Flagship Group

# Consolidated Financial Statements

## for the Year Ended 31 March 2018

31 King Street, Norwich, Norfolk, NR1 1PD
www.flagship-group.co.uk

**A Community Benefit Society registered under the Co-operative and Community Benefit Societies Act 2014:**
Registered No. 31211R | Homes and Communities Agency: Registered No. 4651 | An Exempt Charity

# Contents

# Board of Management, Executive Team and Advisers

| Member | | Board | Audit Committee | Remuneration Committee |
|---|---|---|---|---|
| **P Hawes** | N | Chair (from 26/11/2017) | ✓ (to 25/11/2017) | ✓ (to 25/11/2017) |
| **P Lakey** (Resigned 25/11/2017) | N | Chair | | ✓ |
| **P Remington** | N | ✓ | | Chair |
| **R Bennett** | N | ✓ | Chair | ✓ |
| **K Laud** (Resigned 25/01/2018) | N | ✓ | ✓ | ✓ |
| **P Cook** (Appointed 25/01/2018) | N | ✓ | ✓ | ✓ |
| **D McQuade** | E | ✓ | | |
| **D Armstrong** | E | ✓ | | |
| **H Walsham** | E | ✓ | | |
| **E Marcus** (Appointed 25 May 2017) | S | | | |
| **R Ayden** (Resigned 25 May 2017) | S | | | |

Key:
N – Non-Executive Director
E – Executive Director
S – Company Secretary

| Advisers: | |
|---|---|
| Registered Office: | 31 King Street, Norwich, Norfolk, NR1 1PD |
| Solicitors: | Anthony Collins Solicitors, 134 Edmund Street, Birmingham, B3 2ES;<br>Devonshires Solicitors, The Octagon, 27 Middlesborough. Colchester. CO1 1TG<br>Birketts Solicitors, Kingfisher House, 1 Gilders Way, Norwich NR3 1UB |
| Internal Auditors: | KPMG, Dragonfly House, 2 Gilders Way, Norwich. NR3 1UB |
| External Auditor: | Mazars LLP, 45 Church Street, Birmingham, B3 2RT |
| Bankers: | National Westminster Bank, Norfolk & Waveney Corporate Business Centre,<br>Norfolk House, Exchange Street, Norwich, Norfolk, NR2 1DD |
| Group Funders: | The Royal Bank of Scotland; Santander UK; The Co-operative Bank;<br>Nationwide Building Society; THFC |

# Chair's Statement

2017-18 was another great year for Flagship full of change and progress. We welcomed new staff and Board members, moved office, built our first market sale development, and continued building on growth partnerships that will have a lasting and positive impact for our region.

I am pleased to report that through a very solid performance we delivered a new record £37.1m net profit, better than budget £33.2m (2017: £31.7m).

The successful integration of Gasway into our portfolio during 2016-17, combined with ongoing efforts in 2017-18 to reduce operating costs, are helping to maintain a steady overall operating margin, which sits at 41.8% this year. Our operating profit finished at £55.9m.

We expanded our gas offering and acquired Milgas Services during the year. The move adds complementary services to those that Gasway already offer and provides a platform for strong growth in this area.

We entered into talks with Victory Housing Trust for a future partnership. The proposed partnership would create a 28,000-home landlord which will be able to deliver 10,000 new homes of which 7,000 will be affordable over the next 10 years, as well as enhancing services to residents and investing £500 million in maintaining and improving existing homes.

As the future depends on what we all do today, we are already working to ensure its long-term business relevance by playing an active role in housebuilding and this year our investment in new housing saw more than 260 new homes being built.

As part of our commitment and drive to diversify our housing portfolio and help meet the housing supply shortage, we unveiled our first ever homes for sale and the first scheme of its kind in South Cambridgeshire.

The stylish 'Eden Rise' development in Cambourne, near Cambridge comprises 12 new homes to buy and 15 apartments for affordable rent. With a further eight new homes in Campsea Ashe and many more in the pipeline, our build for sale programme is going from strength to strength.

In addition, we will be working with 14 other housing associations and the Cambridgeshire and Peterborough Combined Authority to help deliver up to 40,000 affordable homes over the next 20 years. The authority was allocated a specific housing grant worth £170m and part of the grant will be used to build housing of mixed tenure, including affordable rents to ensure homes are suitable for people on a range of incomes.

The strong financial results are underpinned by embedded savings and strong operational performance with better than budget performance in void loss (0.5%) and control of arrears (3.1%) despite the further rollout of Universal Credit (UC).

But business alone cannot drive the wider and more profound changes required. As a sector we need to accelerate change by establishing systems that reshape several areas of the industry and enable the development of new and emerging technologies. We carried out a pilot of modular construction in February this year which saw four houses built and ready to live in within 10 weeks. There are no signs that they are any different from standard construction. We need and will do more of this.

In December, we expanded our technology trial installing smart thermostats in 493 of our properties.

It followed on from the success of our pilot earlier in the year in 10 of our homes. The aim of Phase II is to enable us to help reduce fuel poverty and rent arrears, prevent damp and mould, increase digital usage and improve boiler maintenance to more of our customers. Additionally, we started on a programme of enhanced fire safety systems to all our properties.

The entire experience for our customers is being made easier through technology too.

Our digital and self-serve options are becoming more popular with an increase in interactions of 34.7% in the past year, compared to last year. The increase in digital uptake has resulted in a decline in telephone demand to our contact centre by 10%.

We changed the way we collect, analyse and act on customer feedback putting into place Rant & Rave, a real-time customer feedback solution, allowing us to act straight away on what our customers are saying. Our efforts were recognised at this year's Rant and Rave Customer Engagement Awards where we scooped two accolades: The Most Transparent and The Above & Beyond awards.

We moved to measuring satisfaction through the Net Promoter Score (NPS) methodology, a universal reliable and trusted metric and are pleased to report that in our first year it increased from +14 to +19. The +19 score outperforms the cross-sector UK Customer Satisfaction Index (reporting an average of +15.3).

The quality and diversity of our people are vital to the success of our approach. I would like to thank everyone who contributed to Flagship's strong business performance in 2017-18, including our customers, partners and staff.

I'd like to take this opportunity to recognise and thank Peter Lakey for his brilliant stewardship throughout his term as Chair. His determination, energy and passion for Flagship have been instrumental in making it the organisation it is today and it is a real honour to serve as his successor as we continue to work to make a future that is better for all.

**Peter Hawes**
**Chair**
26 July 2018

# Strategic Report

## for the Year Ended 31 March 2018

# Principal activities

**Flagship's primary activity is to provide general needs rented accommodation for people on low incomes. Our purpose is to provide homes for people in need. The majority of our housing stock is one, two and three-bedroom accommodation. We provide accommodation for five very sheltered housing schemes, and a number of traditional sheltered schemes. In addition, we provide accommodation for young people aged 16-24, shared ownership homes, some student accommodation and a small number of market rented homes. The Group had 22,705 (2017: 22,521) homes in management at 31 March 2018.**

The results of Flagship Housing Developments Limited, RFT Repairs Limited and Gasway Services Limited are consolidated in the Group's results. Flagship Housing Developments Limited provides development services to the Group, RFT Repairs Limited provides repairs services to the Group and Gasway provides gas installation and maintenance services.

## Objectives and strategies

Our purpose remains unchanged.

**Our purpose:**
To provide homes for people in need.

**Our 2030 vision:**
To deliver homes our customers love.

**Our big hairy audacious goal (BHAG):**
To solve the housing crisis in the east of England.

**Core business:**
To develop, manage and maintain homes in the east of England.

**It reinforces our commitment to achieving excellence through the Flagship Way and provides a clear focus on business and commercial growth to support our purpose and meet customers' needs.**

# Operating review

During the year, Flagship's development and property sales programmes have delivered the following:

| Measure | 2018 Actual | Compared to: 2017 Actual | 2017 Actual |
|---|---|---|---|
| **New homes** | | | |
| New social rented | 212 | 62 | |
| New shared ownership | 42 | 28 | |
| Acquired social rented | 0 | 68 | |
| Acquired shared ownership | 0 | 9 | |
| Acquired market rented | 0 | 122 | |
| Open market sale properties | 12 | 0 | |
| **Property sales** | | | |
| Right to Buy sales | 20 | 28 | |
| Shared ownership staircasing to 100% | 48 | 46 | |
| Other disposals | 6 | 20 | |

We are committed to the continuous improvement of all our services through the Flagship Way. Our methodology enables us to understand what is happening, understand the causes of variation in performance, enabling us to make improvements, making us more efficient and increasing our capacity.

We are regulated by the Regulator of Social Housing (RSH). As with any regulator this involves an ongoing dialogue in respect of all issues affecting the sector and Flagship at a local level. The Group has a Governance rating of G1 and a Viability rating of V1. During the year, Moody's lowered the Group's credit rating from A1 to A2, linked to the fall in credit rating at national government level.

During the year it was identified that one of our schemes has been built with defects. Flagship has taken legal action against the developer involved and expects not to incur any rectification costs. No provision has been made for these costs.

## Principal strategic and operational risks

The principal risks faced by Flagship are identified by the Board and senior managers at regular board meetings and factored into the Business Plan. Currently the external risks include:

- Welfare reform leading to a loss of income, including uncertainty over future housing benefit eligibility, caps and direct payments to customers.
- Failure to manage and deliver new development plan leading to increased costs and reputational risk.
- Failure to prepare for General Data Protection Regulations.

# Group results: summary of financials

| | 2018 £'000 | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| **Statement of comprehensive income** | | | |
| Turnover | 133,725 | 119,574 | 127,060 |
| Cost of sales | (12,849) | (4,177) | (7,841) |
| Operating costs | (64,944) | (62,973) | (68,942) |
| Operating surplus | 55,932 | 52,424 | 50,277 |
| Surplus on sale of assets | 2,955 | 1,928 | 1,176 |
| Net interest and financing charges | (23,779) | (23,925) | (24,126) |
| Surplus on revaluation of investment properties | 1,941 | 1,293 | 33 |
| Surplus for the year before taxation | 37,049 | 31,720 | 27,360 |

| | | | |
|---|---|---|---|
| **Statement of financial position** | | | |
| Fixed assets | 1,396,044 | 1,364,312 | 1,329,423 |
| Current assets | 120,079 | 94,885 | 91,767 |
| **Current liabilities** | (40,616) | (41,811) | (38,529) |
| | 1,475,507 | 1,417,386 | 1,382,661 |

| | | | |
|---|---|---|---|
| **Financed by:** | | | |
| Creditors due after 1 year | 827,861 | 806,536 | 802,919 |
| Other long-term liabilities | 6,590 | 7,455 | 5,290 |
| **Reserves** | 641,056 | 603,395 | 574,452 |
| | 1,475,507 | 1,417,386 | 1,382,661 |

| | 2018 £'000 | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| **Statement of cash flows** | | | |
| Net cash flow from operating activities | 60,248 | 80,452 | 59,182 |
| Cash flows from investing activities | (46,053) | (51,190) | (22,769) |
| Cash flows from financing activities | 1,023 | (17,686) | (28,473) |
| Net cash flow | 15,218 | 11,576 | 7,940 |

| | | | |
|---|---|---|---|
| **Financial ratios** | | | |
| Operating margin – social housing | 46.5% | 46.1% | 41.2% |
| Operating margin | 41.8% | 43.8% | 39.6% |
| Operating costs per home - social housing | £2,586 | £2,657 | £2,910 |
| Operating costs per home | £2,860 | £2,796 | £3,088 |
| Cash generated per unit | £2,656 | £3,555 | £2,651 |

