flexibility to respond to customer requirements. To achieve this, we have also completed a restructure with 700 colleagues creating comparable roles and simple structures.

Recognising our customers as our highest priority, we have invested in our digital strategy throughout the year and implemented a new self-serve portal and Onward website. This will make it easier for customers to find properties, order repairs, check their accounts and raise any issues. We are already seeing increased interest from customers who have signed up to digital accounts.

During this significant change I am delighted to report that performance has improved. One example is that average re-let times for our homes have reduced by almost a week, saving £185,000 to be reinvested in services and making sure that tenants get access to the homes they need at the earliest opportunity.

We have invested over £11m improving our homes in each region, our programmes included over 650 kitchen replacements, 720 bathroom replacements and over 700 central heating system replacements to improve fuel economy for our tenants

We have invested significantly in developing new homes, first building the team to enable us to build more homes. This year we completed 86 new homes and are onsite at schemes for a further 195. By 2022 we are committed to deliver 1,600 new homes and to build our capacity to deliver a further 400 each year in the ensuing years.

We remain committed to regeneration recognising the need to have the right homes in the right place alongside building new homes. To support our work we have commissioned research from the Heseltine Institute at the University of Liverpool (insert link) which evaluates the impact of regeneration at Hattersley in Tameside. The findings make interesting and challenging reading for anyone interested in regeneration and we will use them in future projects as well as in Hattersley.

During the year it became apparent that the changing valuation of termination debt for LGPS schemes and increasing year on year contributions were becoming an affordability issue for the group. Given the schemes were closed to entry, we mitigated the increasing cost by asking employees to voluntarily exit the schemes that posed a risk to the group.

We remain financially strong with significant cash reserves. Cobalt exited the group amicably on 29 September 2017 and when the group's year on year comparators are adjusted for that exit, turnover and surplus have remained strong.

# FORWARD BY THE GROUP CHAIRMAN

Finally, we have now developed a five year corporate plan, stating our priorities for the next five years (https://www.onward.co.uk/app/uploads/2018/06/C-Plan-online.pdf).

The pace of change will not slow in the year ahead. The challenges that face the North West remain our challenges and we will continue to drive for efficiency in every area of the organisation so that we can invest more in homes and services for the benefit of the communities we serve.

**Dr Neil Goodwin**
Chairman

# STRATEGIC REPORT

## Introduction

The Board presents its Strategic Report, containing the Operating and Financial Review and value for money section, for the year ended 31 March 2018.

## Overview and background

Onward Homes, formerly known as Symphony Housing Group, was formed in April 2011 through the amalgamation of Vicinity Housing Group and Contour Housing Group. The legal change of name took place on 3 May 2017.

The group, as one of the largest housing and regeneration organisations operating in the North West of England, is a significant player in the region.

## Legal structure and objectives

Onward Homes (the 'group') is a non-charitable Registered Society under the Cooperative and Community Benefit Societies Act 2014.

It is registered with the Financial Conduct Authority with a registration number of 31216R.

The group is registered with the Homes and Communities Agency (HCA) as a Registered Provider of social housing with a registration number of 4649.

## Financial review

A summary of the group's financial performance in a five-year summary is shown below:

| **Statement of comprehensive income (£ million)** | **2018** | 2017 Restated | **2016** | **2015** | **2014 *** |
|---|---|---|---|---|---|
| Turnover | **170.9** | 181.3 | 183.8 | 181.3 | 164.2 |
| Operating costs and cost of sales | **(127.2)** | (134.5) | (139.8) | (134.0) | (128.5) |
| Operating surplus | **43.7** | 46.8 | 44.0 | 47.3 | 35.7 |
| Net interest charge | **(15.1)** | (15.9) | (16.5) | (15.9) | (15.0) |
| Surplus on disposal of assets | **(0.8)** | (0.1) | 0.5 | 0.1 | 2.3 |
| Taxation | **-** | - | - | - | - |
| Surplus for the year after tax | **27.8** | 30.8 | 28.0 | 31.5 | 23.0 |
| Other comprehensive income | **1.7** | (2.7) | 2.6 | (4.7) | **-** |
| Total comprehensive income for the year | **29.5** | 28.1 | 30.6 | 26.8 | 23.0 |
| **Financial position(£ million)** | **2018** | 2017 | **2016** | **2015** | **2014** |
| Housing properties at cost less depreciation | **1,034.3** | 1,197.6 | 1,211.4 | 1.210.8 | 1,271.4 |
| Social Housing and other grants | **-** | - | - | - | (582.4) |
| | **1,034.3** | 1,197.6 | 1,211.4 | 1.210.8 | 689.0 |
| Other fixed assets, investments and long-term debtors | **40.8** | 39.8 | 43.7 | 39.0 | 34.0 |
| Net current assets | **100.1** | 106.8 | 104.1 | 92.8 | 108.7 |
| Total assets less current liabilities | **1,175.2** | 1344.2 | 1,359.2 | 1,342.6 | 831.7 |
| Loans due after one year | **377.5** | 432.7 | 454.4 | 465.8 | 471.2 |
| Other long term liabilities | **431.4** | 483.6 | 489.2 | 491.5 | 11.4 |
| Revenue reserves | **366.3** | 427.9 | 415.6 | 385.3 | 349.1 |
| Long term liabilities and reserves | **1,175.2** | 1344.2 | 1,359.2 | 1,342.6 | 831.7 |
| **Financial Ratios** | **2018** | 2017 | **2016** | **2015** | **2014** |
| Operating margin | **25.6%** | 25.8% | 23.9% | 26.1% | 21.7% |
| Net margin | **16.3%** | 16.3% | 17.0% | 17.4% | 14.0% |
| Return on net assets (RONA) | **2.4%** | 2.3% | 2.1% | 2.3% | 2.8% |
| Return on capital employed (ROCE) | **3.5%** | 2.9% | 3.3% | 3.5% | 4.8% |
| EBITDA-MRI | **28.5%** | 40.3% | 41.9% | 43.9% | 37.9% |
| Interest cover | **2.9** | 2.9 | 2.9 | 2.9 | 2.6 |
| Gearing | **50.7%** | 50.4% | 53.8% | 56.3% | 51.6% |
| Operating cost per unit | **£3,767** | £3,808 | £3,464 | £3,382 | £3,544 |
| Net debt per unit | **£7,752** | £12,700 | £12,746 | £12,980 | £13,500 |

*Figures not restated for FRS102

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## Operating and financial review (cont'd)

The group is pleased to report a surplus for the year of £27.8m (2017 restated: £30.8m). The surplus was ahead of the budget of £17.8m and is 16.3% as a percentage of turnover (2017 restated: 16.3%). The operating margin was 25.6%.

Overall turnover decreased from £181.3m to £170.9m in 2018 - a decrease of 5.7%. This is as a result of the exit of the Cobalt subsidiary but also includes the reduction in general needs rents by 1% in April 2017. Despite this the group generated a strong net cash flow from operating activities of £53.1m (2017: £77.6m).

The group ended the year with cash and short-term investments of £132.9m. These resources will continue to be used to fund the group's objectives over the next three years.

At a group level, interest cover (which measures the extent to which the adjusted surplus covers interest payments) is 2.9 in 2018 (2017: 2.9), and gearing (which measures the level of indebtedness) has increased slightly to 50.7% (2017: 50.4%). These ratios remain comfortably within the minimum and maximum levels permitted by funders' loan agreements, respectively.

These results reflect a commitment to safeguarding the group's long-term financial viability through prudent planning and effective financial management. The surplus achieved in 2018 will be used to increase future investments in our homes, services and neighbourhoods. In January 2018 the group's financial viability rating was confirmed as V1 by the HCA. The group's viability assessment is also underpinned by a robust sensitivity and stress testing analysis.

## Operating review

The group has outperformed against all the financial targets set in the first year of its 2017-18 financial plan and maintained its financial viability and strength. The last twelve months has seen significant restructure in the business as the group has implemented a single management structure and these restructure costs are reflected in the accounts. The creation of the Onward Homes brand and renewed launch of our purpose "to make a positive difference in the communities we serve".

## Performance

The Board is pleased to provide the following details in relation to its key housing management and maintenance performance. These reflect the type of indicators that the Executive Team and Board review to ensure the group is achieving its objectives and strategies.

| Measure | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Void Loss % | **1.6%** | 1.6% | 1.9% | 2.2% | 2.4% |
| Average re-let (days) | **42.9** | 49.3 | 46 | 45 | 43 |

One of the association's key performance indicators is the amount of money lost when properties become void and days empty when properties cannot be immediately re-let to tenants in need of homes. The association aims to re-let properties as soon as possible after the previous resident leaves. However, sometimes this may not be possible because the property may require redecorating or refurbishment. We have seen sustained void loss reduction but re-let times remain high despite the mitigation around contractor performance that have been put in place. This is an area of focus for the Board.

## Performance (cont'd)

| Measure | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Rent Collection % | **99.9%** | 99.9% | 99.4% | 98.7% | 99.3% |
| Arrears - current residents % | **3.7%** | 5.4% | 5.7% | 5.8% | 5.2% |
| Arrears - former residents % | **1.6%** | 1.6% | 1.7% | 1.6% | 1.3% |
| Arrears - Total % | **5.3%** | 7.0% | 7.4% | 7.4% | 6.5% |

Rent collected and the volume of arrears is a key indicator of our ability to deliver core business and our overall rent collection performance remains high and has improved in the year at 99.9% (2017: 99.9%). Our team remain vigilant to the emerging challenges of universal credit and are deploying changing working processes to ensure collection.

The standard of our repairs service and the quality of our homes both remain really important to the organisation. The average number of response repairs per property was 3.78 (2017: 3.84) at a cost of £429 (2017: £415). 88% (2017: 91%) of responsive repairs were completed in the target time.

On financial management the group adopts realistic and prudent financial assumptions when setting its budgets and business plans. Our actual results against our budgets are closely monitored to ensure that any adverse variances are identified early and corrective action is taken.

| Measure | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Actual results > Business Plan | **Yes** | **Yes** | **Yes** | **Yes** | **Yes** |
| Budget net surplus | £17.8m | £26.5m | £24.3m | £17.8m | £18.8m |
| Actual net surplus | £27.8m | £29.6m | £27.9m | £29.6m | £23.0m |
| Loan covenant compliance | **Compliant** | **Compliant** | **Compliant** | **Compliant** | **Compliant** |

Opportunities to secure efficiency gains and cash savings are also actively pursued. This approach has once again delivered a set of financial results ahead of budget and business plan.

## Risk and uncertainty

Effective risk management is vital to the success of any association or entity. The group risk map details those risks that could prevent the business from achieving its strategic objectives. The Audit and Risk Committee review and scrutinise the strategic risk maps on a regular basis. The Board considers the following risks the most likely to affect future performance and our ability to achieve our five year plan.

The disaster at Grenfell Tower has resulted in Onward Homes carrying out a review of all its blocks over six stories in line with Government guidance. The group has worked collaboratively with local fire authorities to ensure fire safety is maintained providing reassurance to customers residing in our six tower blocks and has reviewed current evacuation procedures with customers individually while continuing to provide fire safety advice to customers generally. All fire safety documentation and controls have been reviewed and following investigations external cladding installed to a number of the tower blocks has been confirmed to meet current fire safety standards. This risk will continue to be monitored and reviewed over the coming months.

## Risk and uncertainty (cont'd)

| Risk | Description |
|---|---|
| **Health and Safety**: the group does not comply with health and safety legislation | The Board have established a Health and Safety Committee and review process. This is focussed on ensuring health and safety is established across the organisation through training, qualifications and a culture of transparency to enable any incidents to be reported quickly and dealt with effectively |
| **Operations**: the selected responsive repairs contractor working in partnership with Onward does not generate the expected improved customer experience and price efficiency. | Tender process being run as a group project with regular review from Board and Executive team to ensure quality of ITT, competitive dialogue and ultimate selection process are effective. |
| **Data**: non-compliance with data protection legislation including non-compliance with the requirements of GDPR | The group's operations have been reviewed for compliance. An action plan to address gaps has been established with owners and timelines. |
| **Development**: non delivery of the Homes England development programme | Onward has successfully bid on the 2015-18 and 2016-21 programmes. Pipeline schemes have been identified to provide coverage of the units bid. The development team review the pipeline monthly to understand the probability of delivery against each scheme and the volume of new opportunities required to cover the required units |
| **Pensions:** the triennial valuation could increase the requirement for deficit funding and impact on the exposure to the scheme and future accounting treatment | The group has already closed any SHPS DB schemes to new entry and will consider the next steps as part of the pension strategy when the results of the valuation are known. |
| **Compliance**: breach of the Regulatory Framework | The Executive and Board team are ensuring improved compliance processes are embedded across the group. Regular internal audits are carried out to review procedures associated with compliance. |
| **Fraud:** that we are subject to money laundering and acts of bribery | All senior managers are mandated to complete money laundering and anti-fraud training. In practical terms we are reducing our cash transactions in the business by encouraging on line and card transactions. Onward became PCI compliant in 2017-18 |
| **Economics**: The group is unable to respond to an economic downturn and deliver services effectively within the parameters of the financial plan | Onward scans the horizon and stress tests the financial plan against perceived economic risks such as cost inflation, increased debt and increasing interest rates. |

In April 2016 a number of issues arose which raised concerns about the group's compliance with its legal obligations and the HCA's Regulatory Framework. The issues related to non-compliance with standards due to concerns about health and safety data and assurance, which were raised in an internal audit of fire safety and in relation to statutory compliance with health and safety obligations.

The above concerns were reported to the HCA's regulatory team in May 2016. Following a regulatory review and judgement the group was found non-compliant with the governance requirements set out in the Governance and Viability Standard, which has resulted in the group's governance rating being downgraded to G3.

In January 2018, after a progress review on the Onward recovery plan, the Regulator of Social Housing announced a revised regulatory judgement to an improved G2 rating. Work continues to embed the governance work to support continued compliance. The group's viability rating remains unchanged at V1.

## Treasury objectives and strategy

The association regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities focuses on their risk implications for the association.

It also acknowledges that effective treasury management supports the achievement of Onward's objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

In addition to these core objectives, the Board has set annual targets and approval criteria within which the treasury management function operates, including:

- A limit on exposure to variable interest rates, currently within tolerance at 41.6% (2017:36%)
- Use of derivative instruments only when approved by the Onward Board; £Nil at 31 March 2018
- Approved sources of borrowing and investment; all borrowing is from approved sources

The association is financed by a combination of retained reserves, long-term loan facilities and project-specific grants to part-fund the acquisition and development of new homes. The association has the financial capacity to repay its loans in accordance with the repayment profile of its loan facilities.
Pursuit of further development opportunities beyond 2018-19 may involve new funding facilities being agreed or varied to provide additional flexibility. Should this be necessary, it will be presented to Board for approval in a timely and ordered manner.