# Group results: summary of other ratios

| Key covenant ratios | 2018 | 2017 | 2016 |
| --- | --- | --- | --- |
| Operating surplus to interest | 2.99 | 2.81 | 2.84 |
| Debt per unit | £27,575 | £27,248 | £27,134 |
| Asset cover – charged properties on £460m loan | 1.34 | 1.40 | 1.29 |
| Gearing | 44.5% | 41.3% | 41.3% |
| **Other key performance indicators** | | | |
| Homes in management | 22,705 | 22,521 | 22,323 |
| Net Promoter Score | +19 | +14 | N/A |
| Overall customer satisfaction | N/A | 93% | 90% |
| Current tenant rental arrears as a % of income | 3.1% | 2.9% | 2.5% |
| Current tenant rental arrears | £3.2m | £3.0m | £2.7m |
| Average weekly gross rent (52 weeks) | £91.66 | £93.83 | £94.18 |
| Average re-let time | 29.6 days | 46.3 days | 40.0 days |
| Rent loss from voids as a % of income | 0.50% | 0.80% | 0.80% |
| New handovers in year | 266 | 292 | 243 |
| First tranche shared ownership sales | 35 | 17 | 77 |
| Staircasing shared ownership sales (inc, staircasing to 100%) | 68 | 62 | 65 |

# Financial performance review

The financial statements continue to demonstrate strong performance. The Group surplus before tax for the year ended 31 March 2018 has increased by £5.3m to £37.0m (2017: increased by £4.3m to £31.7m). Total assets less current liabilities are £1,475.5m (2017: £1,417.4m)

## Some key facts are:

### Income:

- The majority of income comes from social housing lettings – 80.0% (2017 – 90.4%) and this income has remained consistent at £107.0m (2017: £106.5m). The increase in the number of properties owned and let combined with the reduction in void properties during the year countered the effect of the decreased rent levels of 1% in the General Needs properties.
- The housing team maintained their strong performance on rent collection, ending the year with a rent arrears percentage of 3.1% (2017 2.9%), despite challenges following the introduction of Universal Credit into more parts of our region of operation. 2018-19 will continue to be challenging with further roll outs. The housing teams continue to engage with customers to educate and assist as their circumstances change.
- This was the first full year of the provision of gas servicing and maintenance following the purchase of Gasway Services Limited last year. Turnover from gas servicing was £13.8m (2017: £3.4m).
- Flagship Developments completed its first external market sale during the year which complements the Group's income during the period.

### Expenditure:

- Cost of sales have increased in 2018 to £12.8m (2017: decreased to £4.2m.). Operating costs have increased to £64.9m in 2018 (2017: decreased to £63.0m.)
- Cost of sales includes a full year of costs relating to Gasway's activities from when they joined the Group, £9.0m (2017: 2.6m.)
- Operating costs also include a full year of costs relating to Gasway's activities from when they joined the Group, £4.2m (2017: 0.8m.)
- Operating costs relating to social housing lettings have reduced by £1.0m to £56.4m (2017: £57.4m) despite an increase in the properties managed.
- Routine maintenance, cyclical maintenance, planned maintenance and major works expenditure for the full year for our social properties increased to £36.2m from £35.9m (including the capital elements).

# Financial performance review

## Some key facts are:

### Balance Sheet:

- Housing properties are valued at £1,306.4m (2017: £1,277.7m).
- The properties are held at depreciated historical cost.
- The gearing ratio (showing the level of indebtedness) is calculated at 44.5% (2017: 44.7%).
- The LGPS pension liability is £6.5m (2017: £7.4m) This does not reflect the position of the Group's SHPS scheme. The estimated employers' buy out debt in the SHPS scheme is £50.2m (2017: £50.2m).

### Cash Flows:

- Operating activities generated cash of £60.2m (2017: £80.5m). Contributing factors are stock levels increasing by £6.5m and cash investments shown on the statement of financial position as current asset investments increased by £5.1m (2017: decrease £9.9m). Note 32 shows more detail of this movement.
- Interest paid was lower than last year despite an increase in loans £23.8m (2017: £25.0m).
- During the year £50.8m (2017: £30.3m) was spent on the improvement, construction and purchase of housing properties.
- During the year £Nil (2017: £23.4m) was spent on the purchase of investment property.
- £32m new funding was received during the year.
- Loan repayments of £7.4m (2017: £7.5m) were made during the year.

### Funding:

- Gross loans outstanding were £622.7m (2017: £597.3m). The average interest rate on these loans is 3.80% (2017: 3.80%).
- Flagship has comfortably met the covenants required as a condition of the above funding. The Business Plan confirms that these conditions will continue to be met.

## Key performance indicators

In addition to monitoring the key financial information, operating performance is reviewed monthly by the Executive Team and at all Group Board meetings to ensure we are achieving our objectives and strategies.

# Investment for the future

Our purpose is to provide homes for people in need across the east of England. Our core business is the provision of housing management and maintenance services to over 22,700 rented homes. We also have a new build development programme where we expect to handover 3,346 new properties over the next five years.

**By delivering services which are truly designed against customer needs we aim to provide a significantly better overall service.**

Our relentless pursuit of continuous improvement and learning will differentiate us from our competitors and position us strongly for the future.

**Our strategic aims:**

- Deliver outstanding customer service
- Build more new homes
- Grow profitable commercial activity
- Increase return on assets
- Drive continuous improvement
- Maintain strong financial viability

## Corporate Social Responsibility

As a business, we're committed to Corporate Social Responsibility (CSR). CSR helps us to show we are socially responsible and environmentally sustainable. It can also deliver cost savings and help deliver better services, benefitting both society and Flagship.

**We take a holistic approach to CSR and capture and report on the work that we do across four areas:**

- Workplace: To enhance the wellbeing of our staff
- Social value: To enhance wellbeing in our communities
- Marketplace: To deliver wellbeing outcomes through our supply chains
- Environment: To make our impact on the environment net positive

## Capital structure

Flagship Housing Group Limited is registered under the Co-operative and Community Benefit Societies Act 2014. It has issued share capital of £5. The shares do not have a right to any dividend or distribution in a winding-up, and are not redeemable. Each share has full voting rights. Further details of the group structure can be found in Note 13 to the financial statements.

## Treasury policy

Flagship Housing Group has adopted a group Treasury Policy that sets out the parameters and controls for treasury activities across the Group. Properties are financed through loans from the debt and capital markets. The gross amount owed by Flagship Housing Group as at 31 March 2018 relating to these facilities was £622.7m (2017: £597.3m). Further details relating to these facilities can be found in note 19 to the financial statements.

## Statement of compliance

In presenting the Strategic Report, the Board has endeavoured to follow the principles as set out in the Statement of Recommended Practice for accounting by Registered Providers.

## Value for Money (VfM) – 2017/18

Value for Money is an important part of our culture. It sets the tone for doing the best for our customers – and is one of our fundamental values – to spend money wisely.

All our income is spent maintaining our existing homes, building new ones and maintaining and investing in services. Our main source of income comes from the rent our customers pay us and we are accountable for how we spend it. For us, Value for Money is about achieving the best possible results with the available resources; finding the right balance between cost, quality and effectiveness.

This Self-Assessment reviews our Value for Money (VfM) achievements during the past year and sets out challenging objectives for the future.

Additional detail is provided in a report to be published in September 2018 at www.flagship-group.co.uk/our-finances

We improve business efficiency through a culture of continuous improvement, which we call the Flagship Way. This has brought about transformational change in leadership, management and service delivery across the Group. It means that all employees are engaged in the review and redesign of business processes and can challenge existing and traditional ways of working.

Through robust management we continue to outperform our business plan forecasts. This year we achieved a turnover of £133.7m, and delivered a new record £37.1m net profit, better than budget (£33.2m) and 2016/17 (2017: £31.7m). Our operating profit finished at £55.9m, which increased from last year (2017: £52.4m).

At our annual review we retained Moody's rating of A2 (stable) which reflects our strong operating margins, stable interest coverage ratios, solid financial management practices and the successful streamlining of governance structures.

We measure our performance against the previous year and benchmark ourselves against housing associations with between 15,000 and 30,000 homes.

We use a colour coding system to highlight our VfM performance:

## Key:

- Good
- Okay
- Requires improvement

Highlights this year include:

- +19 NPS score
- Delivered 266 new homes, of which 12 were for outright sale
- 99.5% rent collected
- £36.2m invested in improving our homes
- £55.9m operating profit
- £37.1m net profit to reinvest in delivering our BHAG

## Strategy

### Our strategic framework focuses on the things that really matter and provides clear direction for how we run our business.

It centres on meeting our purpose: to provide homes for people in need and on our values – the bedrock of the Flagship Way:

- Great people doing great things
- Relentlessly improving performance
- Spending money wisely
- Delivering outstanding customer service

To meet our purpose and achieve our goal of helping solve the housing crisis in the east we focus on delivering new homes and we aim to increase the number of affordable homes we own by 2% every year.

The steadily increasing profits provides the cash to invest in new homes on top of the investment in existing homes.

During the year our operating margin dropped from 44% to 41.8% as a result of the acquisition of Gasway (lower margin gas servicing and installation business). The operating margin for our core social housing lettings increased from 46.1% to 46.5% reflecting the continued focus on efficiency and as a direct result of bringing gas servicing in-house. Our operating profit finished at £55.9m.

As part of our strategy we continue to:

- Invest in digital technology to make it easier and quicker for customers to engage with us.
- Transform our services to ensure they continue to meet customer needs and are cost effective.
- Bring services in-house to reduce cost and improve customer service.
- Invest in commercial activities that generate an appropriate rate of return for the Group.
- Make intelligent use of information to tailor services and target resources.
- Maximise income from assets.
- Continue to engage with key stakeholders to ensure our services are fit for the future.
- Invest in our staff's wellbeing.

## Growth

During the year, we added 266 homes to our portfolio, 212 of these were for social rent, 42 were for shared ownership and 12 were for outright sale.

| Tenure | Handovers |
|---|---|
| Social rent | 212 |
| Shared ownership | 42 |
| Outright sale | 12 |
| Total | 266 |

We sold 20 homes under Right to Buy (RTB) and had 48 shared ownership homes staircase to 100%. The net increase in homes for the year was 194.

Our development programme continues to gain traction and our five-year aspiration is to deliver over 3,346 new homes of which 2,781 are planned to be affordable with the remainder for outright sale.

We have over 900 secured homes against the 3,346 planned and a further 200 specific schemes progressing through our pipeline process.

Gasway has continued to grow, with additional work from existing clients and also securing new contracts. We expanded our gas offering and acquired Milgas Services during the year. The move adds complementary services to those that Gasway already offer and provides a platform for strong growth in this area.

We entered into talks with Victory Housing Trust for a future partnership. The proposed partnership would create a 28,000-home landlord which will be able to deliver 10,000 new homes of which 7,000 will be affordable over the next ten years, as well as enhancing services to residents and investing £500m in maintaining and improving existing homes.

Through this partnership we will secure significant savings by 2021. This will be achieved through a combination of improvements in the delivery of the repairs service, efficiency gains in management costs, lower costs of new funding and achieving greater economies of scale in development.

## Finance

This year has seen a very solid performance that has delivered a new record £37.1m net profit, better than budget (£33.2m) and prior year (2017: £31.7m).

The strong financial results are underpinned by embedded savings and strong operational performance with better than budget performance in void loss and control of arrears despite the further rollout of Universal Credit.

Our operating profit finished at £55.9m, which is higher than Budget (£53.7m) and last year (2017: £52.4m).