The group prepares detailed 12-month rolling cash flow forecasts which are updated each month, in addition to the longer-term forecasts linked to our financial plans.

The group had committed undrawn loan facilities of £50.0m (2017: £52.0m) which are fully charged.

All surplus cash balances are invested in accordance with a prudent Credit and Counterparty Policy. Investments are time limited and are restricted to institutions or money market funds that meet minimum credit criteria. All financial covenant limits set by lenders during the year have been met.

## Corporate governance

The Board complies with the National Housing Federation Code of Governance and is committed to upholding the Code of Practice for Board Members. The Board meets frequently to determine policy and to monitor the performance of the group and member organisations. Other than issues relating to internal control as disclosed separately in this report, there are no areas of non-compliance.

The Group operates three committees:

- Audit and Risk Committee
- Finance and Performance Committee
- Nominations and Remunerations Committee

The Board has delegated day to day management to a group of Executive Directors. The Executive Team is led by the Chief Executive and has responsibility for making decisions in relation to strategic issues and other issues with group-wide implications, overseeing regulation and monitoring financial viability. The Executive Team meets on a regular basis and recommends policy and strategy decisions to the Board.

## Value for Money (VfM)

Value for Money (VfM) is central to our success; at Onward we recognise that our finite resources should focus on optimising the impact we have on the neighbourhoods we support.

**Onward Investments**

Our approach is to identify ‘gaps’ in neighbourhood services or infrastructure where we can make a demonstrable difference. We prioritise resources based on the impact of expected outcomes in both the services we provide and the areas we seek to support and regenerate. We measure our progress on this journey using performance indicators and tracking the achievement of key milestones. We will use the extra resources generated this year to improve services to our clients and build more homes (by March 2022 over 1,000 homes are projected to be delivered).

**Onward Savings**

We identify opportunities to improve VfM using our opportunity register and we track and monitor those savings to maturity. In delivering the opportunities we understand the demands on the business and evaluate the best way to resource them either through in-house support or buying services in. We then review the underlying driver to the demands to ensure that the service we are providing efficiently delivers the required outcome. When purchasing we use ‘expected costs’ and competitive procurement processes to ensure best value When delivering in-house we look to continuously improve our services and deliver more efficiently.

2017-18 has been a significant year of restructure for Onward and the savings identified in this report have been delivered or are still in progress as a result of some of the strategic changes taking place across the group.

| Title | Description | Key Outcomes and Achievements | Value and Impact |
|---|---|---|---|
| Consolidating the Business | Single Unitary Board, Cobalt exit and standardisation of roles and pay structure across the group | Cobalt exit achieved amicably and efficiently<br>Entity operational boards collapsed.<br>Group wide policies created and processes aligned<br>Risk Management framework established major risks managed or mitigated during the year.<br>New ‘ONWARD’ brand launched.<br>Organisation restructured, roles standardised and salary bandings aligned. | Increased speed of decision making, consistent policies to improve efficiency |
| Go Digital | Digital Accessibility for our customers | Self-Serve portal and new Onward website went live on 1 April.<br>Increased functionality will be phased in over time. Enabling improved customer service and reduced costs of service delivery in the contact centres | Increased traffic to the Onward website<br><br>5% of customers registered in first six weeks |
| Single contact Centre | | Single contact centre agreed at Accrington<br>Location chosen to improve employment opportunities in the area. | Savings over five years expected to be around £1.5m |

## Value for Money (VfM) (cont'd)

| Title | Description | Key Outcomes and Achievements | Value and Impact |
|---|---|---|---|
| Tender major repairs and void work contracts | | Using the recent stock condition survey to inform replacement cycles, the Onward standard for specifications and leveraging the volume and geography across the group Onward is able to contract directly with manufacturers and / or larger contractors to deliver services at lower cost than the individual entities. | 5% reduction in unit cost expected |
| Voluntary exit of the LGPS pension schemes to mitigate liabilities on the balance sheet | | Consultation with the Lancashire County Pension Fund members reached agreement to exit the pension scheme voluntarily to avoid increasing year-on-year contributions and the termination debt liability increasing significantly given the change in actuarial evaluation. | Improving surplus by £1m in year and avoiding year-on-year contribution increases and removing a potential exit liability of around £14m |

When we make savings and deliver additional value for the group we prioritise expenditure on additional activities that will deliver the most impact in the communities we serve;

- In early 2018 Onward embarked on a partnership project with a number of Greater Manchester housing providers, charities and social investors to deliver a Government-funded programme worth up to £1.8m that will help around 200 rough sleepers in Greater Manchester start a new life off the streets. This project will be the largest of the MHCLG 'Entrenched Rough Sleeping' Social Investment Bonds (SIBs) and will become a major example of strategic partnership work being implemented effectively to combat a huge nationwide problem.
- Throughout 2017-18 we have continued in our efforts to support tenants and local residents to access training opportunities and secure employment across the three regions. In Hattersley, one of the 'priority neighbourhoods' for the Manchester region, 21 residents have gained new qualifications and a further 23 have started full time employment through bespoke interventions in partnership with the Local Authority.
- Now in its 3rd year, our First Call Hyndburn project in Lancashire has gone from strength to strength successfully securing £170,000 new funding from the European Union. This will enable the project to sustain the delivery of financial inclusion advice to local residents well into 2019.
- In Merseyside our Future Fund scheme has continued to be over-subscribed with tenants being eligible to apply for grants to help towards training, education and self-employment or volunteering. A budget is set aside each year producing high employment & training outcomes.
- A Social Investment Plan sets out our approach supports our vison to make appositive difference in the communities we serve.

**How our costs and performance compares to others**

Given the timing of this report it is not possible to compare the current year performance so we have compared Onward 2017-18 year to our peer group in 2016-17. The table below compares our performance using the measures (i.e. metrics) that the Regulator of Social Housing has recently introduced as part of the updated VfM Standard.

## Value for Money (VfM) (cont'd)

| Measure | Onward Homes 2018* | Peer Group 2017 | Peer Group 2017 | Peer Group 2017 |
|---|---|---|---|---|
| Homes in management at the year end | 29,595 | 50,705 | 21,589 | 32,942 |
| Reinvestment %: | 2.10% | 4.30% | 6.78% | 1.79% |
| New supply delivered %: Total social housing units | 0.3% | 0.82% | 0.45% | 0.09% |
| New supply delivered %: Total non-social housing units | 0.0% | 0.00% | - | 0.00% |
| Gearing % | 20.7% | 37.5% | 28.4% | 33.1% |
| EBITDA-MRI %: | 305.5% | 205.1% | 511.5% | 251.0% |
| Headline social housing cost per unit | £3,301 | £4,774 | £2,664 | £3,688 |
| Operating margin %: (social housing) | 24.1% | 37.8% | 42.1% | 29.5% |
| Operating margin %: (overall) | 25.8% | 27.7% | 39.1% | 28.6% |
| Return on capital employed %: (overall) | 3.4% | 5.2% | 11.9% | 4.5% |

*Figures for 2017-18 exclude Cobalt as regulatory figures have been prepared on this basis through the year

In summary Onward has performed mid-table against its peers in the last financial year. It has been a year of restructure where we have reviewed large elements of our business to understand the underlying value they deliver. The five year plan beneath is conservative in expectation but demonstrates Onwards' desire to deliver more

- Reinvestment % - whilst Onward has not built significantly in the period, it has taken the opportunity to complete a stock condition survey over more than 80% of the existing group stock. This provides invaluable data to enable us to prioritise capital investment over the coming five year cycle. Having re-defined a specification we are now in the procurement cycle for this work.
- New supply delivered (social housing units) % and new supply delivered (non-social housing units) % - s a result of the restructure and the lack of prior year pipeline this metric is low. This year our priorities have been the identification of land and a pipeline of scheme opportunities to provide confidence that we will meet the delivery requirement of the 2015-18 and 2016-21 programmes over the next three years.
- Gearing% - Onward gearing is low compared to the peer group. Onward has significant cash balances which it will address through consolidation of funding relationships over the next 12 to 18 months to optimise cash flow, rebalance the loan portfolio and increase flexibility.
- EBITDA-MRI% - Onward are operating significantly above likely covenant requirements without any significant disposal of fixed assets and are well placed amongst their peers.
- Headline social cost per unit - Onward performs mid table on this metric. It is difficult to compare across sector, as Onward may invest more heavily in property maintenance costs and neighbourhood services than our peers. However it is worth noting our headline cost per unit for 2017-18 was £3,300 which is in line with the sector's 2016-17 median benchmark figure.
- Operating margin % - Onward's performance here is below the peer group, this is a factor of the duplication that occurs across the group. The savings associated with the simplification of the management structure which took place this year, the removal of duplication through single processes and the use of appropriate technology in the next 12 to 18 months will remove cost over the coming years.
- Return on capital employed (ROCE) % - Onward's ROCE will improve as a result of the actions listed on operating margin above.

## Value for Money (VfM) (cont'd)

| Measure | Onward Homes 2018 | Onward Homes 2019 | Onward Homes 2020 | Onward Homes 2021 | Onward Homes 2022 |
|---|---|---|---|---|---|
| Homes in management at the year end | 29,595 | 29,669 | 29,905 | 30,193 | 30,384 |
| Reinvestment %: | 2.1% | 2.5% | 1.6% | 1.0% | 1.8% |
| New supply delivered %: Total social housing units | 0.3% | 0.4% | 1.7% | 1.2% | 1.4% |
| New supply delivered %: Total non-social housing units | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Gearing % | 20.7% | 20.7% | 20.0% | 18.9% | 18.3% |
| EBITDA-MRI %: | 305.5% | 296.6% | 226.8% | 216.8% | 223.7% |
| Headline social housing cost per unit | £3,301 | £3,169 | £3,498 | £3,595 | £3,592 |
| Operating margin %: (social housing) | 24.1% | 21.2% | 21.5% | 21.6% | 23.1% |
| Operating margin %: (overall) | 25.8% | 20.7% | 21.2% | 20.7% | 22.5% |
| Return on capital employed %: (overall) | 3.4% | 2.6% | 2.8% | 2.7% | 3.1% |

*Figures for 2017-18 exclude Cobalt as regulatory figures have been prepared on this basis through the year

The projected scorecard metrics in this report are based on the recent 30 year financial plan submitted to the RSH. The five year financial plan is conservative in expectation but demonstrates Onwards' desire to deliver more. The plan does not include the consolidation of the legal structure, the VfM savings committed to by Onward (as listed above) or the rationalisation of funders with associated savings.

- Reinvestment %: new supply delivered (social housing units) % and new supply delivered (non-social housing units) % - this demonstrates the steady increase in core social housing development as we deliver the Homes England programmes. The improvement aligns to our committed programmes and does not include the indicative pipeline.
- Gearing % - remains low throughout the forecast recognising the current cash position. Onward will increase gearing by consolidating funding relationships over the next 12 to 18 months to rebalance the loan portfolio and increasing flexibility. This will also remove constraints enabling development to scale more freely to the group's expectation.
- EBITDA-MRI % - this ratio remains strong throughout.
- Headline social cost per unit - although Onward performs mid-table on this metric there are several opportunities identified to improve the plan; the re tender of repairs contracts, the single contact centre and the increased use of digital transactions these will all underpin reductions in cost per unit over the forecast.
- Operating margin % and Return on capital employed (ROCE) % - improvement in these metrics will be underpinned by the savings opportunities already identified.

## Strategic report

The Strategic report including the Operating and Financial Review was approved by the Board on 18 July 2018 and signed on its behalf by:

**Catherine Farrington**

Company Secretary
12 Hanover Street, Liverpool, L1 4AA

# DIRECTORS' REPORT

The Board presents the Onward Homes Limited Annual Report (the 'Annual Report') and the audited financial statements for the year ended 31 March 2018.

## Principal activities

Onward Homes Limited is the ultimate holding company within a group structure ('group'). Details of members of the group are given in note 1 of these financial statements.

Onward Homes Limited is responsible for establishing the group's overall policies and strategies, for monitoring compliance with group objectives and performance against group targets, within a clearly defined framework of delegation and system of control.

The principal activity of the group is the management, maintenance and improvement of affordable homes for rent. It is also engaged in improving the social, economic and environmental problems facing the neighbourhoods in which it operates.

These objectives are carried out for the public benefit as set out in the financial statements. The Board considers legal advice and Charity Commission guidance when determining the activities that the group undertakes to deliver these objectives.

## Board members and executive directors

The current Board members and executive directors of the group (and others who served during the period) are set out on page 2. The Board members are drawn from a wide background bringing together professional, commercial and other experiences Board members are remunerated for their services to the group and are permitted to claim expenses incurred in the performance of their duties. Details of Board remuneration is set out in note 8 to the financial statements.

## Executive director's remuneration

The remuneration of the executive directors is reviewed by the Nominations and Remuneration Committee, who make recommendations to be considered and determined by the Board.

## Service contracts

The executive directors are employed on the same terms as other staff and their notice period is three months.

## Pensions

The executive directors are able to participate in the Social Housing Pension Schemes on the same terms as all other eligible staff and the group contributes to the schemes on behalf of its employees. Non-executive directors are not eligible to participate in any group pension scheme.

## Other benefits

The executive directors are not entitled to other benefits. Full details of executive remuneration are set out in note 8 to the financial statements.

## Statement of compliance

The Board report and financial statements have been prepared in accordance with applicable reporting standards and legislation.

## Health and safety

Health and Safety is an integral part of the proper management of all the undertakings over which the group has control. The group promotes safe practices and continuous improvement through a Health and Safety Committee and forums on which all parts of the group are represented. Onward Homes is committed to ensuring:

- The health, safety and welfare of all its tenants, leaseholders, staff, contractors and third parties involved in the operations of the group
- The safety of the general public who use or have access to premises or sites under its control
- The way in which it operates contributes to the wellbeing of the community at large

## Donations

The group made charitable donations totalling £500 in the year (2017: £1,000). No political donations were made during the year.

## Corporate governance

The group is governed by a Board of non-executive and executive members but day-to-day operational control is delegated to the Chief Executive and executive directors. The Board meets on a regular basis.

The Board complies with the National Housing Federation Code of Governance and is committed to upholding the Code of Practice for Board members. The Board meets frequently to determine policy and to monitor the performance of the group. There are no areas of non-compliance.

The group operates an Audit and Risk Committee which reports to the Board. The committee receives reports from Business Assurance which validates and advises on risk and the effectiveness of internal controls.

Board membership of the group and subsidiaries is tailored to the individual circumstances of its operations. The Nominations and Remuneration Committee has responsibility for ensuring that each Board has effective governance arrangements and that these are fully implemented.

## Executive team

The Board has delegated day to day management to a group of executive directors, through an Executive Team, to control the operations of the group. The Executive Team meets on a regular basis and recommends policy decisions to the Board.

The Executive Team, led by the Chief Executive, has a role in ensuring the effective performance and successful service delivery of the group to customers, communities and neighbourhoods in line with the business plan objectives.

## Employee involvement

The Board recognises that its employees are its greatest asset and that it cannot achieve its aims and objectives without their involvement and contribution towards running the organisation.

The group communicates and consults with its employees through a variety of structures including regular team briefings, employee emails, newsletters and trade union meetings (consultation through staff forum).

The group is committed to developing a culture in which equality and diversity is integral to all of its activities, including the recruitment and development of staff. It aims to achieve an inclusive culture that respects and values differences and eliminates discrimination in all areas.

## Corporate social responsibility

The Board are committed to being a socially responsible organisation. Managing in a socially responsible way, ensuring adherence to legislation and ethical operation. The group is actively working with local communities and partners to improve the life chances of its tenants and residents.

## Disclosure of information to auditor

So far as each of the directors of the group is aware, at the time this report is approved:

- There is no relevant information which the group's auditor is unaware; and
- The directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's auditor is aware of that information.

# DIRECTORS' REPORT

## Statement of Board responsibilities in respect of the Board's report and the financial statement

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

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 *the Financial Reporting Standard applicable in the UK and Republic of Ireland*.

The financial statements are required by law to give a true and fair view of the state of affairs of the group and the association and of the income and expenditure of the group and the association 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 UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its 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. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Statement of internal control

The Board acknowledges its ultimate responsibility for ensuring that the group has in place a system of internal control and risk management that is appropriate to the various business environments in which they operate and for the review of the effectiveness of that system during the year.

The Audit and Risk Committee is responsible to the Board for monitoring this system and reporting on its effectiveness.

Internal controls are designed to identify and manage rather than eliminate risks which may prevent an organisation from achieving its objectives.

The system of internal control is designed to manage risk and give reasonable rather than absolute assurance with respect to:

- the achievement of key business objectives and expected outcomes
- the preparation and reliability of financial and operational information used within the organisation and for publication
- the maintenance of proper accounting and management records
- the safeguarding of assets against unauthorised use or disposition

## Statement of internal control (cont'd)

**Internal assurance activities**
The process followed to identify, evaluate and manage significant risks faced by the group is ongoing and has been in place during the past financial year and up to the date of the annual report and financial statements.

**Internal audit assurance**
The group's in-house internal audit function is used to provide assurance on the operation of the control framework and the management of risk. Internal audit are not responsible for the design and construction of control systems but provide an assessment as to their effectiveness.

The Audit and Risk Committee oversee the work of the internal auditor and review reports issued by them. The committee is responsible for monitoring that actions identified as a result of internal audit findings are implemented in a timely fashion.

**External audit assurance**
The work of the external auditor provides some independent assurance over the adequacy of the internal control environment. The group receives a management letter from the external auditor which identifies any internal control weaknesses. The Board itself and through the activities of the Audit and Risk Committee has reviewed the outcome of external audit work and the external audit management letter.

**Fraud**
The group has a current policy on fraud which includes both fraud prevention and detection. A register of frauds and losses is maintained and is reported to the Audit and Risk Committee.

**Review of risk management and governance arrangements**
Risk management arrangements should mitigate against risks materialising.

During the 2015-16 financial year, risks in relation to how the group ensures there is adequate compliance with statutory health and safety responsibilities were highlighted within the group. Further investigation by the group has led to the identification of control failures which increase the risk of issues materialising.

Following identification, the group established, with independent advice appropriate improvement plans which include a range of actions to address identified control issues and improve risk management, governance and assurance arrangements.

The group notified the regulator of its concerns and in early July 2016 it received a regulatory judgement that the group is non-compliant with the governance requirements set out in the Governance and Viability Standard and as a result, the group's governance rating was downgraded to G3.

In January 2018, after reviewing the remediation plan from Onward, the Regulator of Social Housing announced a revised regulatory judgement to an improved G2 rating. Work continues to embed the governance work to support continued compliance. The group's viability rating remains unchanged at V1.

**Conclusion**
The Board acknowledges that its responsibility applies to the full range of risks and controls across all group activities and is to ensure that planned remedial and improvement actions agreed were implemented in a timely and comprehensive manner.

The Board has considered the effectiveness of the system of internal control in place in the year ended 31 March 2018. The Board acknowledges that internal control and risk management arrangements were not working adequately across the entire entity earlier in the year but considers that systems of internal control, governance and risk management arrangements are now working effectively.

## Statement of internal control (cont'd)

**Conclusion (cont'd)**

The Board has also formally reviewed compliance with the RSH's Governance and Viability Standard and supporting Code of Practice. An evidence based assessment against each element of the Standard and the Code was carried out in preparation for making a statement of compliance to the Board. The Board approved the statement and formally certified its compliance with the Standard and Code for 2017-18 at its meeting in May 2018.

## Going concern

The group has in place long-term debt facilities (including £50million of undrawn facilities at 31 March 2018), which provide adequate resources to finance committed reinvestment and development programmes, along with the group's day to day operations. The group also has a long-term financial plan which shows that it is able to service these debt facilities whilst continuing to comply with lenders' covenants.

On this basis, the Board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the annual report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

## Independent auditors

A resolution to appoint the group's auditor will be proposed at the forthcoming Annual General Meeting. KPMG LLP have indicated their willingness to continue in office should a resolution concerning their reappointment be agreed at the AGM.

The Directors' Report, including the financial statements, was approved by the Board on 18 July 2018 and signed on its behalf by:

**Catherine Farrington**
Company Secretary

12 Hanover Street, Liverpool, L1 4AA

# INDEPENDENT AUDITOR'S REPORT

## Independent auditor's report to Onward Homes Limited

**Opinion**

We have audited the financial statements of Onward Homes Limited ("the association") for the year ended 31 March 2018 which comprise the Group and Association Statement of Comprehensive Income, the Group Statement of Changes in Equity, the Statement of Financial Position, the Group Statement of Cash Flows and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 *the Financial Reporting Standard applicable in the UK and Republic of Ireland*, of the state of affairs of the group and the association as at 31 March 2018 and of the income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group and the association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

**Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

**Other information**

The association's Board is responsible for the other information, which comprises the Forward by the Group Chairman, the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

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

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- the association has not kept proper books of account; or
- the association has not maintained a satisfactory system of control over transactions; or
- the financial statements are not in agreement with the association's books of account; or
- we have not received all the information and explanations we need for our audit.

We have nothing to report in these respects.

## Independent auditor's report to Onward Homes Limited (cont'd)

**Board's responsibilities**
As more fully explained in their statement set out on page 16, the association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities**
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

**The purpose of our audit work and to whom we owe our responsibilities**
This report is made solely to the association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association those matters we are required to state to it 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 as a body, for our audit work, for this report, or for the opinions we have formed.

Amanda Latham

**Amanda Latham**
**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*, 1 St Peter's Square, Manchester, M2 3AE

30 July 2018

# FINANCIAL STATEMENTS

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

| | Notes | Group 2018 £'000 | Group 2017 Restated £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|---|
| **Turnover** | 3 | **170,926** | 181,294 | **29,096** | 22,495 |
| Cost of sales | 3 | **(1,756)** | (1,613) | **-** | - |
| Operating costs | 3 | **(127,016)** | (134,248) | **(29,160)** | (22,357) |
| Gain/(loss) on disposal of housing properties | 3/6 | **1,550** | 1,364 | **-** | - |
| **Operating surplus** | 7 | **43,704** | 46,797 | **(64)** | 138 |
| (Loss)/gain on disposal of other tangible fixed assets | 10 | **(843)** | (94) | **(11)** | - |
| Interest receivable and similar income | 11 | **541** | 931 | **33** | 2 |
| Interest payable and similar charges | 12 | **(15,561)** | (16,744) | **(123)** | (152) |
| **Surplus on ordinary activities before taxation** | | **27,841** | 30,890 | **(165)** | (12) |
| Taxation on surplus on ordinary activities | 13 | **(45)** | (30) | **(1)** | - |
| **Surplus for the year after taxation** | | **27,796** | 30,860 | **(166)** | (12) |
| **Other comprehensive income** | | | | | |
| Actuarial gain/(loss) in respect of pension schemes | 39 | **1,676** | (2,745) | **87** | (88) |
| **Other comprehensive income for the year** | | **1,676** | (2,745) | **87** | (88) |
| **Total comprehensive income for the year** | | **29,472** | 28,115 | **(79)** | (100) |

The accompanying notes form part of these financial statements.
Historical cost surpluses and deficits are the same as those shown in the statement of comprehensive income.

The financial statements were approved by the Board on 18 July 2018 and signed on its behalf by:

| | | |
|---|---|---|
| Dr Neil Goodwin | Lisa Oxley | Catherine Farrington |
| Chairman | Director | Company Secretary |

## Group Statement of Changes in Equity

| | Notes | Non-equity share capital £'000 | Revenue reserves £'000 | Total reserves £'000 |
|---|---|---|---|---|
| Balance at 31 March 2017 as previously reported | | - | 442,438 | **442,438** |
| Prior year adjustment | | - | (14,449) | **(14,449)** |
| Balance at 31 March 2017 as restated | | - | 427,989 | **427.989** |
| Removal of reserves relating to Cobalt Housing on exit (note 44) | | - | (91,153) | **(91,153)** |
| **Total comprehensive income for the period** | | | | |
| Surplus / (deficit) for the year | | - | 27,796 | **27,796** |
| Actuarial gains / (losses) | | - | 1,676 | **1,676** |
| **Balance at 31 March 2018** | **33** | - | 366,308 | **366,308** |

The accompanying notes form part of these financial statements.

## Statement of Financial Position
as at 31 March 2018

| | Notes | Group | | Association | |
|---|---|---|---|---|---|
| | | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Intangible assets and goodwill | 14 | **116** | 501 | **-** | - |
| **Tangible fixed assets** | | | | | |
| Housing properties | 15 | **1,034,302** | 1,197,591 | **-** | - |
| Investments including properties | 16 | **15,332** | 15,405 | **50** | 50 |
| Other tangible fixed assets | 17 | **22,520** | 22,001 | **883** | 930 |
| | | **1,072,270** | 1,235,498 | **933** | 980 |
| Debtors due after one year | 18 | **2,803** | 1,965 | **5,396** | 6,356 |
| | | **1,075,073** | 1,237,463 | **6,329** | 7,336 |
| **Current assets** | | | | | |
| Properties for sale and work in progress | 19 | **1,705** | 2,642 | **-** | - |
| Debtors due within one year | 20 | **14,316** | 17,083 | **10,578** | 6,451 |
| Investments | 21 | **85,287** | 95,953 | **-** | - |
| Cash and cash equivalents | | **47,634** | 53,139 | **382** | 822 |
| | | **148,942** | 168,817 | **10,960** | 7,273 |
| Creditors: amounts falling due within one year | 22 | **(48,800)** | (62,049) | **(10,445)** | (6,572) |
| **Net current assets** | | **100,142** | 106,768 | **515** | 701 |
| **Total assets less current liabilities** | | **1,175,215** | 1,344,231 | **6,844** | 8,037 |
| Creditors: amounts falling due after one year | 23 | **(806,771)** | (908,301) | **(6,264)** | (7,240) |
| Provisions for liabilities and charges | 30 | **(1,276)** | (747) | **-** | - |
| Pension liabilities | 31 | **(860)** | (7,194) | **-** | (138) |
| | | **(808,907)** | (916,242) | **(6,264)** | (7,378) |
| **Total net assets** | | **366,308** | 427,989 | **580** | 659 |
| **Capital and reserves** | | | | | |
| Non-equity share capital | 32 | **-** | - | **-** | - |
| Revenue reserves | 33 | **366,308** | 427,989 | **580** | 659 |
| **Total capital and reserves** | | **366,308** | 427,989 | **580** | 659 |

The accompanying notes form part of these financial statements.

The financial statements were approved by the Board on 18 July 2018 and signed on its behalf by:

| | | |
|---|---|---|
| Dr Neil Goodwin | Lisa Oxley | Catherine Farrington |
| Chairman | Director | Company Secretary |

## Group Statement of Cash Flows
for the year ended 31 March 2018

| | Notes | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **Net cash generated from operating activities** | 37 | **53,135** | 77,569 |
| **Cash flow from investing activities** | | | |
| Purchase and construction of tangible fixed assets | | **(26,986)** | (39,848) |
| Additions to investment properties | | **(479)** | (380) |
| Purchase of intangible assets | | **(11)** | (390) |
| Purchase of other tangible fixed assets | | **(1,120)** | (1,645) |
| Proceeds from sale of tangible fixed assets | | **4,664** | 4,103 |
| Grants received | | **2,426** | 2,780 |
| Interest received | | **510** | 931 |
| **Net cash from investing activities** | | **(20,996)** | (34,449) |
| **Cash flow from financing activities** | | | |
| Interest paid | | **(13,736)** | (16,238) |
| New loans | | **2,000** | 1,100 |
| Repayment of existing borrowing | | **(17,063)** | (14,393) |
| Movement in cash deposits | | **10,666** | (13,272) |
| **Net cash from financing activities** | | **(18,133)** | (42,803) |
| **Net change in cash and cash equivalents** | | **14,006** | 317 |
| Cash and cash equivalents at start of year | | **53,139** | 52,822 |
| Removal of cash and cash equivalents relating to Cobalt Housing on exit (note 44) | | **(19,511)** | - |
| **Cash and cash equivalents at end of year** | | **47,634** | 53,139 |

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Legal status

Onward Homes Limited is registered under the Housing Act 1996 with the Homes and Communities Agency, the regulator of Social Housing in England, as a Registered Provider of social housing (registration number of L4649). The registered office is 12 Hanover Street, Liverpool, L1 4AA.

The association is a non-charitable Registered Society under the Cooperative and Community Benefit Societies Act 2014. It is registered with the Financial Conduct Authority, registration number of 31216R. The association is a public benefit entity.