During the year we generated £60.2m of cash from operations and £8m from asset sales. We raised £32m of new debt, repaid £7m of existing debt and spent £23m on loan interest and lease interest payments. We invested the remainder as follows: £36.0m in new homes; £14.6m improving existing homes, £2.8m on intangible assets (Goodwill & IT Software) and £1.1m on other fixed assets.

The year-on-year improvement of our financial results is matched by increases in our customer satisfaction, staff engagement and also the number of new affordable homes delivered in the year.

## Customers

### A voice for our customers

A new real-time feedback programme has been introduced to help understand customer satisfaction for all our service areas with a primary focus on improvement, rather than benchmarking.

This means we are able to continuously measure service interactions with customers (i.e. repairs and calls into the contact centre) using automated surveys. We have typically seen scores around 84% satisfied or very satisfied and currently each service area is improving with repairs satisfaction at a high of 88%.

To provide a better understanding of the overall relationship between Flagship and our customers, we have adopted the Net Promoter Score (NPS) measurement that provides a valuable insight into our customers' likelihood to recommend us as a landlord.

Within our first year of measuring customer experience in this way we achieved our ambitious strategic goal of +19 (up from +14 in 2017) and over 50% of customers rated Flagship a 9 or a 10 out of 10.

## Customers

It is important we engage with our customers, and in the right way. Our online tool, the Platform, makes it easier for customers to share their views and opinions so that we can make positive changes to the service we offer.

Membership has almost tripled over the past year - with 891 customers now able to share their views and opinions with us compared to 309 the previous year.

During the year, we consulted customers on topics including: customer communications, complaints, our website, repairs, and rent communications.

Results are published for our staff to take action and shape services, and we inform customers about where they have made a difference.

These include:

- Rent letters - improving communication going out to our customers, moving away from a detailed letter to a simplified brochure. Maintaining key information but creating more user-friendly correspondence.
- Housing Ombudsman Service – a redesign of our complaints process to include clear information about Ombudsman complaints.

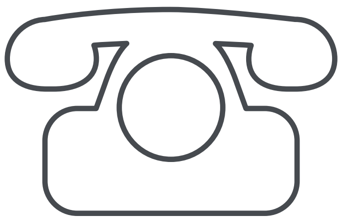
## Our Customer Operations Group (COG)

COG work with us to help us understand what matters to our customers. The group allows us to ensure that customers are at the forefront of decision making as well as making sure we are transparent in all that we do. Through using the wellbeing valuation, we are proud that these actively engaged customers create over £45,000 worth of social value each year.

In particular, this year COG have conducted three scrutiny reviews into customer related services including the transition of gas services from Aaron Services to Gasway Services, our customer offer, and communications with our Housing Officers. These reviews have resulted in a wealth of insights and recommendations for us to significantly improve our services in these areas for the benefit of all our customers.

COG continue to comment on policies and in particular have added value to our complaints, anti-social behaviour and rental income policies.

We appointed three new members to COG at the end of 2017 who bring a wealth of customer service and housing experience.



## Customers

During 2017/18 we have proactively invested £35.9m on improving the quality of our homes. £21.3m has been on responsive repairs and £14.6m on capital and remodelling.

This has included:

- 831 kitchens
- 624 bathrooms
- 165 re-wires
- 450 consumer units
- 784 doors
- 227 sets of windows
- 210 pitched roofs

Our rent collection has improved slightly at 99.5% from 99.1% and our arrears were 3.1% at year-end.

For RFT Services, the number of properties requiring void works at any one time reached its lowest point of 14 in October 2017. The number of customers enquiring about their outstanding repairs have been reduced after we identified that a large proportion of customer calls related to older repairs. Our focus has been to complete these as a priority. In addition, more works are completed daily leading to the number of complaints falling and positive customer satisfaction.

The introduction of an in-house Learning and Resolution Team has enabled us to deal with correspondence such as MP enquiries and complaints more effectively and efficiently. The L&R Team also contact customers who have previously provided low scoring feedback to gain a greater insight enabling us to make improvements to our services.

There has been a 34.7% increase in our self-serve options and digital interactions in the past year, compared to last year. This has resulted in a 10% decline in telephone demand to Response enabling us to answer calls more quickly.

## People

Our staff are important to us which is why we create an inspiring place to work. In the latest employee satisfaction survey our staff scored Flagship 74% employer of choice (2017: 69%).

In addition to agile working, we continue to provide benefits for our staff such as the introduction of a wellbeing programme providing support and advice focusing on physical, mental and financial health.

We are passionate about growing our talent and continue to invest in our Apprenticeship Programme. To date we have recruited 34 apprentices into the business and there are 27 members of staff working towards qualifications across the Group. We have made savings of £33k by gaining in-house accreditations enabling us to deliver our own training in areas such as Health & Safety and First Aid.

In 2017/18, we launched our Bright Futures Programme, our first higher level apprenticeship providing a degree on completion as well as a guaranteed job with Flagship. The Programme aims to attract more young people into a career in housing and enables us to grow our own talent.

In today's competitive knowledge-driven organisations, we believe leadership is more important than ever, and requires more than just possessing the right technical skills – our leadership development programme and succession planning helps us identify people with the potential to be our leaders of the future. We foster a working environment that inspires our staff to reach their full potential and establish challenging goals that will ultimately set ourselves apart from our competitors.

## Systems

We invested £50.6m in our capital works programme this year which is summarised below:

- £36.0m development of homes
- £14.3m property component replacements
- £0.3m re-modelling

Due to the successful focus on reducing the work in progress of responsive repairs, there was a £685k overspend on responsive maintenance. This was resourced using labour from the capital delivery teams and as a result there was an under delivery of £1.4m on capital spend.

| Measure | 2018 Actual | 2017 Actual | Peer group | 2017 Actual | Peer group |
|---|---|---|---|---|---|
| Capital maintenance cost per property | £660 | £754 | £521 | ● | ● |
| Responsive, cyclical and void cost per property | £937 | £839 | £832 | ● | ● |

- We were £500k below budget (£1m) for void loss due to re-letting our void properties more quickly.
- A newly implemented process and successful partnership working with RFT Services resulted in faster re-let times for our customers.

## Housing

Since the introduction of Universal Credit, we have seen customer arrears increase – our predictions, would suggest that UC tenants are 3.7 times more likely to fall into arrears and 66% will remain in arrears for the next six months.

Our 'Rent First' approach includes our in-house software development team creating a new bespoke IT system to assist housing officers to effectively manage the collection of rent. The system will automate tasks such as sending text alerts to customers when their rent is due, or alerting them when a payment has been missed.

Other measures being introduced include:

- Rent Recovery Process - processes revised to include the use of County Court Judgements (CCJs) where appropriate. A toolkit of options enables housing officers to select most effective course of action depending on individual household circumstances. CCJs have been introduced to successfully recover debts while keeping customers in their homes, rather than facing possible re-possession action.
- Data Analysis - further develop more predictive/intuitive measures going forward to enable us to take a more targeted and proactive approach to help support our customers. Analysing patterns of customer payment behaviour to more accurately predict future trends – not just the level of arrears but how and when people pay.
- Financial Support Officer roles - to provide proactive preventative support as well as crisis management once a customer is already in debt.

Having trusted landlord status means we now have direct access to the Universal Credit portal enabling us to speed up the payment process as applications can be verified more quickly.

We have carried out 668 affordability assessments since our assessment tool was introduced in July last year. The number of those at high risk of falling into arrears has fallen compared to figures in February.

**Affordability Assessment Summary**

| Month | % of lettings | % High Risk | % Medium risk | % Low risk |
|---|---|---|---|---|
| Feb-18 | 49% | 19% | 36% | 45% |
| May-18 | 53% | 17% | 38% | 45% |

## Asset Management

A main area of focus has been increasing the energy efficiency of our stock.

One way of delivering this is through renewable energy projects both large scale and on individual properties. These projects have the additional benefits of making our homes more affordable for the customers who live in them as well as generating income for Flagship through RHI grants, with over £25,000 received so far.

To protect our customers and our properties we are making additional fire safety measures. A best practice approach is being implemented dovetailing smoke detectors and CO2 installations in all our properties, which we aim to be completed by March 2019.

Additionally, since 2017 we have carried out:

- 425 door improvements/repairs
- 252 door replacements
- 758 improvements/repairs to fire systems
- 132 lighting upgrades
- 15 fire system upgrades

Work in progress:

- 9 fire system improvements
- 6 new fire system upgrades
- 100 door replacements
- 160 door improvements/repairs

## VfM Savings include:

- £146k IT software licences
- £244k IT server storage
- £371k asbestos survey and removal contract
- £37k waste management contract
- £80k in legal fees via introduction of a new electronic tendering system
- £302k utilities bills
- £88k in-house training
- £60k HR contract negotiation
- £25k Government renewable heat incentive
- £200k by increasing the car lease period to 4 years

## Social Value

We have continued our drive towards making a real difference to others. By working in a sustainable and environmentally friendly way, we are able to deliver better services and cost savings that benefit our customers, our staff and the wider community.

We have formalised our approach to Corporate Social Responsibility (CSR). This is captured and driven by its four principles – Social Value, Environmental Value, Marketplace Value, Workplace Value.

We have extended our CSR commitment by successfully incorporating new ways of working:

- Measures have been taken to train our estate officers to use garden chippers, owned by RFT Services, so green waste is chipped and reused on communal gardens. This has eliminated waste costs and transportation costs to tipping sites.
- Informed from a pilot project at a small number of our flats, we are installing smart technology units in 495 of our properties. These will help reduce fuel poverty and rent arrears, prevent damp and mould, increase digital usage and improve boiler maintenance.
- SHIFT, the sustainability standard for housing, allows us to demonstrate how we are delivering against challenging environmental targets each year and this year we achieved Silver accreditation.

This year we won the SHIFT best corporate sustainability project award for our wellbeing plan.

We have undertaken a nine-month trial to use a Lightfoot device in 18 Estate Officer and RFT Operative vehicles. The Management and Driver Behaviour device helps fleet drivers get the most from their vehicle by driving safely and efficiently. This creates fuel savings, improves driver well-being and benefits the environment.

The results to date have been encouraging and include:

- 12% fuel saving
- 23% reduction in time spent idling

Estimated NET savings:

- Over 3 years = £5,540, over 4 years = £10,005, over 5 years = £14,676

Estimated CO2 savings (tonnes):

- Over 3 years = 15t, over 4 years = 20t, over 5 years = 25t

We are looking at the possibility of expanding the device to additional vehicles.

RFT Services was awarded OHSAS 18001, ISO 14001:2015 and ISO 9001:2015 for Health & Safety and its Quality Management and Environmental Systems. They are international standards that demonstrate commitment to quality services and reducing environmental impact while driving down costs, improving productivity and boosting customer satisfaction.

## Sector scorecard

Flagship was a participant in the sector scorecard pilot that was trialled before the new VfM standard was published. This was a voluntary participation, adopted by a large proportion of housing associations. A summary of the efficiency metrics used in the sector scorecard is left.

The Operating Margin in 2017/18 is reduced due to the acquisition of Gasway (lower margin gas servicing and installation business). The number of homes delivered for affordable rent has increased year on year. The 2016/17 numbers included 122 market rented homes. Our strategic customer satisfaction measure is now based on our Net Promoter Score.

| Absolute and Comparative Costs | 2018 Actual | 2017 Actual | Peer Group 2017 | 2017 Actual | Peer Group 2017 |
|---|---|---|---|---|---|
| Operating margin (overall) | 41.8% | 43.8% | 33.0% | | |
| Operating margin (social housing lettings only) | 46.5% | 46.1% | 33.1% | | |
| EBITDA MRI | 240% | 284% | 205% | | |
| Units developed | 254 | 292 | 406 | | |
| Units developed (as a percentage of units owned) | 1.0% | 1.3% | 1.99% | | |
| Gearing | 44.5% | 44.7% | 44.5% | | |
| Customer satisfaction | N/A | 93% | 85% | NA | NA |
| Investment in new housing for every £1 generated from operations | £0.76 | £0.63 | £0.77 | | |
| Investment in communities for every £1 generated from operations | £0.00 | £0.00 | N/A | | NA |
| Return on capital employed | 4.0% | 3.8% | 4.3% | | |
| Occupancy rate (period end) | 98.9% | 96.2% | N/A | | NA |
| Ratio of responsive repairs to planned maintenance | 1.4 | 1.1 | 1.4 | | |
| Headline social housing cost per unit | £2,586 | £2,656 | £3,259 | | |
| Rent collected | 99.5% | 99.1% | 99.7% | | |
| Overheads as a percentage of adjusted turnover | 6.9% | 7.3% | 11.5% | | |

## VfM – our 2017/18 plans and how we did

Objective: Improve our void re-let times from 46.3 days
Result: Re-let times reduced to 29.6 days

Objective: Deliver 296 new homes
Result: We delivered 266 new homes (the acquisition of 50 market rented properties was within the 296 budget but not acquired during the year)

Objective: Achieve a Net Promoter Score of +18
Result: Achieved a Net Promoter Score of +19

Objective: Embed £2m savings plus £1m additional savings on materials and vehicle fleet.
Result: Achieved the embedding of £2m savings

Objective: Invest in improving our homes = £18.6m responsive and £19.8m capital / remodelling
Result: We invested £21.3m on responsive repairs and £15.0m on capital/remodelling

Objective: Maintain arrears levels below 3.0%
Result: Arrears levels were 3.1%

Objective: Improve our digital offering
Result: We improved our digital offering - newly designed websites and IVR payment

Objective: Improve re-let customer satisfaction
Result: Re-let customer satisfaction improved to 76%

# New Value for Money Standard

For the next financial year, starting on 1 April 2018, there is a new Value for Money standard that comes in to effect. A result of this will be that Housing Associations will report VfM in a less narrative manner, and publish a set of standard metrics as set by the regulator. The regulator also expects Housing Associations to publish any additional metrics needed to evaluate how they are achieving their own strategic objectives.

## Regulator of Social Housing VfM Metrics

A summary of the efficiency metrics used in the updated VfM standard is below:

| Absolute and Comparative Costs | 2018 Actual | 2017 Actual | Peer Group 2017 | 2017 Actual | Peer Group 2017 |
|---|---|---|---|---|---|
| Reinvestment percentage | 6.7% | 3.8% | 7.1% | 🟢 | 🔴 |
| New supply delivered (Social housing units) | 1.16% | 0.43% | N/A | 🟢 | N/A |
| New supply delivered (Non-social housing units) | 0.05% | 0.01% | N/A | 🟢 | N/A |
| Gearing | 44.5% | 44.7% | 44.5% | 🟢 | 🟠 |
| EBITDA MRI (interest cover) | 240% | 226% | 205% | 🟠 | 🟢 |
| Headline social housing cost per unit | £2,586 | £2,656 | £3,259 | 🟢 | 🟢 |
| Operating margin (overall) | 41.8% | 43.8% | 33.0% | 🔴 | 🟢 |
| Operating margin (social housing lettings only) | 46.5% | 46.1% | 33.1% | 🟢 | 🟢 |
| Return on capital employed (ROCE) | 4.0% | 3.8% | 4.3% | 🟢 | 🔴 |

## Other VfM Metrics:

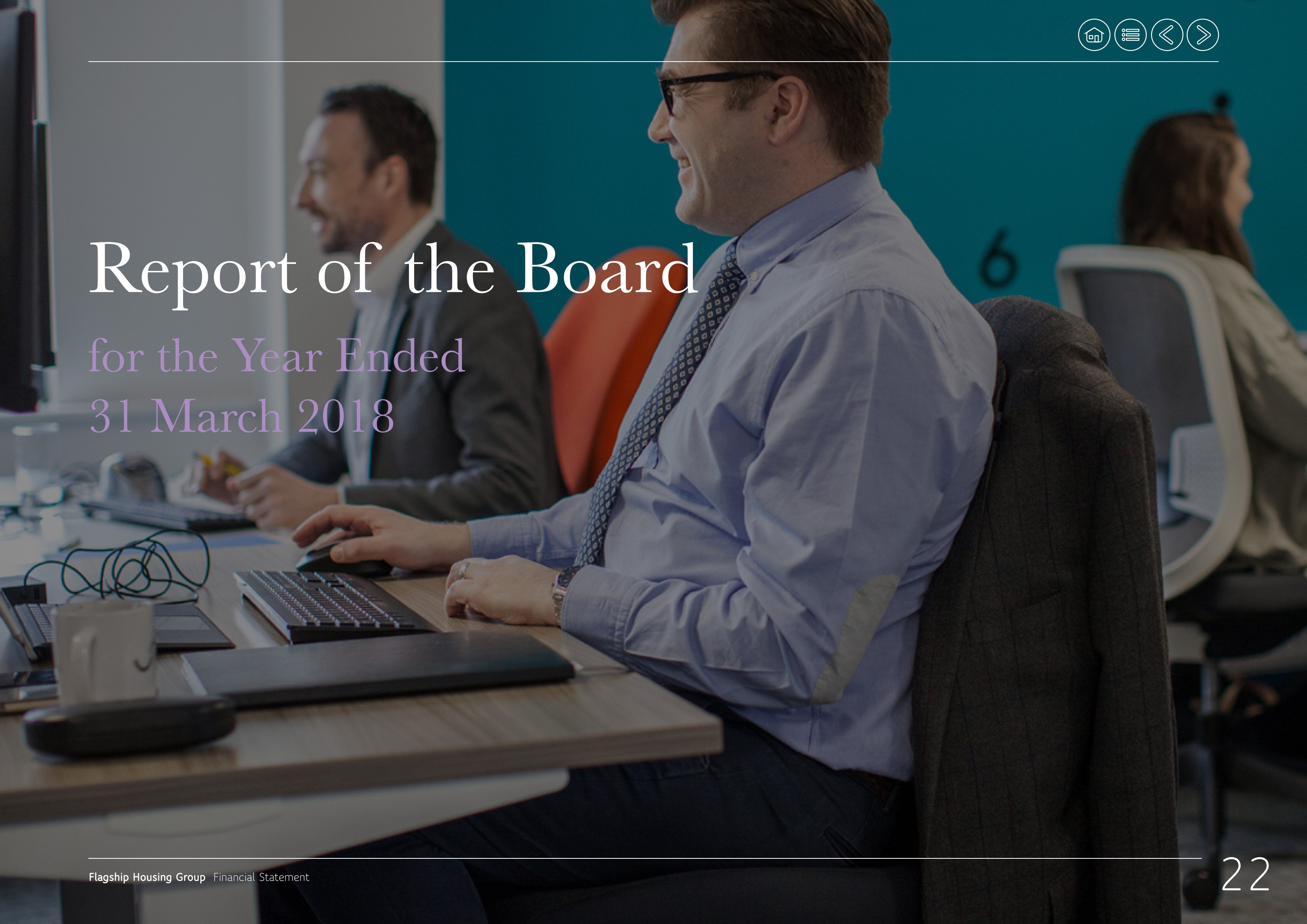
| Absolute and Comparative Costs | 2018 Actual | 2017 Actual | Peer Group 2017 | 2017 Actual | Peer Group 2017 |
|---|---|---|---|---|---|
| Housing stock | 22,705 | 22,521 | N/A | 🟢 | N/A |
| Return on public capital invested (RPCI) | 19.1% | 16.1% | N/A | 🟢 | N/A |
| Current arrears | 3.1% | 2.9% | 3.2% | 🔴 | 🟠 |
| Void loss | 0.5% | 0.8% | 0.9% | 🟢 | 🟢 |
| Relet days | 29.6 | 46.3 | N/A | 🟢 | N/A |
| Average cost of funding | 3.7% | 3.8% | 4.6% | 🟢 | 🟢 |
| Cash generated per unit managed | £2,656 | £3,569 | £3,201 | 🔴 | 🔴 |
| Debt per unit | £27,575 | £27,248 | £25,469 | 🟠 | 🔴 |
| £s invested for every £ generated | 0.76 | 0.64 | 0.77 | 🟢 | 🟠 |
| Interest cover | 299% | 289% | 274% | 🟢 | 🟢 |
| Net Promoter Score | +19 | +14 | N/A | 🟢 | N/A |

## VFM Objectives for year 2018/19:

- Operating profit £52.3m
- New affordable homes delivered 529
- New homes delivered 544
- Annual net promoter score +28
- Staff satisfaction score 7.8
- Arrears £3.5m

By order of the Board

E Marcus | Company Secretary | 26 July 2018



# Report of the Board

## for the Year Ended 31 March 2018

# Report of the Board

The Board of Management (the Board) presents its report and audited financial statements for the year ended 31 March 2018.

## Statement of Board's responsibilities

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

The Co-operative and Community Benefit Societies Act 2014 requires the Board to prepare financial statements for each financial year. Under those regulations the Board has elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and the Group and of the surplus or deficit for that period. In preparing these financial statements, the Board is required to select appropriate accounting policies and then apply them consistently; make judgements and estimates which are reasonable and prudent; state whether applicable to UK Accounting Standards and the Statement of Recommended Practice has been followed, subject to any material departures being disclosed and explained in the financial statements, and prepare them on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Board is responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

## Disclosure of information to the auditor

The members of the Board who held office at the date of approval of this Board's report confirm that, so far as they are each aware, there is no relevant audit information of which Flagship's auditor is unaware; and each member of the Board has taken all the steps that they ought to have taken as a member of the Board to make themselves aware of any relevant audit information and to establish that Flagship's auditor is aware of that information.

## Group structure

The trading companies of the Group during the year comprise:

Flagship Housing Group Limited;
Flagship Housing Developments Limited;
RFT Repairs Limited:
Gasway Services Limited
Milgas Services Limited.

## Community initiatives and charitable donations

During the year the Group spent £nil (2017: £455) on community initiatives. No charitable donations were made (2017: nil).

# The Board of management and Executive Team

The Board and Executive Team who served Flagship during the year are detailed on page 3 of the financial statements. Each Director of the Board holds one fully paid share of £1 in the Company, with the exception of the Chief Executive, the Chief Operating Officer and the Chief Financial Officer.

The Board shall consist of between 5 and 12 directors. The current composition of the Board is:

| | |
|---|---|
| Non-Executive Directors | 4 |
| Executive Directors | 3 |
| Total | 7 |

Flagship has purchased Directors' and Officers' Liability Insurance for the Non-Executive Directors, Executive Directors and staff of the Company.

## Recruitment and selection procedures for Non-Executive Directors

The Board has an open recruitment and selection policy for Non-Executive Directors (NEDs). In the event of a vacancy, advertisements are placed on regional business websites, the local and, where appropriate, specialist press, seeking candidates with expertise in the areas where the Board has identified it is least well served, ensuring that all relevantly experienced applicants have an equal opportunity to apply. A copy of the recruitment and selection policy is available on request from the Director (Legal).

All new NEDs are provided with induction training and are required to abide by a formal Code of Conduct setting out their obligations and commitment to the Group.

NEDs serve a maximum term of 6 years (plus a further year in exceptional circumstances).

## National Housing Federation (NHF) Code of Governance

The Board has adopted the NHF Code of Governance 2015 and complies with all aspects of the Code.