The group comprises the following entities:

| Organisation | Status | Principal Activity |
|---|---|---|
| Atrium City Living Limited | Private Limited Company | Commercial Property Services |
| Contour Homes Limited | Registered Society | HARP* |
| Contour Property Services Limited | Registered Society | Management Services |
| Hyndburn Homes Limited | Registered Society | HARP* |
| Hyndburn Homes Repairs Limited | Private Company Limited by Guarantee | Direct Labour Organisation |
| Liverpool Housing Trust Limited | Registered Society | HARP* |
| Peak Valley Housing Association Limited | Registered Society | HARP* |
| Ribble Valley Homes Limited | Registered Society | HARP* |

* HARP – Housing Association Registered Provider

Cobalt Housing Trust Limited exited the group on 29 September 2017. It was a registered society and its principal activity was as a housing association registered provider.

## 2. Accounting policies

### Basis of accounting

The financial statements of the group are prepared in accordance with Financial Reporting Standard 102 – the applicable financial reporting standard in the UK and Republic of Ireland (FRS 102) and the Statement of Recommended Practice: Accounting by Registered Social Housing Providers Update 2014 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Onward Homes is exploring the process for amalgamation which may happen in the next twelve months. As a result there is a possibility that the results of the subsidiary associations may be combined with others by the time of the next financial statements although this is not yet certain.

### Measurement convention

The financial statements are prepared on the historical cost basis except where fair value accounting is required for investment properties.

### Going concern

The group has sufficient financial resources based on forecasts and current expectations of future sector conditions. As a consequence, the Board believes that the group is well placed to manage its business risks successfully. The Board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The Board therefore continues to adopt the going concern basis in preparing these financial statements.

## 2. Accounting policies (cont'd)

### Judgement and estimates

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 statement of financial position 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, estimates and assumptions have had the most significant effect in amounts recognised in the financial statements:

**Tangible fixed assets - 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 properties are investment properties. The useful depreciable lives of each component of housing properties are reviewed at each reporting date and compared to actual experience to ensure the assumed lives remain appropriate;

**Other tangible fixed assets**

Other than investment properties, tangible assets are depreciated over their useful lives taking into account residual values where appropriate. The estimates of useful life for the different component types and assets are detailed below;

**Investment properties**

The valuation of investment properties is considered at each reporting date based on either third party valuation reports or an update to those reports based on market conditions. The valuation is most sensitive to assumptions on rental growth and the discount rate applied to those cash flows;

**Impairment**

Reviews for impairment of housing properties are carried out when a trigger has occurred. In 2015 the government announced a change in rent policy which resulted in a material impact on the net income collected in the future for housing properties.

Following the Grenfell disaster a review of tower blocks and any additional fire safety investment expenditure on them has also been considered. The association has assessed that these events represent a trigger for impairment review. The impairment review is conducted at the scheme level ie. the cash generating unit;

**Basic financial instruments**

The assessment of certain loans and interest rate fixes as basic financial instruments requires judgement. Such instruments have been reviewed in detail and have been assessed as basic because key clauses indicate that funders will not suffer a loss on breakage. In addition such instruments are only entered into by the group in order to give budgetary and cash flow certainty; they are not entered into for trading purposes.

**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 long term nature of these plans, such estimates are subject to considerable uncertainty and the group relies on the expert input of actuaries.

### Basic financial instruments

**Tenant arrears, trade and other debtors**

Tenant arrears, trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

## 2. Accounting policies (cont'd)

### Basic financial instruments (cont'd)

**Trade and other creditors**

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

**Interest-bearing borrowings classified as basic financial instruments**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

### Turnover

Turnover represents rental and service charge income receivable (net of void losses), fees receivable, proceeds from first tranche sales of low-cost home ownership and from properties developed for open market sales, and amortisation of Social Housing Grant (SHG) under the accrual model. Rental income is recognised on the execution of tenancy agreements. Proceeds on sales are recognised on practical completions. Other income is recognised as receivable on the delivery of services provided. Rental income is taken up to 31 March.

### Expenses

**Cost of sales**

Cost of sales represents the costs including capitalised interest and direct overheads incurred in the development of the properties, and marketing, and other incidental costs incurred in the sale of the properties.

**Operating leases**

Payments (excluding costs for services and insurance) made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred.

### Interest

Interest payable and similar charges include interest payable and finance charges on liabilities recognised in the statement of comprehensive income using the effective interest method and unwinding of the discount on provisions. Borrowing costs that are directly attributable to the acquisition, construction or production of housing properties that take a substantial time to be prepared for use are capitalised as part of the cost of that asset.

Other interest receivable and similar income includes interest receivable on funds invested.

### Taxation

Tax on the surplus or deficit for the year comprises current tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised directly in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or deficit for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. Accounting policies (cont'd)

### Value added tax

The group is VAT registered but a large proportion of its income (rent) is exempt from VAT giving rise to a partial exemption calculation. Expenditure is therefore shown inclusive of VAT and the input tax recoverable is shown in the statement of comprehensive income.

### Tangible fixed assets - housing properties

Tangible fixed assets – housing properties are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the cost of acquiring land and buildings, directly attributable development costs, interest at the average cost of borrowing for the development period, and expenditure incurred in respect of improvements which comprise the modernisation and extension of existing properties.

Shared ownership properties are included in housing properties at cost related to the percentage of equity retained, less any provisions needed for impairment or depreciation. For shared ownership properties under construction, the forecast first tranche sale percentage of costs incurred to date are shown in work in progress.

Properties acquired from Rodney Housing Association Limited were stated at Existing Use Value – Social Housing (EUVSH) when transferred in 2007.

### Depreciation

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each component part of housing properties. Freehold land is not depreciated. The estimated useful lives of assets which are separately identified are as follows:

| | |
|---|---|
| New build housing structure | 100 years |
| Other housing structure | 50 years |
| Boundary walls and car hard-standings | 50 years |
| Roofs | 50 years |
| Windows | 30 years |
| Electrical installation | 30 years |
| Bathrooms | 30 years |
| Fascia | 40 years |
| External doors | 30 years |
| Boilers and heating systems | 30 years |
| Kitchens | 20 years |

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the group expects to consume an asset's future economic benefits.

### Non-component works to existing properties

The amount of expenditure incurred which relates to an improvement, which is defined as an increase in the net rental stream or the life of a property, has been capitalised. Expenditure incurred on other major repairs, cyclical and day-to-day repairs to housing properties is charged to the statement of comprehensive income in the period in which it is incurred.

### Interest capitalised

Interest on borrowings is capitalised to housing properties during the course of construction up to the date of completion of each scheme. The interest capitalised is either on borrowings specifically taken to finance a scheme or on net borrowings to the extent that they are deemed to be financing a scheme. This treatment applies irrespective of the original purpose for which the loan was raised. Interest has been capitalised at an average rate that reflects the weighted average effective interest rate on the group's borrowings required to finance housing property developments.

## 2. Accounting policies (cont'd)

### Social Housing Grant

Social Housing Grant (SHG) is initially recognised at fair value as a long term liability, specifically as deferred grant income and released through the statement of comprehensive income as turnover income over the life of the structure of housing properties in accordance with the accrual method applicable to social landlords accounting for housing properties at cost.

On disposal of properties, all associated SHG is transferred to either the Recycled Capital Grant Fund (RCGF) or the Disposal Proceeds Fund (DPF) until the grant is recycled or repaid to reflect the existing obligation under the social housing grant funding regime.

### Other grants

These include grants from local authorities and other organisations. Grants in respect of revenue expenditure are credited to the statement of comprehensive income in the same period as the expenditure to which they relate. Other grants which are received in advance of expenditure are included as a liability. Grants received from other organisations are accounted for in accordance with the performance method.

### Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognised initially at cost. Investment properties whose fair value can be measured reliably without undue cost or effort are held at fair value. Any gains or losses arising from changes in the fair value are recognised in the statement of comprehensive income in the period that they arise.

No depreciation is provided in respect of investment properties applying the fair value model. This treatment, as regards the group's investment properties, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the Board consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. Depreciation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Rental income from investment property is accounted for as described in the turnover accounting policy.

### Investments

Investments in shared equity arrangements are stated at cost as concessionary loans. They are subsequently updated to reflect any impairment loss which would be recognised in the statement of comprehensive income and any accrued interest payable or receivable. At the present time there is no interest charge and the loans are repayable at the time the property is disposed of by the owner. Security is in the form of a second legal charge over the property.

### Properties held for sale and work in progress

Completed properties and properties under construction for open market sales are recognised at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Interest incurred is also capitalised during the course of obtaining planning and throughout the work in progress up to the point of practical completion of the development scheme. Assessing net realisable value requires use of estimation techniques. In making this assessment, management considers publicly available information and internal forecasts on future sales activity. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

### Impairment

A financial asset not carried at fair value through the statement of comprehensive income is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

## 2. Accounting policies (cont'd)

### Impairment (cont'd)

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the group would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in the statement of comprehensive income. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of comprehensive income.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### Housing property sales

Properties sold through tenants exercising their preserved right to buy or right to acquire, proceeds from the first tranche sales of shared ownership properties, subsequent tranche sales and properties sold that were developed or acquired for outright sale are included within turnover as part of normal operating activities.

Non-housing asset sales are included within gain / (loss) on disposal of fixed assets.

### Intangible assets

Amortisation is provided on a straight line basis on the cost of intangible fixed assets to write them down to their estimated residual values over their expected useful lives. The principal annual rates used for other assets are:

| | |
|---|---|
| Computer software | 3 years |

### Other tangible fixed assets

Other tangible fixed assets include those assets with an individual value in excess of £1,000.

Depreciation is provided on a straight line basis on the cost of other tangible fixed assets to write them down to their estimated residual values over their expected useful lives. No depreciation is provided on freehold land. The principal annual rates used for other assets are:

| | |
|---|---|
| Office premises | 50 years |
| Furniture, fixtures and fittings | 5 years |
| Motor vehicles | 4 years |
| Computers and office equipment | 3 years |
| Scheme equipment | Over expected life of component |

## 2. Accounting policies (cont'd)

### Bad debt provisions

A bad debt provision is held against the risk of failure to recover current and former tenant rent and service charge arrears. The provision is calculated as at 31 March and any adjustment required is written off or back through the statement of comprehensive income. The provision is calculated in line with the following aged debt:

| | |
|---|---|
| Current arrears aged 1-8 weeks | 10% |
| Current arrears aged 9-16 weeks | 50% |
| Current arrears aged 17-32 weeks | 75% |
| Current arrears aged 33+ weeks | 90% |
| Former arrears | 100% |
| Other debts (accounts receivable) | Case by case basis |

### Property managed by agents

Where the group carries the financial risk on property managed by agents, all the income and expenditure arising from the property is included in the statement of comprehensive income.

Where the agency carries the financial risk, the statement of comprehensive income includes only that income and expenditure which relates solely to the group.

### Provisions

A provision is recognised in the statement of financial position when the group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

### Employee benefits

**Defined contribution plans and other long term employee benefits**

A defined contribution plan is a post-employment benefit plan under which the group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income in the periods during which services are rendered by employees.

**Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The group's net obligation in respect of defined benefit plans and other long term employee benefits is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the statement of financial position date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the group's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The group recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

## 2. Accounting policies (cont'd)

### Employee benefits (cont'd)

**Defined benefit plans (cont'd)**

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in the statement of comprehensive income.

Remeasurement of the net defined benefit liability/asset is also recognised in the statement of comprehensive income.

The group participates in three defined benefit plans as set out below:

- LGPS schemes – Merseyside Pension Fund and Greater Manchester Pension Fund
- Social Housing Pension Scheme – group and LHT

During the year the group ended its participation in LGPS Lancashire County Pension Fund.

The Social Housing Pension Scheme (SHPS) provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the group. The group is unable to obtain sufficient information to use defined benefit accounting for this multi-employer plan, and accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the statement of comprehensive income represents the contributions payable to the scheme in respect of the accounting period. To the extent that payments plans relate to funding a deficit, the contributions are recognised as a liability payable arising from the agreement with the multi-employer plan and results in a charge to the statement of comprehensive income. Where these payments are not expected to be settled within twelve months the liability is measured at the present value of the contributions payable.

**Termination benefits**

Termination benefits are recognised as an expense when the group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the group has made an offer of voluntary redundancy, it is probably that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than twelve months after the reporting date, then they are discounted to their present value.

## 3. Turnover, cost of sales, operating costs and operating surplus

| | Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | 2017 | | | |
| | Turnover £'000 | Cost of sales £'000 | Operating costs £'000 | Operating surplus £'000 | Turnover £'000 | Cost of sales £'000 | Operating Costs Restated £'000 | Operating surplus £'000 |
| **Social housing lettings** | | | | | | | | |
| General needs accommodation | 120,853 | - | (90,956) | **29,897** | 136,483 | - | (97,125) | 39,358 |
| Older persons housing | 17,031 | - | (15,491) | **1,540** | 17,601 | - | (14,601) | 3,000 |
| Supported housing | 14,421 | - | (9,416) | **5,005** | 14,751 | - | (11,809) | 2,942 |
| Low cost home ownership | 3,201 | - | (2,712) | **489** | 3,199 | - | (2,784) | 415 |
| **Total** | **155,506** | **-** | **(118,575)** | **36,931** | 172,034 | - | (126,319) | 45,715 |
| **Other social housing activities** | | | | | | | | |
| Regeneration and development | 11 | - | (1,103) | (1,092) | 670 | - | (2,170) | (1,500) |
| Management services | 480 | - | (157) | 323 | 358 | - | (244) | 114 |
| Estate services | - | - | (2,208) | (2,208) | - | - | (1,389) | (1,389) |
| Shared Ownership first tranche sales | 1,203 | (1,108) | - | 95 | 520 | (477) | - | 43 |
| Other | 385 | - | (106) | 279 | 365 | - | - | 365 |
| **Total** | **2,079** | **(1,108)** | **(3,574)** | **(2,603)** | 1,913 | (477) | (3,803) | (2,367) |
| Gain/(loss) on disposal of housing properties | | | | **1,550** | | | | 1,364 |
| **Total social housing activities** | **157,585** | **(1,108)** | **(122,149)** | **35,878** | 173,947 | (477) | (130,122) | 44,712 |
| **Non-social housing activities** | | | | | | | | |
| Market rents | 1,037 | - | (373) | 664 | 519 | - | (272) | 247 |
| Revaluation of investment properties | 622 | - | - | 622 | 726 | - | - | 726 |
| Commercial | 1,566 | - | (744) | 822 | 2,200 | - | (1,492) | 708 |
| Management services | 2,373 | (7) | (1,609) | 757 | 1,232 | - | (46) | 1,186 |
| Leaseholders | 197 | - | (194) | 3 | 317 | - | (203) | 114 |
| Properties developed for outright sale | 775 | (641) | - | 134 | 786 | (1,136) | - | (350) |
| LGPS pension settlement and curtailment | 5,455 | - | (1,303) | 4,152 | - | - | - | - |
| Other | 1,316 | - | (644) | 672 | 1,567 | - | (2,113) | (546) |
| **Total non-social housing activities** | **13,341** | **(648)** | **(4,867)** | **7,826** | 7,347 | (1,136) | (4,126) | 2,085 |
| **Total** | **170,926** | **(1,756)** | **(127,016)** | **43,704** | 181,294 | (1,613) | (134,248) | 46,797 |