## Chair's and Non-Executive Directors' remuneration

Flagship remunerates its Chair and other Non-Executive Directors (the Executive Directors do not receive any additional remuneration for serving on the Board). The remuneration is in recognition of the commitment required for these crucial and demanding governance roles.

Payments in the year ended 31 March 2018 are summarised as follows:

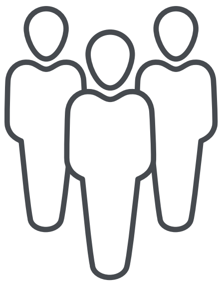
| Board member | Board role | 2018 £ |
|---|---|---|
| P Hawes | Chair | 18,372 |
| P Lakey | Chair | 16,007 |
| P Remington | Committee Chair / Senior Independent | 12,546 |
| R Bennett | Committee Chair / Senior Independent | 12,546 |
| K Laud | Non-Executive Director | 10,273 |
| P Cook | Non-Executive Director | 2,692 |

# Executive Directors' remuneration

The Board has noted the content of the Combined Code on Directors' Remuneration. Although it does not apply to housing associations, the Board is committed to acting in an open and accountable manner.

Flagship's policy with regard to the remuneration of the Executive Team reflects that applicable to the remuneration of our entire staff. Flagship seeks to provide remuneration packages that will attract, retain and motivate officers and staff of the quality required, but seeks to avoid paying more than is necessary. External professional advice is sought as necessary to ensure that regard is taken of remuneration levels in similar housing associations and in the locality. All of the Executive Team are employed on contracts with a maximum notice period of six months.

Summary information of the remuneration of Non-Executive Directors and Executive Team is provided in note 29 of the financial statements.



## Employees

Employee information is set out in note 30 of the financial statements. Flagship ensures that sufficient staff with appropriate skills are employed and that effective employment policies are in place and good practice is followed.

Flagship involves all our employees in matters affecting their functions. At a formal level this takes place through the Joint Negotiating and Consultation Committee where management consult with elected staff representatives. At an operational level Flagship relies on regular team meetings and 'one to ones' with individuals.

## Equality and diversity

As a housing provider Flagship understands that it has legal and social responsibilities to ensure that: all customers and employees have equal opportunities; unlawful discrimination is eliminated; good relationships between different people are actively promoted.

This means Flagship takes steps to ensure that no individual or group of people is treated less favourably because of their: age, disability, gender, gender identity, ethnicity, nationality, religion, faith or belief, sexuality, or any other reason that cannot be justified.

## Auditor

A resolution to consider reappointing Mazars LLP as external auditor will be proposed at the forthcoming Annual General Meeting.

By order of the Board

E Marcus | Company Secretary | 26 July 2018

# Report of the Board

## on Corporate Governace and Internal Financial Control

# Report of the Board

The Board has overall responsibility to the Group and company for all aspects of the business. This includes ensuring that Flagship has in place a system of controls that is appropriate to the various environments in which it operates. Each member of the Board is responsible as a trustee and has a fiduciary responsibility to the company's membership. As appropriate for the effective and efficient running of the business, the Board has delegated to the committees listed responsibility for specific areas of operation. The schemes of delegation are clearly defined and are reviewed regularly to ensure that they continue to be appropriate in the light of operational experience.

**Set out below is the framework of corporate governance and a description of the system of internal control adopted by Flagship.**

## Committee Structure

The composition of the Committees is summarised below:

| | |
|---|---|
| Audit and Risk Committee: | Three Non-Executive Directors |
| Remuneration Committee: | All Non-Executive Directors excluding Group Chair |

## Executive Team

Members of the Executive Team are all full-time employees. They are responsible for the operational management of Flagship and for ensuring that the policies determined by the Board are properly implemented. The composition of the team is:

| | |
|---|---|
| Chief Executive: | David McQuade |
| Chief Operating Officer: | Helen Walsham |
| Chief Financial Officer: | David Armstrong |

## Full compliance statement on internal control

The Board has overall responsibility for establishing and maintaining the whole system of internal control and for reviewing its effectiveness. The Board's responsibility applies for all organisations within the Flagship Group.

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

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls, which are embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which Flagship is exposed.

The process adopted by the Board in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework, is detailed below.

## Identification and evaluation of key risks

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is a formal and ongoing process of management review in each area of the activities. This process is co-ordinated through a regular reporting framework by the Operations Board.

The Operations Board regularly considers reports on significant risks facing Flagship and is responsible for reporting to the Board any significant changes affecting key risks. The Board reviews the Strategic Risk Map at each of its meetings. The Assurance Map is reviewed by the Audit & Risk Committee at each of the regular meetings.

## Monitoring and corrective action

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

## Control environment and control procedures

The Board retains responsibility for a defined range of issues covering strategy, finance and compliance, including treasury management and new investment projects. The Board has adopted the National Housing Federation Code of Governance 2015. This sets out Flagship's policies with regard to the quality, integrity and ethics of Board Directors and employees. It is supported by a framework of policies and procedures with which Board, Directors and employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection and fraud prevention and detection. The Board confirms compliance with the code.

## Information and financial reporting systems

Financial reporting procedures include detailed budgets for the year ahead and forecasts for subsequent years which are reviewed and approved by the Board. The Board also regularly reviews key performance indicators to assess progress towards the achievement of key business objectives, targets and outcomes.

The internal control framework and the risk management process are subject to regular review by the Internal Auditors who are responsible for providing independent assurance to the Board via the Audit & Risk Committee, which acts under delegated authority from the Board. The Audit & Risk Committee considers internal control and risk at each of its meetings during the year.

## Anti-fraud and bribery policy

The Group has a zero-tolerance approach to fraud and bribery. Action is taken to limit the risk through the system of internal control. An anti-fraud and bribery policy and response plan is incorporated in the risk management framework. Regular reviews are undertaken to ensure they remain adequate.

## The Governance and Financial Viability Standard

We certify that Flagship Housing Group has complied with the requirements of the RSH Governance and Financial Viability Standard.

## Statement

The Board has received the Operational Board's annual report, has conducted its annual review of the effectiveness of the system of internal control, and has taken account of any changes needed to maintain the effectiveness of the risk management and control process.

The Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by Flagship. This process has been in place throughout the year under review, up to the date of the annual report, and is regularly reviewed by the Board.

By order of the Board

E Marcus | Company Secretary | 26 July 2018

# Independent Auditor's Report

## to the Members of Flagship Housing Group Limited

## Opinion

We have audited the financial statements of Flagship Housing Group Limited (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 March 2018 which comprise the Group and the parent company's Statements of Comprehensive Income, the Group and the parent company's Statements of Financial Position, the Group Statement of Cash Flows, the Group and the parent company's Statements of Changes in Reserves and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2018 and of the Group's and the parent company's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

## Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

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

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

## Other information

The Board is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

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

## Responsibilities of the Board

As explained more fully in the Statement of the Board's responsibilities set out on page 23, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditors responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## Use of the audit report

This report is made solely to the company's members as a body in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014 and Chapter 4 of Part 2 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Mazars LLP, Chartered Accountants and Statutory Auditor
45 Church Street, Birmingham B3 2RT
2018

15 August 2018

# Statement of Comprehensive Income for the Year Ended 31 March 2018

| | Notes | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|---|
| **Turnover** | **2** | **133,725** | **119,574** | **122,622** | **117,841** |
| Cost of sales | 2 | (12,849) | (4,177) | (3,142) | (1,610) |
| Operating costs | 2 | (64,944) | (62,973) | (65,053) | (64,582) |
| **Operating surplus** | **2** | **55,932** | **52,424** | **54,427** | **51,649** |
| Gain on disposal of property, plant and equipment | 4 | 2,955 | 1,928 | 2,955 | 1,928 |
| Interest receivable and similar income | | 731 | 1,031 | 2,674 | 2,336 |
| Interest and financing costs | 5 | (24,510) | (24,956) | (24,497) | (24,952) |
| Surplus on revaluation of investment properties | 10 | 1,941 | 1,293 | 1,941 | 1,293 |
| **Surplus for the year before taxation** | | **37,049** | **31,720** | **37,500** | **32,254** |
| Taxation | 6 | 79 | (246) | - | - |
| **Surplus for the year** | **7** | **37,128** | **31,474** | **37,500** | **32,254** |
| Actuarial gain / (loss) in respect of pension schemes | | 533 | (2,531) | 533 | (2,531) |
| **Total comprehensive income for the year** | | **37,661** | **28,943** | **38,033** | **29,723** |

All results are from continuing activities and were generated in the United Kingdom.

There is no material difference between surplus for the year before taxation and the surplus for the financial period stated above and their historical cost equivalent.

Notes on pages 36 to 83 form part of the financial statements.

# Statement of Financial Position as at 31 March 2018

| | Notes | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 8 | 6,697 | 5,734 | 925 | 810 |
| Housing properties | 9 | 1,306,387 | 1,277,725 | 1,309,017 | 1,280,355 |
| Investment properties | 10 | 64,336 | 62,395 | 64,668 | 62,727 |
| Other property, plant & equipment | 11 | 5,470 | 6,184 | 4,572 | 4,862 |
| Investments – Homebuy | 12 | 38 | 38 | 38 | 38 |
| Investments - Other | 13 | 13,116 | 12,236 | 42,630 | 33,187 |
| | | 1,396,044 | 1,364,312 | 1,421,850 | 1,381,979 |
| **Current assets** | | | | | |
| Inventories | 14 | 12,766 | 6,250 | 1,794 | 906 |
| Debtors due within one year | 15 | 12,936 | 14,596 | 10,036 | 7,481 |
| Current asset investments | 16 | 35,570 | 30,450 | 35,570 | 30,450 |
| Cash at bank and in hand | | 58,807 | 43,589 | 42,727 | 31,963 |
| Total Current Assets | | 120,079 | 94,885 | 90,127 | 70,800 |
| **Creditors** | | | | | |
| Amounts falling due within one year | 17 | (40,616) | (41,811) | (34,170) | (33,535) |
| **Net current assets** | | 79,463 | 53,074 | 55,957 | 37,265 |
| **Total assets less current liabilities** | | 1,475,507 | 1,417,386 | 1,477,807 | 1,419,244 |

| | Notes | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|---|
| **Financed by:** | | | | | |
| **Creditors** | | | | | |
| Amounts falling due after one year | 18 | 827,861 | 806,536 | 827,753 | 806,356 |
| **Provisions for liabilities** | | | | | |
| Pension liability | 28 | 6,502 | 7,369 | 6,502 | 7,369 |
| Deferred taxation | 24 | 88 | 86 | - | - |
| **Capital and reserves** | | | | | |
| Share capital | 25 | - | - | - | - |
| Revenue reserves | | 230,508 | 189,347 | 233,004 | 191,471 |
| Revaluation reserves | | 410,548 | 414,048 | 410,548 | 414,048 |
| | | 1,475,507 | 1,417,386 | 1,477,807 | 1,419,244 |

These financial statements were approved by the Board of Management on 26 July 2018 and were signed on its behalf by:

| | |
|---|---|
| P Hawes | Chair |
| R Bennett | Board Member |
| D Armstrong | Chief Financial Officer |

# Statement of Changes in Reserves as at 31 March 2018

| | Notes | Revenue reserve £'000 | Revaluation reserve £'000 | Total £'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **At 1 April 2016** | | 156,904 | 417,548 | 574,452 |
| Surplus from statement of comprehensive income | | 28,943 | - | 28,943 |
| Transfer from revaluation reserve to revenue reserve | | 3,500 | (3,500) | - |
| **At 31 March 2017** | | 189,347 | 414,048 | 603,395 |
| Surplus from statement of comprehensive income | | 37,661 | - | 37,661 |
| Transfer from revaluation reserve to revenue reserve | | 3,500 | (3,500) | - |
| At 31 March 2018 | | 230,508 | 410,548 | 641,056 |

| **Company** | Revenue reserve £'000 | Revaluation reserve £'000 | Total £'000 |
|---|---|---|---|
| **At 1 April 2016 pre FRED 68 Adjustment** | 159,557 | 417,548 | 577,105 |
| Impact of adoption of FRED 68 | (1,309) | - | (1,309) |
| **At 1 April 2016** | 158,248 | 417,548 | 575,796 |
| Surplus from statement of comprehensive income | 29,723 | - | 29,723 |
| Transfer from revaluation reserve revenue reserve | 3,500 | (3,500) | - |
| **At 31 March 2017** | 191,471 | 414,048 | 605,519 |
| Surplus from statement of comprehensive income | 38,033 | - | 38,033 |
| Transfer from revaluation reserve to revenue reserve | 3,500 | (3,500) | - |
| At 31 March 2018 | 233,004 | 410,548 | 643,552 |

# Cash Flow Statement for the Year Ended 31 March 2018

| | Notes | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|---|
| **Net cash generated from operating activities** | 32 | 60,248 | 80,452 | 60,490 | 77,060 |
| **Cash flows from investing activities** | | | | | |
| Purchase of intangible assets | | (2,818) | (4,948) | (754) | (532) |
| Purchase of housing properties | | (50,839) | (30,260) | (50,643) | (30,202) |
| Purchase of other fixed assets | | (1,050) | (1,893) | (1,050) | (1,893) |
| Purchase of investment property | | - | (23,405) | - | (23,405) |
| Proceeds from sale of property, plant and equipment | | 7,922 | 8,286 | 7,918 | 8,175 |
| Investment in subsidiary | | - | - | (8,563) | (10,657) |
| Interest received | | 732 | 1,030 | 2,674 | 2,335 |
| **Net cash flows from investing activities** | | (46,053) | (51,190) | (50,418) | (56,179) |
| **Cash flows from financing activities** | | | | | |
| Interest paid | | (22,645) | (23,769) | (22,645) | (23,728) |
| Interest element of finance lease rental payments | | (1,146) | (1,224) | (1,133) | (1,224) |
| New loan received | | 32,726 | 15,000 | 32,726 | 15,000 |
| Repayments of borrowings | | (7,360) | (7,488) | (7,360) | (7,145) |
| Capital element of finance lease rental payments | | (966) | (982) | (896) | (882) |
| Gift aid payment | | - | - | - | - |
| Cash acquired with subsidiary | | 414 | 777 | - | - |
| **Net cash flows from financing activities** | | 1,023 | (17,686) | 692 | (17,979) |
| **Net increase in cash and cash equivalents** | | 15,218 | 11,576 | 10,764 | 2,902 |
| **Cash and cash equivalents at beginning of year** | | 43,589 | 32,013 | 31,963 | 29,061 |
| **Cash and cash equivalents at end of year** | | 58,807 | 43,589 | 42,727 | 31,963 |

# Notes to the Financial Statements

## for the Year Ended 31 March 2018

# Notes to the Financial Statements

## 1. Principal accounting policies

Flagship Housing Group Limited is a Registered Provider (RP) incorporated under the Co-operative and Community Benefit Societies Act 2014 and registered with the Homes and Communities Agency as an RP as defined by the Homes and Communities Act 2008.

## Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, in accordance with Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council and the Accounting Direction for Private Registered Providers of Social Housing 2015. The financial statements have also been prepared in compliance with the Statement of Recommended Practice for registered social housing providers 2014 (SORP) and the Housing and Regeneration Act 2008. Flagship Housing Group Limited is a public benefit entity, and applies the relevant paragraphs prefixed "PBE" in FRS 102. The financial statements are prepared on the historical cost basis of accounting.

## Statement of compliance

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Disclosures in respect of the parent company's financial instruments have not been presented because equivalent disclosures have been made of the Group as a whole.
- No disclosure has been given for the aggregate remuneration of the key personnel of the parent company as their remuneration is included in the totals for the Group as a whole.

The company has adopted the provisions of FRED 68 in respect of gift aid receipts from its subsidiary undertakings. FRED 68 seeks to standardise the application of gift aid within company financial statements by permitting entities to recognise the tax benefit of a gift aid payment providing the payment is expected within nine months of the year end. FRED 68 confirms that a gift aid payment is akin to a distribution and stipulates that such a payment can only be accrued if there is a legal obligation to make the payment. Without legal obligation the gift aid payment should be treated similar to a dividend within the financial statements, with the distribution recognised through the statement of changes in equity on payment. In preparing the financial statements for the year ended 31 March 2018 the company has adjusted amounts reported previously in the financial statements prepared in accordance with a previous accounting policy. An explanation of the impact to the company's financial position, financial performance and cash flows resulting from the implementation of the provisions of FRED 68 are set out in note 35.

## Basis of consolidation

The consolidated financial statements incorporate the results of Flagship Housing Group Limited and all of its subsidiary undertakings as at 31 March 2018 using the acquisition method of accounting as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition, being the date the Group obtains control.

## Going concern

The Group's financial statements have been prepared on a going concern basis which assumes an ability to continue operating for the foreseeable future. No significant concerns have been noted and we consider it appropriate to continue to prepare the financial statements on a going concern basis.

# Notes to the Financial Statements

## Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

- Development expenditure. The Group capitalises development expenditure in accordance with the accounting policy described on page 40. Initial capitalisation of costs is based on management's judgement that the development scheme is confirmed, usually when Board approval has taken place including access to the appropriate funding. In determining whether a project is likely to cease, management monitors the development and considers if changes have occurred that result in impairment.

- Categorisation of housing properties. The Group has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the Group has considered if the asset is held for social benefit or to earn commercial rentals. The Group has determined that market rented property and student accommodation are investment properties.

- Impairment. The Group has identified a cash generating unit for impairment assessment purposes at a property scheme level.

Other key sources of estimation and assumptions:

- Tangible fixed assets. Other than investment properties, tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

- Revaluation of investment properties. The Group carries its investment property at fair value, with changes in fair value being recognised in the Statement of Comprehensive Income. The Group engaged independent valuation specialists to determine fair value at 31 March 2017 and 31 March 2018. The valuer used a valuation technique based on a discounted cash flow model. The determined fair value of the investment property is most sensitive to the estimated yield as well as the long-term vacancy rate. The key assumptions used to determine the fair value of investment property are further explained in note 10 (page 58).

- Pension and other post-employment benefits. The cost of defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific sector. Future salary increases and pension increases are based on expected future inflation rates for the respective sector. Further details are given in note 28 (page 68).

- Impairment of non-financial assets. Reviews for impairment of housing properties are carried out when a trigger has occurred and any impairment loss in a cash generating unit is recognised by a charge to the Statement of Comprehensive Income. Impairment is recognised where the carrying value of a cash generating unit exceeds the higher of its net realisable value or its value in use. A cash generating unit is normally a group of properties at scheme level whose cash income can be separately identified.

# Notes to the Financial Statements

- Following a trigger for impairment, the Group performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from sales transactions in an arm's length transaction on similar cash generating units (properties) or observable market prices less incremental costs for disposing of the properties. The value in use calculation is based on either a depreciated replacement cost or a discounted cash flow model. The depreciated replacement cost is based on available data of the cost of constructing or acquiring replacement
- Properties to provide the same level of service potential to the Group as the existing property. The cash flows are derived from the business plan for the next 40 years and do not include restructuring activities that the Group is not yet permitted to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.
- Following the assessment of impairment, no impairment losses were identified in the reporting period.

## Turnover and revenue recognition

Turnover represents rental income receivable, amortised capital grant, revenue grants from local authorities, Homes England, income from the sale of shared ownership and other properties developed for outright sale.

Rental income is recognised when the property is available for let, net of voids. Income from property sales is recognised on legal completion. Supporting People Income is recognised under the contractual arrangements.

Sales of properties developed for outright sale are included in Turnover and Cost of Sales.

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

Supporting People (SP) contract income received from Administering Authorities is accounted for as SP income in the Turnover as per note 2. The related support costs are matched against this income in the same note. Support charges included in the rent are included in the Statement of Comprehensive Income from social housing lettings note 3 and matched against the relevant costs.

## Service charges

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

## Loan interest costs

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

## Loan finance issue costs

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

# Notes to the Financial Statements

## Taxation

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

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits,
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met, and
- Where timing differences relate to interests in subsidiaries, associates and joint ventures and the Group can control their reversal and such reversal is not considered probable in the foreseeable future.

## Value Added Tax

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

## Intangible assets

Intangible assets are stated at historic cost or valuation, less accumulated amortisation and any provision for impairment. Amortisation is provided on all intangible assets at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life, as follows:

| | |
|---|---|
| Goodwill | 10% |
| IT software | 33% |

## Tangible fixed assets and depreciation

## Housing properties

Tangible fixed assets are stated at cost, less accumulated depreciation. Donated land/assets or assets acquired at below market value from a government source, i.e. local authority, are included as a liability in the Statement of Financial Position at the fair value less consideration paid.

Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion of construction.

Freehold land is not depreciated.

Where a housing property comprises two or more major components with substantially different useful economic lives (UELs), each component is accounted for separately and depreciated over its individual UEL. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred.

The Group depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories.

UELs for identified components are as follows:

| | |
|---|---|
| Structure | 1.0% |
| Kitchen | 5.0% |
| Bathrooms | 3.3% |
| Wetrooms | 5.0% |
| Boilers | 6.7% |
| Heating system (exc boiler) | 3.3% |
| Windows & doors | 5.0% |
| Lifts | 2.5% |
| Roofs | 1.4% to 5.0% |

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

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

| | |
|---|---|
| Leasehold/Freehold Office buildings | 4% |
| Computer equipment | 33% |
| Leased assets | Over the life of the lease |
| Furniture, fixtures & fittings | 10 - 20% |
| Owned vehicles | 25% |

# Notes to the Financial Statements

## Low cost home ownership properties

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

## Capitalisation of interest and administration costs

Interest on loans financing development is capitalised up to the date of the completion of the scheme and only when development activity is in progress.

Administration costs relating to development activities are capitalised only to the extent that they are incremental to the development process and directly attributable to bringing the property into their intended use.

## Property managed by agents

Where the Group carries the majority of the financial risk on property managed by agents, income arising from the property is included in the Statement of Comprehensive Income.

Where the agency carries the majority of the financial risk, income includes only that which relates solely to the Group.

In both cases, the assets and associated liabilities are included in the Group's Statement of Financial Position.

## Leasing and hire purchase

Where assets are financed by hire purchase contracts and leasing agreements that give rights approximating to ownership (finance leases), they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as obligations to the lessor in creditors. They are depreciated over the shorter of the lease term and their economic useful lives.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the Statement of Comprehensive Income over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Other leases are treated as operating leases and payments are charged to the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

Reverse premiums and similar incentives received on leases to enter into operating lease agreements are released to Statement of Comprehensive Income over the term of the lease.

## Investment property

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

## HomeBuy

The Group operates this scheme by lending a percentage of the cost to home purchasers, secured on the property. The loans are interest free and repayable only on the sale of the property. On a sale, the fixed percentage of the proceeds is repaid. The loans are financed by an equal amount of Social Housing Grant (SHG). On redemption:

- The SHG is recycled,
- The SHG is written off, if a loss occurs,
- The Group keeps any surplus.

HomeBuy loans are treated as concessionary loans and are initially recognised at the amount paid to the purchaser and reviewed annually for impairment. The associated HomeBuy grant from the HCA is recognised as deferred income until the loan is redeemed.