### 3. Turnover, cost of sales, operating costs and operating surplus

| | Association | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | 2017 | | | |
| | **Turnover £'000** | **Cost of sales £'000** | **Operating costs £'000** | **Operating surplus £'000** | Turnover £'000 | Cost of sales £'000 | Operating Costs Restated £'000 | Operating surplus £'000 |
| **Social housing lettings** | | | | | | | | |
| **Total** | - | - | - | - | - | - | - | - |
| **Other social housing activities** | | | | | | | | |
| **Total** | - | - | - | - | - | - | - | - |
| Gain/(loss) on disposal of housing properties | | | | - | | | | - |
| **Total social housing activities** | - | - | - | - | - | - | - | - |
| **Non-social housing activities** | | | | | | | | |
| Management services | 28,991 | - | (29,068) | (77) | 22,495 | - | (22,357) | 138 |
| LGPS pension settlement and curtailment | 105 | - | (92) | 13 | - | - | - | - |
| **Total non-social housing activities** | **29,096** | **-** | **(29,160)** | **(64)** | 22,495 | - | (22,357) | 138 |
| **Total** | **29,096** | **-** | **(29,160)** | **(64)** | 22,495 | - | (22,357) | 138 |

## 4. Income and expenditure from social housing lettings

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **General needs accommodation** | **Older persons housing** | **Supported housing** | **Low cost home ownership** | **Total 2018** | Total 2017 |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | £'000 |
| **Income** | | | | | | |
| Rents receivable net of voids | 110,613 | 12,270 | 9,412 | 2,301 | **134,596** | 149,445 |
| Service charge income | 4,304 | 4,080 | 4,201 | 648 | **13,233** | 12,968 |
| Amortised government grants | 5,464 | 507 | 513 | 249 | **6,733** | 8,436 |
| Supporting people grants | 48 | 171 | 292 | 3 | **514** | 860 |
| Revenue grants | 277 | - | - | - | **277** | 123 |
| Other income from social housing | 147 | 3 | 3 | - | **153** | 202 |
| **Turnover from social housing lettings** | 120,853 | 17,031 | 14,421 | 3,201 | **155,506** | 172,034 |
| | | | | | | |
| **Expenditure** | | | | | | |
| Management | 24,744 | 3,821 | 2,076 | 1,050 | **31,691** | 27,225 |
| Service charge costs | 5,830 | 3,594 | 2,981 | 281 | **12,686** | 11,944 |
| Routine maintenance | 20,451 | 2,489 | 1,101 | 187 | **24,228** | 28,729 |
| Planned maintenance | 14,884 | 2,237 | 1,523 | 251 | **18,895** | 17,188 |
| Major repairs expenditure | 973 | 169 | 144 | 30 | **1,316** | 2,604 |
| Rent losses from bad debts | 1,154 | 85 | (17) | 22 | **1,244** | 1,665 |
| Depreciation of housing properties | 21,467 | 2,862 | 1,505 | 690 | **26,524** | 34,232 |
| Impairment of housing properties | - | - | - | - | **-** | 1,231 |
| Other costs | 1,453 | 234 | 103 | 201 | **1,991** | 1,501 |
| Total expenditure on lettings | 90,956 | 15,491 | 9,416 | 2,712 | **118,575** | 126,319 |
| | | | | | | |
| **Operating surplus on letting activities** | **29,897** | **1,540** | **5,005** | **489** | **36,931** | 45,715 |
| | | | | | | |
| **Void losses** | 1,125 | 243 | 872 | 69 | **2,309** | 2,706 |

## 5. Accommodation owned, managed and under development

| | Group | |
|---|---|---|
| | **2018 Number** | 2017 Number |
| **The number of properties in ownership at the year-end were:** | | |
| General needs accommodation (social rent) | **20,581** | 26,415 |
| General needs accommodation (affordable rent) | **1,480** | 1,928 |
| Older persons housing | **3,677** | 3,672 |
| Supported housing | **1,949** | 1,962 |
| Low-cost home ownership | **1,035** | 1,605 |
| **Total homes owned** | **28,722** | 35,582 |
| Accommodation managed by other bodies | **(285)** | (296) |
| Accommodation managed for other bodies / owner occupiers | **906** | 1,233 |
| Leasehold | **4,397** | 4,129 |
| **Total homes managed** | **33,740** | 40,648 |
| **Non-social housing in ownership and management at the year-end:** | | |
| Market rents | **143** | 143 |
| | **143** | 143 |
| **The number of properties under development at the year-end were:** | | |
| General needs accommodation | **133** | 88 |
| Supported housing | **-** | - |
| Low-cost home ownership | **69** | 16 |
| | **202** | 104 |
| **The following agencies managed properties on behalf of the group** | | |
| Alternative Futures | **189** | 259 |
| Bridgfords | **64** | 64 |
| Community Integrated Care | **54** | 78 |
| Brothers of Charity | **35** | 75 |
| Forum | **40** | 40 |
| Imagine | **44** | 57 |
| Creative Support | **80** | 80 |
| Mencap Homes Foundation | **43** | 42 |
| Joseph Cox Trust | **41** | 41 |
| Others (individually less than 30) | **445** | 470 |
| | **1,035** | 1,206 |

## 6. Disposal of housing properties

| | Group | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| Disposal proceeds from property sales | **4,660** | 3,981 |
| Carrying value of fixed assets from property sales | **(2,859)** | (2,271) |
| Costs on disposal | **(251)** | (346) |
| **Gain on disposal of housing properties** | **1,550** | 1,364 |

| | **2018** | 2017 |
|---|---|---|
| **Analysis of housing property sales** | | |
| Preserved Right to Buy sales | **52** | 70 |
| Right to Acquire sales | **16** | 11 |
| Shared ownership staircasing | **21** | 23 |
| Other sales | **11** | 5 |
| | **100** | 109 |

## 7. Operating surplus

| | Group | | Association | |
|---|---|---|---|---|
| Operating surplus is stated after charging: | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Depreciation of housing properties | **27,027** | 34,232 | **-** | - |
| Depreciation of other fixed assets | **1,327** | 2,008 | **36** | 35 |
| Impairment of housing properties | **-** | 143 | **-** | - |
| Amortisation of intangible assets | **258** | 1,270 | **-** | - |
| (Surplus) on disposal of housing properties | **(1,550)** | (1,364) | **-** | - |
| Deficit/(surplus) on disposal of other tangible fixed assets | **843** | 94 | **11** | - |
| Amortisation of government grant | **(7,734)** | (8,767) | **(30)** | (30) |
| Revaluation of investment properties | **(622)** | (726) | **-** | - |
| Pension adjustments | **(581)** | 260 | **(39)** | - |
| Auditor's remuneration (excluding VAT): | | | | |
| In their capacity as auditor | **120** | 110 | **120** | 4 |
| In their capacity as auditor from prior year | **11** | - | **11** | - |
| In respect of other services | **372** | 77 | **372** | 36 |
| Operating lease receipts | **(531)** | (531) | **-** | - |
| Operating lease payments | **400** | 477 | **-** | - |

## 8. Board members and executive directors

| | Group | |
|---|---|---|
| | **2018** **£'000** | 2017 £'000 |
| The directors including executive directors are as listed on page 2. | | |
| The aggregate emoluments paid to or receivable by non-executive directors and former non-executive directors | **136** | 85 |
| The aggregate emoluments paid to or receivable by executive directors and former executive directors (including pension contributions and benefits in kind) | **678** | 1,215 |
| The aggregate amount of pension contributions in respect of services as directors | **48** | 42 |
| The aggregate compensation paid to or receivable by executive directors | **20** | 518 |
| The emoluments paid to the highest paid director (excluding pension contributions but including benefits in kind) | **189** | 268 |
| Pension contributions for the highest paid director | **16** | 3 |

The Chief Executive is an ordinary member of the defined contribution Social Housing Pension Scheme (SHPS). No enhanced or special terms apply to her membership and she has no other pension arrangement to which the group contributes.

The emoluments (including pension contributions and benefits in kind) or fees paid to non-executive directors on the Board were as follows:

| | Group | |
|---|---|---|
| | **2018** **£'000** | 2017 £'000 |
| A Chan | **-** | 8 |
| W Dignan | **16** | 3 |
| B Dutton | **16** | 11 |
| J Goldblatt | **-** | 6 |
| N Goodwin | **33** | 26 |
| P High | **16** | 1 |
| B Roebuck | **19** | 11 |
| S Taylor | **-** | 7 |
| M Verrier | **19** | 3 |
| H Vaughan | **-** | 7 |
| C Wallace | **16** | 3 |

## 9. Employee information

| | Group | | Association | |
|---|---|---|---|---|
| | **2018 Number** | 2017 Number | **2018 Number** | 2017 Number |
| Average number of employees (including executive directors) expressed as full time equivalents (based on an average of 35 hours per week) | **869** | 978 | **387** | 406 |

| | Group | | Association | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Staff costs (for the above persons) | | | | |
| Wages and salaries | **26,791** | 27,907 | **13,967** | 12,089 |
| Social security costs | **2,451** | 2,501 | **1,327** | 1,165 |
| Other pension costs | **2,305** | 2,546 | **1,542** | 923 |
| Defined benefit scheme pension adjustments | **(581)** | 245 | **(39)** | 21 |
| Severance payments | **4,475** | 1,800 | **4,418** | 959 |
| | **35,441** | 34,999 | **21,215** | 15,157 |

A number of the staff detailed above are employed on joint contracts to provide services for member organisations. Salary costs in respect of these services are included in administration recharges to member organisations.

The aggregate number of full time equivalent staff (based on an average of 35 hours) whose remuneration (including salaries, benefits in kind, pension contributions paid by the employer and any termination payments) exceeded £60,000 was as follows:

| | Group | |
|---|---|---|
| Remuneration between | **2018** | 2017 |
| £60,000 and £69,999 | **29** | 10 |
| £70,000 and £79,999 | **17** | 5 |
| £80,000 and £89,999 | **16** | 7 |
| £90,000 and £99,999 | **10** | - |
| £100,000 and £109,999 | **9** | 2 |
| £110,000 and £119,999 | **-** | 1 |
| £120,000 and £129,999 | **1** | - |
| £140,000 and £149,999 | **1** | - |
| £170,000 and £179,999 | **1** | 1 |
| £180,000 and £189,999 | **1** | 1 |
| £190,000 and £199,999 | **-** | 2 |
| £200,000 and £209,999 | **-** | 2 |
| £210,000 and £219,999 | **-** | 1 |
| £230,000 and £239,999 | **-** | 2 |
| £250,000 and £259,999 | **-** | 1 |
| £260,000 and £269,999 | **-** | 1 |
| £270,000 and £279,999 | **-** | 1 |

## 10. Disposal of other tangible fixed assets

| | Group | | Association | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Disposal proceeds from other fixed assets | **4** | 122 | **-** | - |
| Carrying value of other fixed assets | **(847)** | (216) | **(11)** | - |
| **(Loss)/gain on disposal of other fixed assets** | **(843)** | (94) | **(11)** | - |

## 11. Interest receivable and similar income

| | Group | | Association | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Bank and building society interest | **540** | 783 | **1** | 2 |
| Other interest and dividends | **1** | 148 | **32** | - |
| | **541** | 931 | **33** | 2 |

## 12. Interest payable and similar charges

| | Group | | Association | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Interest payable on bank and building society loans | **11,606** | 12,597 | **-** | - |
| Interest payable on other loans | **3,357** | 3,369 | **-** | - |
| Loan administration fees | **97** | 48 | **-** | - |
| Loan security costs | **27** | 39 | **-** | - |
| Non utilisation fees | **224** | 277 | **-** | - |
| Interest expense on net defined benefit liabilities | **142** | 137 | **33** | 2 |
| Unwinding of the discount factor on pension past service deficit | **239** | 423 | **90** | 150 |
| Interest on Recycled Capital Grant Fund and Disposal Proceeds Fund | **3** | 5 | **-** | - |
| | **15,695** | 16,895 | **123** | 152 |
| Capitalised interest | **(134)** | (151) | **-** | - |
| | **15,561** | 16,744 | **123** | 152 |

Interest has been capitalised at 3.0% (2017: 3.3%) per annum, the average cost of borrowing or is based on a specific loan facility used to fund the development.

## 13. Taxation

| | Group 2018 £'000 | Group 2017 £'000 |
|---|---|---|
| **UK corporation tax** | | |
| Current tax charge for the year | **48** | 7 |
| Adjustment in respect of previous years | **12** | (11) |
| | **60** | (4) |
| **Deferred tax** | | |
| Origination and reversal of timing differences | **(21)** | 30 |
| Adjustment in respect of previous years | **6** | - |
| Effect of tax change on opening balance | **-** | 4 |
| | **(15)** | 34 |
| **Total tax charge on surplus on ordinary activities** | **45** | 30 |

All amounts of taxation are recognised in the statement of comprehensive income.

**Factors affecting the tax charge for the period**

The current rate of tax for the year is lower than the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

| | Group 2018 £'000 | Group 2017 £'000 |
|---|---|---|
| Surplus on ordinary activities before taxation | **27,775** | 30,890 |
| Current tax at standard corporation tax rate | **5,277** | 6,178 |
| Effects of tax free income due to charitable activities | **(5,261)** | (6,173) |
| Expenses not deductible for tax purposes | **38** | 7 |
| Group relief surrender / claim for no payment | **-** | - |
| Income not taxable for tax purposes | **-** | (6) |
| Adjustments in respect of prior periods | **12** | (11) |
| Loss carry back | **(3)** | 10 |
| Tax rate differences on deferred tax | **-** | 6 |
| Deferred tax not recognised | **(18)** | 19 |
| **Total tax charge on surplus on ordinary activities** | **45** | 30 |

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to the corporation tax rate by 1% to 17% by 1 April 2020 was announced in the Chancellor's budget statement and was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax assets as at 31 March 2018 have been calculated based on the rate of 17% substantively enacted at this year-end date.