# Notes to the Financial Statements

## Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in unlisted company shares, which have been classified as fixed asset investments as the Group intends to hold them on a continuing basis, are re-measured to market value at each balance sheet date. Gains and losses on re-measurement are recognised in the Statement of Comprehensive Income.

Investments in listed company shares, which have been classified as current asset investments, are re-measured to market value at each balance sheet date. Gains and losses on re-measurement are recognised in the statement of Comprehensive Income.

## Current asset investments

Current asset investments include cash and cash equivalents invested for periods of more than 24 hours. They are recognised initially at cost and subsequently at fair value at the reporting date. Any change in valuation between reporting dates is recognised in the Statement of Comprehensive Income.

## Stock and properties held for sale

Stock of materials are stated at the lower of cost and net realisable value being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

Properties developed for outright sale are included in current assets as they are intended to be sold, at the lower of cost or estimated selling price less costs to complete and sell.

At each reporting date, stock and properties held for sale are assessed for impairment. If there is evidence of impairment, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in Statement of Comprehensive Income.

## Short-term debtors and creditors

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

## Non-government grants

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

## Social Housing and other government grants

Where developments have been financed wholly or partly by social housing and other grants, the amount of the grant received has been included as deferred income and recognised in Turnover over the estimated useful life of the associated asset structure (not land), under the accruals model. Social Housing Grant (SHG) received for items of cost written off in the Statement of Comprehensive Income is included as part of Turnover.

SHG in respect of housing properties in the course of construction exceeds the total cost to date of those housing properties, the excess is shown as a current liability.

SHG must be recycled by the Group under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the Homes and Communities Agency and Greater London Authority. However, SHG may have to be repaid if certain conditions are not met. If grant is not required to be recycled or repaid, any unamortised grant is recognised as Turnover. In certain circumstances, SHG may be repayable, and, in that event, is a subordinated unsecured repayable debt.

## Non-monetary government grant

On disposal of assets for which non-monetary government grants are held as liabilities in the Statement of Financial Position, the unamortised amount in creditors is derecognised and recognised as income in the Statement of Comprehensive Income.

# Notes to the Financial Statements

## Recycling of Capital Grant

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

## Disposal Proceeds Fund (DPF)

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

## Holiday pay accrual

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

## Agreements to improve existing properties

Where the Group has entered into agreements to purchase property from a third party and subsequently enters into a sub-contracting agreement to carry out improvement works to the properties, the related assets and liabilities are shown at gross values unless the right of net settlement exists.

## Retirement benefits

The cost of providing retirement pensions and related benefits is charged to management expenses over the periods benefiting from the employees' services.

The disclosures in the accounts follow the requirements of Section 28 of FRS 102 in relation to multi-employer funded schemes in which the Group has a participating interest.

Contributions payable under an agreement with SHPS to fund past deficits are recognised as a liability in the Group's financial statements calculated by the repayments known, discounted to the net present value at the year ended using a market rate discount factor of 2.06% at 31 March 2016, 1.33% at 31 March 2017 and 1.72% at 31 March 2018. The unwinding of the discount is recognised as a finance cost in the Statement of Comprehensive Income in the period incurred.

## Revaluation Reserve

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

## Financial Instruments

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

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

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

# Notes to the Financial Statements

Financial instruments held by the Group are classified as follows:

- Financial assets such as cash, current asset investments and receivables are classified as loans and receivables and held at amortised cost using the effective interest method.
- Financial liabilities such as bonds and loans are held at amortised cost using the effective interest method.
- Loans to or from subsidiaries including those that are due on demand are held at amortised cost using the effective interest method.
- Commitments to receive or make a loan to another entity which meet the conditions above are held at cost less impairment.
- An investment in another entity's equity instruments other than non-convertible preference shares and non-puttable ordinary and preference shares are held at fair value.
- Derivatives such as interest rate swaps are classified as financial assets or financial liabilities at fair value.

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

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

## Impairment of Financial Assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income immediately.

The following financial instruments are assessed individually for impairment:

- All equity instruments regardless of significance; and
- Other financial assets that are individually significant.

Other financial instruments are assessed for impairment either individually or grouped on the basis of similar credit risk characteristics.

An impairment loss is measured as follows on the following instruments measured at cost or amortised cost:

- For an instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.
- For an instrument measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive for the asset if it were to be sold at the reporting date.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The reversal cannot result in a carrying amount (net of any allowance account) which exceeds what the carrying amount would have been had the impairment not previously been recognised. The amount of the reversal is recognised in the Statement of Comprehensive Income immediately.

# 2. Turnover, Operating Costs and Operating Surplus

| Group 2018 | Notes | Turnover £'000 | Cost of sales £'000 | Operating costs £'000 | Operating surplus £'000 |
|---|---|---|---|---|---|
| Social housing lettings | 3(a) | 106,970 | - | (56,380) | 50,590 |
| Other social housing activities | | | | | |
| -Supporting People Block Subsidy contracts | | 478 | - | (98) | 380 |
| - Shared ownership property first tranche sales | | 3,968 | (3,142) | - | 826 |
| - Other | | 71 | - | (4) | 67 |
| Non-social housing activities | 3(c) | | | | |
| - Lettings | | 6,649 | - | (3,267) | 3,382 |
| - Property sales | | 585 | (435) | (150) | - |
| - Gas servicing | | 13,751 | (8,982) | (4,321) | 448 |
| - Other | | 1,253 | (290) | (724) | 239 |
| Total | | 133,725 | (12,849) | (64,944) | 55,932 |

| Group 2017 | | Turnover £'000 | Cost of sales £'000 | Operating Costs £'000 | Operating Surplus £'000 |
|---|---|---|---|---|---|
| Social housing lettings | 3(a) | 106,507 | - | (57,427) | 49,080 |
| Other social housing activities | | | | | |
| - Supporting People Block Subsidy contracts | | 143 | - | (133) | 10 |
| - Shared ownership property first tranche sales | | 2,278 | (1,610) | - | 668 |
| - Other | | 160 | - | (37) | 123 |
| Non-social housing activities | 3(c) | | | | |
| - Lettings | | 5,124 | - | (3,758) | 1,366 |
| - Gas servicing | | 3,402 | (2,567) | (873) | (38) |
| - Other | | 1,960 | - | (745) | 1,215 |
| Total | | 119,574 | (4,177) | (62,973) | 52,424 |

# 2. Turnover, Operating Costs and Operating Surplus (continued)

| Company 2018 | Notes | Turnover £'000 | Cost of sales £'000 | Operating costs £'000 | Operating surplus £'000 |
|---|---|---|---|---|---|
| Social housing lettings | 3(a) | 106,970 | - | (60,960) | 46,010 |
| Other social housing activities | | | | | |
| -Supporting People Block Subsidy contracts | | 478 | - | (98) | 380 |
| - Shared ownership property first tranche sales | | 3,968 | (3,142) | - | 826 |
| - Other | | 71 | - | (4) | 67 |
| Non-social housing activities | 3(c) | | | | |
| - Lettings | | 6,649 | - | (3,267) | 3,382 |
| - Other | | 4,486 | - | (724) | 3,762 |
| Total | | 122,622 | (3,142) | (65,053) | 54,427 |

| Company 2017 | | Turnover £'000 | Cost of sales £'000 | Operating Costs £'000 | Operating Surplus £'000 |
|---|---|---|---|---|---|
| Social housing lettings | | 106,507 | - | (59,909) | 46,598 |
| Other social housing activities | | | | | |
| - Supporting People Block Subsidy contracts | 3(a) | 143 | - | (133) | 10 |
| - Shared ownership property first tranche sales | | 2,278 | (1,610) | - | 668 |
| - Other | | 160 | - | (37) | 123 |
| Non-social housing activities | | | | | |
| - Lettings | | 5,124 | - | (3,758) | 1,366 |
| - Other | 3(c) | 3,629 | - | (745) | 2,884 |
| Total | | 117,841 | (1,610) | (64,582) | 51,649 |

# 3. (a) Income and Expenditure from social housing lettings – Group

| Income | General needs housing £'000 | Supported Housing and housing for older people £'000 | Keyworker housing £'000 | Shared ownership £'000 | Total 2018 £'000 | Total 2017 £'000 |
|---|---|---|---|---|---|---|
| Rents receivable net of identifiable service charges | 90,952 | 6,959 | 101 | 3,359 | 101,371 | 101,449 |
| Service income | 1,015 | 2,021 | 3 | 172 | 3,211 | 2,878 |
| Amortisation of capital grants | 2,071 | 194 | 2 | 121 | 2,388 | 2,180 |
| **Total income** | 94,038 | 9,174 | 106 | 3,652 | 106,970 | 106,507 |
| **Expenditure** | | | | | | |
| Services | 2,628 | 1,560 | 2 | 203 | 4,393 | 4,794 |
| Management | 11,525 | 1,817 | 16 | 937 | 14,295 | 15,526 |
| Routine maintenance | 15,853 | 1,491 | 16 | - | 17,360 | 15,429 |
| Cyclical maintenance | 2,333 | 219 | 3 | - | 2,555 | 2,294 |
| Bad debts | 986 | 70 | - | 12 | 1,068 | 822 |
| Depreciation of housing properties | 14,412 | 1,362 | 14 | 921 | 16,709 | 18,562 |
| **Total expenditure** | 47,737 | 6,519 | 51 | 2,073 | 56,380 | 57,427 |
| **Operating surplus on lettings** | 46,301 | 2,655 | 55 | 1,579 | 50,590 | 49,080 |
| **Rent losses from voids** | (1,035) | (128) | - | - | (1,163) | (1,468) |

# 3. (b) Income and Expenditure from social housing lettings – Company

| Income | General needs housing £'000 | Supported Housing and housing for older people £'000 | Keyworker housing £'000 | Shared ownership £'000 | Total 2018 £'000 | Total 2017 £'000 |
|---|---|---|---|---|---|---|
| Rents receivable net of identifiable service charges | 90,952 | 6,959 | 101 | 3,359 | 101,371 | 101,449 |
| Service income | 1,015 | 2,021 | 3 | 172 | 3,211 | 2,878 |
| Amortisation of capital grants | 2,071 | 194 | 2 | 121 | 2,388 | 2,180 |
| Total income | 94,038 | 9,174 | 106 | 3,652 | 106,970 | 106,507 |
| Expenditure | | | | | | |
| Services | 2,628 | 1,560 | 2 | 203 | 4,393 | 4,794 |
| Management | 16,105 | 1,817 | 16 | 937 | 18,875 | 17,048 |
| Routine maintenance | 15,853 | 1,491 | 16 | - | 17,360 | 16,389 |
| Cyclical maintenance | 2,333 | 219 | 3 | - | 2,555 | 2,294 |
| Bad debts | 986 | 70 | - | 12 | 1,068 | 822 |
| Depreciation of housing properties | 14,412 | 1,362 | 14 | 921 | 16,709 | 18,562 |
| Total expenditure | 52,317 | 6,519 | 51 | 2,073 | 60,960 | 59,909 |
| Operating surplus on lettings | 41,721 | 2,655 | 55 | 1,579 | 46,010 | 46,598 |
| Rent losses from voids | (1,035) | (128) | - | - | (1,163) | (1,468) |

# 3. (c) Turnover from non-social housing activities

| Lettings | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Market rented and commercial property rents | 2,591 | 2,141 | 2,591 | 2,141 |
| Student accommodation | 3,217 | 2,282 | 3,217 | 2,282 |
| Private garages | 616 | 631 | 616 | 631 |
| Commercial lets | 225 | 70 | 225 | 70 |

| Other | | | | |
|---|---|---|---|---|
| General management charges | - | - | 3,614 | 1,669 |
| Property sales | 585 | - | - | - |
| Gas servicing | 13,751 | 3,402 | - | - |
| Other income | 1,253 | 1,960 | 872 | 1,960 |
| | 22,238 | 10,486 | 11,135 | 8,753 |

# 4. Surplus on sale of housing

| Group & Company | Shared Ownership Staircasing 2018 £'000 | Others 2018 £'000 | Total 2018 £'000 | Total 2017 £'000 |
|---|---|---|---|---|
| Proceeds of sales | 5,840 | 2,080 | 7,920 | 8,175 |
| Cost of disposals | (2,927) | (2,038) | (4,965) | (6,247) |
| | 2,913 | 42 | 2,955 | 1,928 |

# 5. Interest and financing costs

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| On loans wholly or partly repayable in more than 5 years | 22,492 | 23,119 | 22,492 | 23,119 |
| Amortisation of debt issue costs | 25 | 34 | 25 | 34 |
| Interest accrued on RCGF balance | 1 | 1 | 1 | 1 |
| Finance leases | 1,784 | 1,091 | 1,771 | 1,087 |
| Unwinding of discounts on provisions | 81 | 137 | 81 | 137 |
| Net interest on defined benefit liability | 612 | 695 | 612 | 695 |
| | 24,995 | 25,077 | 24,982 | 25,073 |
| **Less: Interest capitalised** | (485) | (121) | (485) | (121) |
| | 24,510 | 24,956 | 24,497 | 24,952 |

The weighted average interest on borrowings of 3.80% (2017: 3.80%) was used for calculating capitalised interest.