## 13. Taxation (cont'd)

**Deferred taxation**

The movement in the year is as follows:

| | Group | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| Net tax (asset)/liability at start of the year | **(40)** | (76) |
| Difference between accumulated depreciation and capital allowances | **(5)** | 36 |
| Unused tax losses | **-** | - |
| Other short-term timing differences | **(12)** | - |
| **Net tax (asset)/liability at end of the year** | **(57)** | (40) |

In addition to the deferred tax asset above, the group has additional unrecognised gross tax losses of £Nil (2017: £121,000) in respect of losses carried forward, short term timing differences and accelerated capital allowances.

## 14. Intangible assets

| | Group | |
|---|---|---|
| | Software £'000 | **Total £'000** |
| **Cost** | | |
| At 1 April 2017 | 1,093 | **1,093** |
| Reclassification | - | **-** |
| Additions | 11 | **11** |
| Disposals | - | **-** |
| Removal of assets relating to Cobalt on exit | (161) | **(161)** |
| **At 31 March 2018** | **943** | **943** |
| | | |
| **Amortisation and impairment** | | |
| At 1 April 2017 | (592) | **(592)** |
| Reclassification | - | **-** |
| Amortisation for the year | (258) | **(258)** |
| Impairment charge | - | **-** |
| Removal of assets relating to Cobalt on exit | 23 | **23** |
| **At 31 March 2018** | **(827)** | **(827)** |
| | | |
| **Net book value** | | |
| At 1 April 2017 | 501 | 501 |
| **At 31 March 2018** | **116** | **116** |

## 15. Housing properties

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Social housing properties held for letting £'000 | Social housing properties under construction £'000 | Completed low-cost home ownership properties £'000 | Low-cost home ownership properties under construction £'000 | Non-social housing properties held for letting **£'000** | Total £'000 |
| **Cost** | | | | | | |
| At 1 April 2017 as previously reported | 1,447,643 | 7,578 | 41,771 | 971 | 1,977 | 1,499,940 |
| Prior year adjustment (note 42) | (20,409) | - | - | - | - | (20,409) |
| At 1 April 2017 as restated | 1,427,234 | 7,578 | 41,771 | 971 | 1,977 | 1,479,531 |
| Additions | 15,356 | 7,807 | (4) | 3,325 | - | 26,484 |
| Capitalised interest | - | 99 | - | 35 | - | 134 |
| Disposals | (4,315) | - | (886) | - | - | (5,201) |
| Transfer from/(to) stock | - | - | - | (1,150) | - | (1,150) |
| Transfer to abortive works | - | (56) | - | (68) | - | (124) |
| Transfer on completion | 6,960 | (6,960) | 1,597 | (1,597) | - | - |
| Reclassifications | (4,155) | - | 101 | - | (928) | (4,982) |
| Re Cobalt on exit | (203,591) | (31) | (226) | - | - | (203,848) |
| **At 31 March 2018** | 1,237,489 | 8,437 | 42,353 | 1,516 | 1,049 | **1,290,844** |
| | | | | | | |
| **Depreciation** | | | | | | |
| At 1 April 2017 as previously reported | (281,418) | - | (5,811) | - | (229) | (287,458) |
| Prior year adjustment (note 42) | 7,791 | - | - | - | - | 7,791 |
| At 1 April 2017 as restated | (273,627) | - | (5,811) | - | (229) | (279,667) |
| Charge for the year | (26,341) | - | (675) | - | (11) | (27,027) |
| Disposals | 1,808 | - | 102 | - | - | 1,910 |
| Transfers from/(to) stock | 12 | - | (12) | - | - | - |
| Reclassifications | 260 | - | - | - | 26 | 286 |
| Re Cobalt on exit | 49,808 | - | 17 | - | - | 49,825 |
| **At 31 March 2018** | (248,080) | - | (6,379) | - | (214) | **(254,673)** |
| | | | | | | |
| **Impairment** | | | | | | |
| At 1 April 2017 | (2,273) | - | - | - | - | (2,273) |
| Charge for the year | - | - | - | - | - | - |
| Re Cobalt on exit | 404 | - | - | - | - | 404 |
| **At 31 March 2018** | (1,869) | - | - | - | - | **(1,869)** |
| | | | | | | |
| **Net Book Value** | | | | | | |
| At 1 April 2017 restated | 1,151,334 | 7,578 | 35,960 | 971 | 1,748 | 1,197,591 |
| **At 31 March 2018** | **987,540** | **8,437** | **35,974** | **1,516** | **835** | **1,034,302** |

| | Group | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| Freehold | **960,638** | 1,115,522 |
| Long-leasehold | **73,664** | 82,069 |
| **At 31 March 2018** | **1,034,302** | 1,197,591 |

## 15. Housing properties (cont'd)

Additions to housing properties in the year included improvement works to existing properties of £14,719,000 (2017: £22,071,000) and capitalised interest of £134,000 (2017: £151,000) at an average rate of 3.0% (2017: 3.3%). Expenditure on works to existing properties charged to the statement of comprehensive income totalled £35,023,000 (2017: £35,599,000).

The net book value of housing properties includes £Nil (2017: £Nil) in respect of assets held under finance leases.

## 16. Investments including properties

| | Group | | | | Association | |
|---|---|---|---|---|---|---|
| | Joint Venture Investment | Investment properties | Shared equity investments | Total | Shares in subsidiary undertaking | Total |
| | £'000 | £'000 | £'000 | £'000 | **£'000** | £'000 |
| At 1 April 2017 | 15 | 14,928 | 462 | **15,405** | 50 | **50** |
| Additions | - | 65 | - | **65** | - | **-** |
| Revaluation | - | 622 | - | **622** | - | **-** |
| Re Cobalt on exit | - | (760) | | **(760)** | | |
| **At 31 March 2018** | **15** | **14,855** | **462** | **15,332** | **50** | **50** |

The investment properties are market rent schemes and developments originally developed for sale. Due to the downturn in the housing market, these are now being rented either at market rent, or on the rent to home-buy scheme with the intention of selling the properties in due course.

Full valuations of existing properties were carried out in March 2018 by an external valuer, Sutton Kersh, Chartered Surveyors in accordance with the RICS Appraisal and Valuation Manual. Their report indicated that the market value of investment property was £14.9million. If the investment properties were shown at historic cost less depreciation the carrying value would be as follows:

| | Group | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| Historic costs | **11,987** | 11,729 |
| Accumulated depreciation | **(765)** | (639) |
| | **11,222** | 11,090 |

The group comprises the following entities, all registered in England:

| Organisation | Status | Registration number | Principal activity | Share capital held £ |
|---|---|---|---|---|
| Atrium City Living Limited | Private Limited Company | 4710066 | Commercial Property Services | 50,000 |
| Contour Homes Limited | Registered Society | 23607R | HARP* | 1 |
| Contour Property Services Limited | Registered Society | 23975R | Management Services | 1 |
| Hyndburn Homes Limited | Registered Society | 30031R | HARP* | 1 |
| Hyndburn Homes Repairs Limited | Private Company Limited by Guarantee | 3538264 | Direct Labour Organisation | 1 |
| Liverpool Housing Trust Limited | Registered Society | 17186R | HARP* | 1 |
| Peak Valley Housing Association Limited | Registered Society | 29311R | HARP* | 1 |
| Ribble Valley Homes Limited | Registered Society | 30415R | HARP* | 1 |

* HARP – Housing Association Registered Provider

Cobalt Housing Trust Limited exited the group on 29 September 2017. It was a registered society and its principal activity was as a housing association registered provider.

## 17. Other tangible fixed assets

| | Group | | | |
|---|---|---|---|---|
| | Freehold land and buildings £'000 | Scheme equipment £'000 | Vehicles, fixtures and equipment £'000 | Total £'000 |
| **Cost** | | | | |
| At 1 April 2017 as previously reported | 19,083 | 12,367 | 13,704 | 45,154 |
| Prior year adjustment (note 42) | - | (3,220) | - | (3,220) |
| At 1 April 2017 as restated | 19,083 | 9,147 | 13,704 | 41,934 |
| Reclassification | 4,982 | - | - | 4,982 |
| Additions | 19 | 635 | 465 | 1,119 |
| Disposals | - | - | (9,581) | (9,581) |
| Removal of assets relating to Cobalt on exit | (3,141) | - | (389) | (3,530) |
| **At 31 March 2018** | 20,943 | 9,782 | 4,199 | **34,924** |
| **Depreciation** | | | | |
| At 1 April 2017 | (4,970) | (4,965) | (11,387) | (21,322) |
| Prior year adjustment (note 42) | - | 1,389 | - | 1,389 |
| At 1 April 2017 as restated | (4,970) | (3,576) | (11,387) | (19,933) |
| Reclassification | (286) | - | - | (286) |
| Charge for the year | (362) | (530) | (435) | (1,327) |
| Disposals | - | - | 8,211 | 8,211 |
| Removal of assets relating to Cobalt on exit | 600 | - | 331 | 931 |
| **At 31 March 2018** | (5,018) | (4,106) | (3,280) | **(12,404)** |
| **Net book value** | | | | |
| At 1 April 2017 as restated | 14,113 | 5,571 | 2,317 | 22,001 |
| **At 31 March 2018** | **15,925** | **5,676** | **919** | **22,520** |

| | Association | | | |
|---|---|---|---|---|
| | Freehold land and buildings £'000 | Scheme equipment £'000 | Vehicles, fixtures and equipment £'000 | Total £'000 |
| **Cost** | | | | |
| At 1 April 2017 | 1,519 | - | 29 | 1,548 |
| Disposals | | | (29) | (29) |
| **At 31 March 2018** | **1,519** | **-** | **-** | **1,519** |
| **Depreciation** | | | | |
| At 1 April 2017 | (606) | - | (12) | (618) |
| Charge for the year | (30) | - | (6) | (36) |
| Disposals | - | - | 18 | 18 |
| **At 31 March 2018** | **(636)** | **-** | **-** | **(636)** |
| **Net book value** | | | | |
| At 1 April 2017 | 913 | - | 17 | **930** |
| **At 31 March 2018** | **883** | **-** | **-** | **883** |

## 18. Debtors: amounts falling due after one year

| | Group | | Association | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Improvement programmes (VAT Shelter) | **1,893** | 1,965 | **-** | - |
| Loan provided to joint venture | **910** | - | **-** | - |
| Amounts owed by related parties – pension past service | **-** | - | **5,396** | 6,356 |
| | **2,803** | 1,965 | **5,396** | 6,356 |

## 19. Properties for sale and work in progress

| | Group | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| Properties under construction – low-cost home ownership | **640** | 565 |
| Completed properties – outright sales | **1,017** | 1,483 |
| Completed properties – low-cost home ownership | **32** | 395 |
| Stock and components | **16** | 199 |
| | **1,705** | 2,642 |

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

| | Group | | Association | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Rent and service charge arrears | **8,610** | 12,339 | **-** | - |
| Bad debt provision | **(3,978)** | (5,084) | **-** | - |
| | **4,632** | 7,255 | **-** | - |
| Trade debtors | **1,857** | 1,833 | **1,485** | 1,492 |
| Social Housing Grant and other grant receivable | **2,507** | 19 | **-** | - |
| Amounts owed by related parties | **-** | - | **7,710** | 2,913 |
| Amounts owed by related parties – pension past service | **-** | - | **910** | 883 |
| Amounts owed by leaseholders | **1,343** | 1,047 | **-** | 554 |
| Prepayments and sundry debtors | **3,717** | 3,588 | **473** | 441 |
| Other taxation and social security | **81** | 494 | **-** | 168 |
| Improvement programmes (VAT Shelter) | **122** | 2,797 | **-** | - |
| Corporation tax | **-** | 10 | **-** | - |
| Deferred tax | **57** | 40 | **-** | - |
| | **14,316** | 17,083 | **10,578** | 6,451 |

For rent and service charge arrears, no adjustment is required for those debts on a repayment schedule.

# NOTES TO THE FINANCIAL STATEMENTS

## 21. Investments

| | Group | | Association | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Bank and building society deposits | **85,237** | 95,903 | **-** | - |
| Investments in Credit Unions | **50** | 50 | **-** | - |
| | **85,287** | 95,953 | **-** | - |

As at 31 March 2018 the following bank deposits were held in charge to third parties:

| Deposits under charge | Amount charged £'000 |
|---|---|
| Pension fund | 128 |
| Loan security | 30 |
| Leaseholder sinking funds | 1,162 |
| | 1,320 |

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

| | Group | | Association | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Bank and building society loans (note 24) | **11,660** | 11,710 | **-** | - |
| Other loans (note 24) | **5,384** | 7,516 | **-** | - |
| Issue costs (note 24) | **(108)** | (100) | **-** | - |
| | **16,936** | 19,126 | **-** | - |
| Trade creditors | **1,967** | 3,884 | **1,741** | 2,901 |
| Capital creditors and retentions | **1,400** | 1,825 | **-** | - |
| Rent and service charges received in advance | **3,265** | 3,667 | **-** | - |
| Other taxation and social security | **797** | 782 | **502** | 393 |
| Recycled Capital Grant Fund | **-** | 584 | **-** | - |
| Disposal Proceeds Fund | **448** | 284 | **-** | - |
| Deferred Government Grant | **6,937** | 9,387 | **30** | 30 |
| Social housing grant received in advance | **2,341** | 594 | **901** | - |
| Pension past service deficit | **2,447** | 2,495 | **911** | 883 |
| Accruals and deferred income | **11,547** | 15,388 | **2,735** | 2,008 |
| Other creditors | **525** | 849 | **1** | 27 |
| Amounts owed to related parties | **-** | - | **3,624** | 327 |
| Amounts owed to related parties – pension past service | **-** | - | **-** | - |
| Amounts owed to leaseholders | **20** | 380 | **-** | 3 |
| Improvement programmes (VAT Shelter) | **122** | 2,797 | **-** | - |
| Corporation tax | **48** | 7 | **-** | - |
| | **48,800** | 62,049 | **10,445** | 6,572 |

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

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| Bank and building society loans (note 24) | **358,695** | 401,197 | **-** | - |
| Other loans (note 24) | **21,080** | 34,129 | **-** | - |
| Issue costs (note 24) | **(2,239)** | (2,561) | **-** | - |
| | **377,536** | 432,765 | **-** | - |
| Capital creditors and retentions | **487** | 924 | **-** | - |
| Amounts owed to leaseholders | **6,709** | 6,297 | **-** | - |
| Accruals and deferred income | **-** | 48 | **-** | - |
| Other creditors | **300** | 177 | **-** | - |
| Deferred Government Grant | **404,409** | 445,652 | **853** | 883 |
| Pension past service deficit | **14,447** | 17,875 | **5,411** | 6,357 |
| Recycled Capital Grant Fund | **848** | 1,129 | **-** | - |
| Disposal Proceeds Fund | **142** | 1,469 | **-** | - |
| Improvement programmes (VAT Shelter) | **1,893** | 1,965 | **-** | - |
| | **806,771** | 908,301 | **6,264** | 7,240 |

## 24. Debt analysis

| | Group 2018 £'000 | Group 2017 £'000 |
|---|---|---|
| Bank and Building Society loans | **370,355** | 412,907 |
| Other loans | **26,464** | 41,645 |
| Issue costs | **(2,347)** | (2,661) |
| | **394,472** | 451,891 |

All bank, building society and other loans are secured by charges either on the group's housing properties or on the rental streams arising from properties. Loans are repayable in instalments with final dates up to 2048. As at 31 March 2018 interest rates chargeable varied from 0.7% to 11.7%.

| Gross debt is repayable in instalments as follows: | Group 2018 £'000 | Group 2017 £'000 |
|---|---|---|
| Within one year | **17,044** | 19,226 |
| Between one and two years | **13,427** | 19,161 |
| Between two and five years | **45,402** | 54,462 |
| After five years | **320,946** | 361,703 |
| | **396,819** | 454,552 |

| | Group Properties under charge | Group Amount drawn £'000 | Group Valuation of units £'000 |
|---|---|---|---|
| Contour Homes | 7,449 | **195,249** | 286,136 |
| Hyndburn Homes | 3,096 | **27,500** | 61,400 |
| Liverpool Housing Trust | 6,206 | **138,462** | 251,076 |
| Peak Valley | 1,456 | **18,842** | 42,500 |
| Ribble Valley | 1,159 | **16,766** | 37,000 |
| | 19,366 | **396,819** | 678,112 |

## 25. Deferred Capital Grant

| The total accumulated government grant and financial assistance received or receivable at 31 March: | Group | | Association | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Held as deferred capital grant at start of the year | **455,039** | 462,048 | **913** | 943 |
| Grant received in the year | **3,384** | 1,758 | **-** | - |
| Recognised in the Statement of Comprehensive Income | **(7,734)** | (8,767) | **(30)** | (30) |
| Removal of balance relating to Cobalt Housing on exit | **(39,343)** | - | **-** | - |
| **At end of the year** | **411,346** | 455,039 | **883** | 913 |
| Due within one year | **6,937** | 9,387 | **30** | 30 |
| Due after one year | **404,409** | 445,652 | **853** | 883 |
| | **411,346** | 455,039 | **883** | 913 |

## 26. Recycled Capital Grant Fund

| | Group | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| At start of the year | **1,713** | 1,465 |
| Grants recycled | **359** | 467 |
| Interest accrued | **3** | 5 |
| Recycling to new build development | **(1,183)** | (224) |
| Removal of balance relating to Cobalt Housing on exit | **(44)** | |
| **At end of the year** | **848** | 1,713 |
| Amount three years or older where repayment may be required | **-** | - |

## 27. Disposal Proceeds Fund

| | Group | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| At start of the year | **1,753** | 1,087 |
| Grants recycled | **109** | 678 |
| Interest accrued | **1** | 1 |
| Recycling to new build development | **(183)** | (13) |
| Removal of balance relating to Cobalt Housing on exit | **(1,090)** | - |
| **At end of the year** | **590** | 1,753 |
| Amount three years or older where repayment may be required | **-** | - |

## 28. Financial instruments

| The carrying amounts of the financial assets and liabilities include: | Group 2018 £'000 | Group 2017 £'000 |
|---|---|---|
| Trade and other debtors measured at amortised cost | **17,119** | 19,048 |
| Trade and other creditors measured at amortised cost | **(49,819)** | (63,420) |
| Loan commitments measured at cost | **(394,472)** | (451,891) |
| | **(427,172)** | (496,263) |

## 29. Operating leases

The group leases some of its land and buildings. Payments are accounted for in the month in which they are receivable. The future minimum lease receipts under non-cancellable operating leases are as follows:

| | Group Land and buildings | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| Leases expiring: | | |
| Within one year | **712** | **696** |
| In the second to fifth years | **2,763** | **2,745** |
| In more than five years | **7,979** | **8,022** |
| **At end of the year** | **11,454** | **11,463** |

During the year £531,000 was recognised as income in the statement of comprehensive income in respect of operating leases receivable (2017: £531,000).

The group holds some of its office equipment on operating leases and contract hires some of its motor vehicles. Payments are accounted for in the month in which they fall due. The future minimum lease payments under non-cancellable operating leases are as follows:

| | Group | | | |
|---|---|---|---|---|
| | Land and buildings | | Vehicles and equipment | |
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Due: | | | | |
| within one year | **58** | 117 | **215** | 198 |
| in the second to fifth years | **3** | 58 | **20** | 90 |
| in more than five years | **-** | - | **-** | - |
| **At end of the year** | **61** | 175 | **235** | 288 |

During the year £400,000 was recognised as an expense in the statement of comprehensive income in respect of operating leases (2017: £477,000).

## 30. Provisions for liabilities

| | Group 2018 £'000 | Group 2017 £'000 |
|---|---|---|
| Public liability insurance claims: | | |
| At start of the year | **747** | 556 |
| Transfer into / (out of) provisions | **603** | 191 |
| Removal of provisions relating to Cobalt Housing on exit | **(74)** | - |
| **At end of the year** | **1,276** | 747 |

## 31. Pension liabilities

| | Group 2018 £'000 | Group 2017 £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| At start of the year | **7,194** | 4,052 | **138** | 26 |
| Net interest on pension liabilities | **142** | 137 | **1** | 2 |
| Transfers to reserves (actuarial gain in period) | **(1,676)** | 2,745 | **(87)** | 88 |
| Contributions in period | **(1,272)** | (562) | **(68)** | (7) |
| Administration expenses | **9** | 17 | **-** | 1 |
| Current service costs in the period | **682** | 805 | **29** | 28 |
| Curtailments on exit | **1,303** | - | **92** | - |
| Settlement on exit | **(5,455)** | - | **(105)** | - |
| Removal of pension liability re Cobalt Housing on exit | **(67)** | - | **-** | - |
| **At end of the year** | **860** | 7,194 | **-** | 138 |

The pension liabilities for the association are included in the consolidated pension disclosures in note 39d.

## 32. Non-equity share capital

| | Association 2018 £ | Association 2017 £ |
|---|---|---|
| Shares of £1 each fully paid and issued: | | |
| At start of the year | **7** | 7 |
| Shares issued in the year | **-** | 4 |
| Cancelled during the year | **-** | (4) |
| **At end of the year** | **7** | 7 |

The association's shares are not transferable or redeemable. Payments of dividends or other benefits are forbidden by the association's rules and by the Housing Association Acts.

## 33. Revenue reserves

| | Group 2018 £'000 | Group 2017 Restated £'000 | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|---|
| At start of year as previously reported | **442,438** | 415,564 | **659** | 759 |
| Prior year adjustment (note 42) | **(14,449)** | (15,690) | **-** | - |
| At start of year as restated | **427,989** | 399,874 | **659** | 759 |
| Removal of reserves relating to Cobalt Housing on exit | **(91,153)** | - | **-** | - |
| Surplus/(deficit) for the year | **29,406** | 28,115 | **(72)** | (100) |
| **At end of the year** | **366,242** | 427,989 | **587** | 659 |

## 34. Transactions with related parties

During the year the parent company, Onward Homes, transacted with its subsidiary undertakings as set out below. There are no guarantees given over and above the normal trading terms set out in the intra-group agreement. There are no provision required for uncollectible balances and no bad debt expense is required.

| | Association | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| **Recharge by subsidiary** | | |
| Atrium (non- regulated) | **119** | 109 |
| Cobalt | **2,500** | 1,675 |
| Contour Homes | **13,213** | 11,987 |
| Contour Property Services (non- regulated) | **918** | 752 |
| Hyndburn Homes | **1,576** | 963 |
| Hyndburn Homes Repairs (non-regulated) | **25** | - |
| Liverpool Housing Trust | **8,261** | 4,821 |
| Peak Valley | **1,376** | 1,056 |
| Ribble Valley | **554** | 283 |
| | **28,542** | 21,646 |

| | Association | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| **Recharge by service** | | |
| Group executive services | **387** | 263 |
| Corporate services | **6,595** | 6,333 |
| Commercial activity, procurement and communications | **2,414** | 988 |
| Financial services | **1,312** | 2,194 |
| Investment and initiatives | **1,426** | 1,053 |
| Intergroup staff recharges | **8,900** | 7,766 |
| Pension past service deficit recharges | **7,490** | 362 |
| Transitional, assurance and project | **-** | 2,653 |
| Staff secondments | **18** | 7 |
| Depreciation recharges | **-** | 27 |
| | **28,542** | 21,646 |

| | Association | |
|---|---|---|
| The association received charges from: | **2018 £'000** | 2017 £'000 |
| **Recharge from subsidiary** | | |
| Atrium (non- regulated) | **10** | - |
| Cobalt | **19** | 55 |
| Contour Homes | **208** | 248 |
| Hyndburn Homes | **93** | 92 |
| Liverpool Housing Trust | **1,362** | 1,620 |
| | **1,692** | 2,015 |

## 34. Transactions with related parties (cont'd)

| Debtors falling due within one year | | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|
| Atrium (non- regulated) | general balance | **109** | 21 |
| | pension deficit | **1** | 1 |
| Cobalt | general balance | **-** | 242 |
| | pension deficit | **-** | 44 |
| Contour Homes | general balance | **865** | 136 |
| | pension deficit | **631** | 614 |
| Contour Property Services (non- regulated) | general balance | **831** | 564 |
| | pension deficit | **29** | 28 |
| Hyndburn Homes | pension deficit | **33** | 31 |
| Hyndburn Home Repairs (non-regulated) | general balance | **1,429** | 417 |
| Liverpool Housing Trust | general balance | **2,107** | 781 |
| | pension deficit | **144** | 96 |
| Peak Valley | general balance | **1,981** | 752 |
| | pension deficit | **61** | 59 |
| Ribble Valley | general balance | **388** | - |
| | pension deficit | **11** | 10 |
| | | **8,620** | 3,796 |

| Debtors falling due after more than one year | | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|
| Atrium (non- regulated) | pension deficit | **8** | 10 |
| Cobalt | pension deficit | **-** | 329 |
| Contour Homes | pension deficit | **3,642** | 4,333 |
| Contour Property Services (non- regulated) | pension deficit | **176** | 206 |
| Hyndburn Homes | pension deficit | **207** | 240 |
| Liverpool Housing Trust | pension deficit | **912** | 714 |
| Peak Valley | pension deficit | **389** | 452 |
| Ribble Valley | pension deficit | **62** | 72 |
| | | **5,396** | 6,356 |

| Creditors: amounts falling due within one year | | Association 2018 £'000 | Association 2017 £'000 |
|---|---|---|---|
| Contour Homes | general balance | **3,576** | - |
| Hyndburn Homes | general balance | **48** | 308 |
| Ribble Valley | general balance | **-** | 19 |
| | | **3,624** | 327 |

All transactions with related parties are provided and received at cost and are apportioned in accordance with an agreed group recharge methodology. The recharge methodology recharges costs mainly on the basis of time, headcount or service usage. Transactions with Atrium, Contour Property Services and Hyndburn Homes Repairs (non-regulated) are based on an agreed fee structure per unit for management and an agreed price structure for repairs work.

During the year there were no tenant board members in Onward Homes.

## 35. Capital commitments

| | Group 2018 £'000 | Group 2017 £'000 |
|---|---|---|
| Capital expenditure contracted for but not provided for in the financial statements | **16,186** | 12,866 |
| Capital expenditure authorised by the Board of Management but not yet contracted for | **8,727** | 26,895 |

Capital expenditure commitments are funded through grant funding (HCA Affordable Homes Programme) and recycled grant, £2,497,000, and cash from approved loan agreements and retained surpluses, £22,416,000.

## 36. Impairment

Under FRS102 the group is required to perform impairment tests on its housing stock so that properties are not shown at an amount exceeding their recoverable amount. At the year-end the impairment review was carried out and the Board has reviewed the results and where appropriate made adjustments. In total the group approved impairment provisions of £Nil (2017: £143,000).

## 37. Cash flows generated from operating activities

| | Group 2018 £'000 | Group 2017 £'000 |
|---|---|---|
| Surplus for the year | **27,796** | 30,861 |
| **Adjustments for non-cash items:** | | |
| Depreciation of tangible fixed assets | **28,355** | 34,717 |
| Impairment of tangible fixed assets | **-** | 143 |
| Change in value of investment property | **(622)** | (726) |
| Amortisation of intangible assets | **258** | 1,270 |
| Decrease / (increase) in properties for sale and work in progress | **2,087** | 697 |
| (Increase) / decrease in trade and other debtors | **885** | 1,622 |
| Increase / (decrease) in trade and other creditors | **(5,966)** | 2,264 |
| (Decrease) / increase in provisions | **603** | 191 |
| Pension costs less contributions payable | **(581)** | 260 |
| Pension settlement and curtailment | **(4,152)** | - |
| Pension past service deficit movement | **(2,811)** | (1,936) |
| Carrying amount of tangible fixed asset disposals | **4,661** | 5,264 |
| Amortisation of deferred Government Grant | **(7,734)** | (8,767) |
| **Adjustments for investing or financing activities** | | |
| Proceeds from disposal of tangible fixed assets | **(4,664)** | (4,103) |
| Interest receivable | **(541)** | (950) |
| Interest payable | **15,561** | 16,763 |
| **Net cash generated from operating activities** | **53,135** | 77,569 |

## 38. Contingent liabilities

Liverpool Housing Trust has underwritten £533,000 of ERDF funding in relation to Unity 4. The original ERDF funding was in respect of New Century Halls Limited who went into voluntary liquidation in February 2011 and the building reverted to the association. LHT is now leasing the building to Oakmere Community College for ten years with an option for them to purchase it. The liability has been novated to the association. Government Office North West was satisfied that Oakmere are operating the resource centre in accordance with the terms of the ERDF funding so as to avoid any claw back of the grant. The contingent liability in respect of the ERDF funding ceases in August 2019.

An amount of £29.6m social housing grant relating to Rodney Housing Association properties acquired in April 2007 by Liverpool Housing Trust is not shown in the notes to the accounts but is disclosed for information.

## 39. Pension costs

### (a) The Social Housing Pension Scheme – Overview

Both Onward Homes and Liverpool Housing Trust participate in the Social Housing Pension Scheme (SHPS), a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme 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 scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30th December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore the group is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30th September 2014. This actuarial valuation was certified on 23rd 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 |
| from 1 April 2016 to 30 September 2020: | (payable monthly and increasing by 4.7% each year on 1 April) |
| **Tier 2** | £28.6m per annum |
| from 1 April 2016 to 30 September 2023: | (payable monthly and increasing by 4.7% each year on 1 April) |
| **Tier 3** | £32.7m per annum |
| from 1 April 2016 to 30 September 2026: | (payable monthly and increasing by 3.0% each year on 1 April) |
| **Tier 4** | £31.7m per annum |
| from 1 April 2016 to 30 September 2026: | (payable monthly and increasing by 3.0% each year on 1 April) |

Both Onward Homes and Liverpool Housing Trust closed their Defined Benefit schemes (Final salary 1/60th, Final Salary 1/70th and CARE 1/60th) to future accrual from April 2016. All members of these schemes were transferred into the SHPS Defined Contribution Scheme which has been open since 1st October 2011. From April 2016 there is one benefit structure available to Onward Homes which is the SHPS Defined Contribution Scheme.

## 39. Pension costs

### (b) The Social Housing Pension Scheme – Onward Homes

Where the scheme is in deficit and where the group has agreed to a deficit funding arrangement, a liability for this obligation is recognised. 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.

| | Association | | |
|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | 2016 £'000 |
| **Present value of provision** | **6,322** | 7,239 | 7,776 |

| | Association | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| **Reconciliation of opening and closing provisions** | | |
| Provision at start of the year | **7,239** | 7,776 |
| Incorporation of Growth Plan | **19** | - |
| Unwinding of the discount factor | **90** | 150 |
| Deficit contribution paid | **(936)** | (899) |
| Remeasurement impact of any change in assumptions | **(90)** | 212 |
| Remeasurement amendments to the contribution | **-** | - |
| **Provision at the end of the year** | **6,322** | 7,239 |

| | Association | | |
|---|---|---|---|
| | **2018 % per annum** | 2017 % per annum | 2016 % per annum |
| **Assumptions** | | | |
| Rate of discount | 1.72 | 1.33 | 2.06 |

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.

### (c) The Social Housing Pension Scheme – Liverpool Housing Trust

Where the scheme is in deficit and where the association has agreed to a deficit funding arrangement, a liability for this obligation is recognised. 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.

## 39. Pension costs (cont'd)

### (c) The Social Housing Pension Scheme – Liverpool Housing Trust (cont'd)

| | Group | | |
|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | 2016 £'000 |
| **Present value of provision** | **10,572** | 13,130 | 14,107 |

| | Group | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| **Reconciliation of opening and closing provisions** | | |
| Provision at start of the year | **13,130** | 14,107 |
| Removal of pension liability relating to Cobalt Housing on exit | **(982)** | - |
| Incorporation of Growth Plan | **60** | - |
| Unwinding of the discount factor | **149** | 273 |
| Deficit contribution paid | **(1,635)** | (1,634) |
| Remeasurement impact of any change in assumptions | **(150)** | 384 |
| Remeasurement amendments to the contribution | **-** | - |
| **Provision at the end of the year** | **10,572** | 13,130 |

| | Group | | |
|---|---|---|---|
| | **2018 % per annum** | 2017 % per annum | 2016 % per annum |
| **Assumptions** | | | |
| Rate of discount | 1.72 | 1.33 | 2.06 |

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.

### (d) Local Government Pension Schemes

Onward Homes also makes contributions to other defined benefit schemes, Greater Manchester Pension Fund and Merseyside Pension Fund. Each entity is a participating employer in its respective scheme. Onward Homes also previously made contributions to a defined benefit scheme, the Lancashire County Pension Fund. The group exited its participation in the scheme on 31 January 2018.

The most recent actuarial valuations of these schemes have been updated for accounts purposes by independent qualified actuaries. The disclosures represent each entity's share of the overall scheme's assets and liabilities. As permitted by FRS102 the disclosures for these entities have been consolidated. The assumptions used, which have been combined on a weighted average basis on asset values, are the best estimates chosen from a range of possible actuarial assumptions, which due to the timescale covered may not necessarily be borne out in practice.

The major assumptions used in this valuation are:

| | Group | |
|---|---|---|
| **Assumptions** | **2018** | 2017 |
| Inflation | **2.1%** | 2.2% |
| Rate of discount on scheme | **2.7%** | 2.6% |
| Rate of salary increase | **3.5%** | 3.8% |
| Rate of increase of pensions | **2.2%** | 2.3% |

## 39. Pension costs (cont'd)

### (d) Local Government Pension Schemes (cont'd)

| Assumptions | Group 2018 | Group 2017 |
|---|---|---|
| Life expectancy male non-pensioner | **24.7** | 24.8 |
| Life expectancy female non-pensioner | **27.6** | 27.7 |
| Life expectancy male pensioner | **22.3** | 22.3 |
| Life expectancy female pensioner | **25.0** | 25.0 |
| Mortality assumptions (normal health) | | |
| Basis | S2PA CMI_2015 | S2PA CMI_2015 |
| Non-retired members | 1.5% (98% male, 89% female) | 1.5% (98% male, 89% female) |
| Retired members | 1.5% (99% male, 93% female) | 1.5% (99% male, 93% female) |

The fair value of the schemes' assets at 31 March 2018, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, were:

| | Group 2018 £'000 | Group 2017 £'000 |
|---|---|---|
| Fair value of assets | **2,757** | 41,763 |
| Present value of liabilities | **(3,617)** | (48,957) |
| Deficit in the scheme | **(860)** | (7,194) |

The market value of the assets of the scheme and the expected long term rates of return at 31 March were:

| | Group 2018 £'000 | Group 2017 £'000 |
|---|---|---|
| **Market value** | | |
| Equities | **1,820** | 8,583 |
| Government Bonds | **441** | 1,459 |
| Other Bonds | **-** | 1,822 |
| Property | **193** | 1,839 |
| Cash/liquidity | **303** | 2,429 |
| Other | **-** | 25,631 |
| Total | **2,757** | 41,763 |

## 39. Pension costs (cont'd)

### (d) Local Government Pension Schemes (cont'd)

| | Group 2018 £'000 | Group 2017 £'000 |
|---|---|---|
| **Analysis of the amount charged to operating surplus** | | |
| Current service cost | **682** | 805 |
| Past service cost / (gain) | **-** | - |
| Total operating charge | **682** | 805 |

| | Group 2018 £'000 | Group 2017 £'000 |
|---|---|---|
| **Analysis of the amount credited to other finance income** | | |
| Expected return on pension assets | **(652)** | (1,231) |
| Interest on pension liabilities | **794** | 1,368 |
| Net return | **142** | 137 |

| | Group 2018 £'000 | Group 2017 £'000 |
|---|---|---|
| **Movement in (deficit) during the year** | | |
| Deficit in schemes at start of the year | **(7,194)** | (4,052) |
| Movement in year: | | |
| Current service cost | **(682)** | (805) |
| Past service cost | **-** | - |
| Contributions | **1,272** | 562 |
| Expected return on plan assets | **652** | 1,231 |
| Interest on pension liabilities | **(794)** | (1,368) |
| Administration expenses | **(9)** | (17) |
| Curtailments on exit | **(1,303)** | |
| Settlement on exit | **5,455** | |
| Removal of pension liability relating to Cobalt Housing on exit | **67** | |
| Actuarial (loss)/gain in SCI | **1,676** | (2,745) |
| Deficit in schemes at end of the year | **(860)** | (7,194) |

| | Group 2018 £'000 | Group 2017 £'000 |
|---|---|---|
| **Amount recognised in the Statement of Comprehensive Income** | | |
| Actual return less expected return on pension scheme assets | **708** | 6,188 |
| Experienced gains (losses) arising on the scheme liabilities. | **-** | (8,117) |
| Change in assumptions underlying the present value of scheme | **968** | (816) |
| Actuarial (loss)/gain recognised in SCI | **1,676** | (2,745) |

## 39. Pension costs (cont'd)

### (d) Local Government Pension Schemes (cont'd)

| | Group | |
|---|---|---|
| | **2018** | 2017 |
| **History of experienced surpluses and deficits** | | |
| Difference between actual and expected returns on assets (£'000) | **708** | 6,188 |
| % of scheme assets | **25.7%** | 14.8% |
| Experienced (losses)/gains on liabilities (£'000) | **-** | (8,117) |
| % of scheme liabilities | **-** | (16.6%) |
| Total amount recognised in SCI (£'000) | **1,676** | (2,745) |
| % of scheme liabilities | **46.3%** | (5.6%) |

| | Group | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| **Reconciliation of assets** | | |
| Assets at start of year | **41,763** | 34,318 |
| Employer contributions | **1,272** | 562 |
| Employee contributions | **133** | 231 |
| Benefits paid | **(1,093)** | (750) |
| Expected return on plan assets | **652** | 1,231 |
| Remeasurement of assets | **708** | 6,188 |
| Administration expenses | **(9)** | (17) |
| Settlement on exit | **(30,600)** | - |
| Removal of pension liability relating to Cobalt Housing on exit | **(10,069)** | - |
| Assets at end of year | **2,757** | 41,763 |

| | Group | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| **Reconciliation of liabilities** | | |
| Benefit obligation start of year | **48,957** | 38,370 |
| Operating charge | **682** | 805 |
| Interest cost | **794** | 1,368 |
| Employee contributions | **133** | 231 |
| Benefits paid | **(1,093)** | (750) |
| Curtailments on exit | **1,303** | - |
| Settlement on exit | **(36,055)** | - |
| Removal of pension liability relating to Cobalt Housing on exit | **(10,136)** | - |
| Actuarial gain(loss) | **(968)** | 8,933 |
| Benefit obligation at end of year | **3,617** | 48,957 |

Contour Homes has a pension liability with the Greater Manchester Pension Fund in relation to the Private Finance Initiative (PFI) which is matched with a commitment to Contour Homes by Manchester City Council. Variations in the obligation are reflected in the management fee.

## 39. Pension costs (cont'd)

### (d) Local Government Pension Schemes (cont'd)

In the year the liability of £1,965,000 (2017: £1,872,000) and corresponding asset of £1,565,000 (2017: £1,471,000), disclosed but not contained in the financial statements, moved as follows:

| | Group | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| At start of the year | **401** | 514 |
| Interest on pension liabilities | **12** | 18 |
| Transfers to reserves (actuarial gain in period) | **(55)** | (142) |
| Contributions in period | **(41)** | (43) |
| Current service costs in the period | **83** | 54 |
| **At end of the year** | **400** | 401 |

## 40. Improvement Programme / VAT Shelter

### (a) Hyndburn Homes Limited

At the time of the transfer of the housing stock in March 2006, Hyndburn Homes entered into a HM Revenue & Customs (HMRC) approved arrangement with Hyndburn Borough Council to carry out a housing stock improvement programme totalling £52.3m. There is no VAT sharing agreement with the Council in respect of the improvement programme. An estimated amount of £9.1million of VAT savings was approved under the approved arrangement with Hyndburn reflecting the 10 year VAT shelter agreed with HMRC.

### (b) Peak Valley Housing Association

At the time of the transfer of the housing stock in September 2006, Peak Valley entered into a HM Revenue & Customs (HMRC) approved arrangement with Manchester City Council (MCC) to carry out a housing stock improvement programme totalling £49m. There is no VAT sharing agreement with the Council in respect of the improvement programme. An estimated amount of £8.2m of VAT savings was approved under the approved arrangement with MCC reflecting the 10 year VAT shelter agreed with HMRC.

### (c) Ribble Valley Homes Limited

At the time of the transfer of the Housing stock in April 2008, Ribble Valley entered into a HM Revenue & Customs (HMRC) approved arrangement with Ribble Valley Borough Council (RVBC) to carry out a housing stock improvement programme totalling £39m. There is a VAT sharing agreement with the Council in respect of the improvement programme. An estimated amount of £6.8m of VAT savings was approved under the approved arrangement with RVBC reflecting the 15 year VAT shelter agreed with HMRC.

Expenditure of £2,015,000 is still planned which represents first cycle works and is deemed to be of a capital nature charged within the statement of financial position as it is incurred. The capital cost charged to the statement of financial position is depreciated in line with the group's depreciation policy.

## 41. Post Balance Sheet Events

There were no significant post Balance Sheet events requiring adjustment to the financial statements.

## 42. Prior year adjustment

The accounts have been restated following a review undertaken into housing property components and scheme equipment. The resulting accounting policy has reduced the number of components capitalised so this is consistent across the group. The new accounting policy for component replacement and capitalisation is aligned to the group's stock condition survey. The change has resulted in a write down to reserves of £14,449,000.

| | Group | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| Summary of the prior year accounting impact | | |
| Reduction in net book value of housing properties | **12,618** | 13,707 |
| Reduction in net book value of other fixed assets – scheme equipment | **1,831** | 1,983 |
| **Prior year adjustment** | **14,449** | 15,690 |

## 43. Change in estimate

Following a review of the group's stock condition survey the accounting estimates for the useful economic lives of housing property components have been revised and made consistent. The impact on housing property depreciation in the year was a reduction in the charge by £4,277,000 and an equivalent increase in the carrying value of housing properties. The useful economic life of deferred capital grant was affected in some parts of the group and this resulted in a reduction in grant amortisation by £2,311,000 and an equivalent increase in the deferred capital grant creditor.

## 44. Subsidiary exit

On 29 September 2017 Cobalt Housing exited the group and took its assets and liabilities with it. This transfer has been incorporated into the group's financial statements in the year of movement reflecting the fact that Onward is a public benefit entity and there was no disposal, consideration or discontinued activity. The assets and liabilities taken out of the consolidated accounts are set out below:

| | Book value £'000 |
|---|---|
| **Assets** | |
| Housing properties net of depreciation | **153,619** |
| Investment properties | **760** |
| Other tangible fixed assets | **2,737** |
| Trade and other debtors | **816** |
| Cash and cash equivalents | **19,925** |
| | |
| **Liabilities** | |
| Trade and other creditors: amounts falling due within one year | **(5,317)** |
| Other creditors: amounts falling due after more than one year | **(81,246)** |
| Provisions for liabilities | **(74)** |
| Pension liability | **(67)** |
| Revenue reserve brought forward | **(89,610)** |
| Surplus for the year | **(1,543)** |
| **Net assets and liabilities** | **-** |
| Consideration | **-** |
| **Gain/loss on subsidiary exit** | **-** |