# 6. Taxation

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| **UK corporation tax** | | | | |
| Current tax on profits for the year | 79 | (242) | - | - |
| Adjustments in respect of prior years: | - | (4) | - | - |
| | 79 | (246) | - | - |

| | | | | |
|---|---|---|---|---|
| **Reconciliation of tax charge** | | | | |
| Tax on surplus on ordinary activities at standard UK corporation tax rate of 19% (2017: 20%) | 7,039 | 6,344 | 7,125 | 6,351 |
| Charitable non-taxable income | (7,051) | (6,452) | (7,125) | (6,351) |
| Depreciation in excess of capital allowances | 91 | (134) | - | - |
| Adjustments in respect of previous periods | - | (4) | - | - |
| UK corporation tax | 79 | (246) | - | - |

# 7. Surplus for the year

| Is stated after charging: | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| **Auditor's remuneration (excluding VAT):** | | | | |
| • In their capacity as auditor | 58 | 49 | 38 | 34 |
| • Other services | 7 | 1 | 7 | 1 |
| **Bad debts** | 1,144 | 830 | 1,077 | 830 |
| **Operating Leases:** | | | | |
| • Hire of plant and machinery | 758 | 435 | 217 | 202 |
| • Rent of office buildings | 533 | 620 | 474 | 414 |
| **Amortisation of intangible assets** | 1,317 | 662 | 638 | 412 |
| **Depreciation on owned assets:** | | | | |
| • Housing stock | 16,116 | 18,305 | 16,116 | 18,305 |
| • Loss on replacement of components | 1,282 | 1,808 | 1,282 | 1,808 |
| • Other assets | 763 | 1,725 | 763 | 851 |
| **Depreciation on assets held under finance leases:** | | | | |
| **Other assets** | | | | |
| • (Surplus) / loss on sale of fixed assets | 489 | 501 | 489 | 501 |
| • Housing stock | (2,962) | (1,881) | (2,962) | (1,881) |
| • Other assets | 6 | 23 | 6 | (41) |
| **Gift aid received** | - | - | 1,950 | 1,310 |

# 8. Intangible assets

| Group | Goodwill | IT Software | Total |
|---|---|---|---|
| **Cost** | £'000 | £'000 | £'000 |
| At 1 April 2017 | 5,102 | 2,779 | 7,881 |
| Additions | 1,526 | 754 | 2,280 |
| Disposals | - | - | - |
| At 31 March 2018 | 6,628 | 3,533 | 10,161 |
| **Depreciation** | | | |
| At 1 April 2017 | 228 | 1,919 | 2,147 |
| Charge for the year | 667 | 650 | 1,317 |
| Disposals | - | - | - |
| At 31 March 2018 | 895 | 2,569 | 3,464 |
| Net book value 31 March 2018 | 5,733 | 964 | 6,697 |
| Net book value 31 March 2017 | 4,874 | 860 | 5,734 |

| Company | IT Software | Total |
|---|---|---|
| **Cost** | £'000 | £'000 |
| At 1 April 2017 | 2,710 | 2,710 |
| Additions | 753 | 753 |
| Disposals | - | - |
| At 31 March 2018 | 3,463 | 3,463 |
| **Depreciation** | | |
| At 1 April 2017 | 1,900 | 1,900 |
| Charge for the year | 638 | 638 |
| Disposals | - | - |
| At 31 March 2018 | 2,538 | 2,538 |
| Net book value 31 March 2018 | 925 | 925 |
| Net book value 31 March 2017 | 810 | 810 |

# 9. (a) Tangible fixed assets – Housing properties – Group

| | Housing Properties £'000 | Housing Properties Under Construction £'000 | Shared Ownership Properties £'000 | Shared Ownership Properties Under Construction £'000 | Total £'000 |
|---|---|---|---|---|---|
| Cost at 1 April 2017 | 1,361,774 | 10,777 | 75,011 | 69 | 1,447,631 |
| Additions | 14,635 | 34,263 | - | 1,745 | 50,643 |
| Disposals | (5,203) | - | (3,539) | - | (8,742) |
| Transfers | 26,838 | (26,838) | 1,745 | (1,745) | - |
| At 31 March 2018 | 1,398,044 | 18,202 | 73,217 | 69 | 1,489,532 |
| **Depreciation** | | | | | |
| At 1 April 2017 | 162,828 | - | 7,078 | - | 169,906 |
| Charge for year | 15,195 | - | 921 | - | 16,116 |
| Disposals | (1,700) | - | (1,177) | - | (2,877) |
| At 31 March 2018 | 176,323 | - | 6,822 | - | 183,145 |
| Net book value 31 March 2018 | 1,221,721 | 18,202 | 66,395 | 69 | 1,306,387 |
| Net book value 31 March 2017 | 1,198,946 | 10,777 | 67,933 | 69 | 1,277,725 |

# 9. (b) Tangible fixed assets – Housing properties – Company

| | Housing Properties | Housing Properties Under Construction | Shared Ownership Properties | Shared Ownership Properties Under Construction | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost at 1 April 2017 | 1,364,404 | 10,777 | 75,011 | 69 | 1,450,261 |
| Additions | 14,635 | 34,263 | - | 1,745 | 50,643 |
| Disposals | (5,203) | - | (3,539) | - | (8,742) |
| Transfers | 26,838 | (26,838) | 1,745 | (1,745) | - |
| At 31 March 2018 | 1,400,674 | 18,202 | 73,217 | 69 | 1,492,162 |
| **Depreciation** | | | | | |
| At 1 April 2017 | 162,828 | - | 7,078 | - | 169,906 |
| Charge for year | 15,195 | - | 921 | - | 16,116 |
| Disposals | (1,700) | - | (1,177) | - | (2,877) |
| At 31 March 2018 | 176,323 | - | 6,822 | - | 183,145 |
| Net book value 31 March 2018 | 1,224,351 | 18,202 | 66,395 | 69 | 1,309,017 |
| Net book value 31 March 2017 | 1,201,576 | 10,777 | 67,933 | 69 | 1,280,355 |

# 9. (c) Tangible fixed assets – Housing properties

| Maintenance spend | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| The amount spent on existing properties during the year was | | | | |
| Maintenance capitalised in fixed assets | 14,635 | 16,978 | 14,635 | 6,978 |
| Maintenance expensed in the Income and Expenditure account | 21,265 | 18,891 | 21,265 | 18,891 |
| | 35,900 | 35,869 | 35,900 | 35,869 |

Development administration expenditure and interest costs capitalised during the year amounted to: Group and Company £1,602k (2017: £945k).

# 10. Tangible fixed assets – Investment properties held for letting

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| At 1 April 2017 | 62,395 | 37,697 | 62,727 | 38,029 |
| Additions | - | 23,405 | - | 23,405 |
| Gain from adjustment in value | 1,941 | 1,293 | 1,941 | 1,293 |
| At 31 March 2018 | 64,336 | 62,395 | 64,668 | 62,727 |

Investment properties were valued at 31 March 2018 by Cartas Jonas and Savills professional qualified external valuers. The valuation of properties was undertaken in accordance with the Royal Institute of Chartered Surveyors Valuation standards. In valuing the properties the following significant assumptions were used

**Market rented properties**

| | |
|---|---|
| Discount rate | 5.25% |
| Annual inflation rate | 2.5% for Yrs 1&2, decreasing to 2.0% from Yr 3 |
| Level of long term rent increase | 2.5% for Yrs 1&2, decreasing to 2.0% from Yr 3 |

**Student accommodation**

| | |
|---|---|
| Discount rate | 9.0% |
| Annual inflation rate | 2.5% |
| Level of long term rent increase | 2.5% for Yrs 1-5, 1.0% from Yr 6 |

# 11. Tangible fixed assets – Other property, plant and equipment

| Group | Offices | Plant and Equipment | Total |
|---|---|---|---|
| **Cost** | £'000 | £'000 | £'000 |
| At 1 April 2017 | 3,284 | 12,555 | 15,839 |
| Additions | 10 | 1,670 | 1,680 |
| Disposals | - | (1,509) | (1,509) |
| At 31 March 2018 | 3,294 | 12,716 | 16,010 |
| **Depreciation** | | | |
| At 1 April 2017 | 1,905 | 7,750 | 9,655 |
| Charge for the year | 147 | 1,722 | 1,869 |
| Disposals | - | (984) | (984) |
| At 31 March 2018 | 2,052 | 8,488 | 10,540 |
| Net book value 31 March 2018 | 1,242 | 4,228 | 5,470 |
| Net book value 31 March 2017 | 1,379 | 4,805 | 6,184 |

| Company | Offices | Plant and Equipment | Total |
|---|---|---|---|
| **Cost** | £'000 | £'000 | £'000 |
| At 1 April 2017 | 2,664 | 7,348 | 10,012 |
| Additions | 6 | 1,469 | 1,475 |
| Disposals | - | (1,437) | (1,437) |
| At 31 March 2018 | 2,670 | 7,380 | 10,050 |
| Depreciation | | | |
| At 1 April 2017 | 1,506 | 3,644 | 5,150 |
| Charge for the year | 125 | 1,131 | 1,256 |
| Disposals | - | (928) | (928) |
| At 31 March 2018 | 1,631 | 3,847 | 5,478 |
| Net book value 31 March 2018 | 1,039 | 3,533 | 4,572 |
| Net book value 31 March 2017 | 1,158 | 3,704 | 4,862 |

| Net book value of tangible fixed assets held under finance leases | 2018 | 2017 |
|---|---|---|
| | £'000 | £'000 |
| Group | 2,189 | 2,189 |
| Company | 2,120 | 2,151 |

# 12. HomeBuy

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Loans to home purchasers | 38 | 38 | 38 | 38 |

# 13. Fixed asset investments

| Name | Registered Number | Ownership | Nature of business |
|---|---|---|---|
| Flagship Housing Developments Limited | 05131085 | 100% | Design and build |
| RFT Repairs Limited | 08341166 | 100% | Repairs and maintenance |
| RFT Repairs & Maintenance Limited | 08417425 | 100% | Dormant |
| East Anglian Lettings Limited | 08421578 | 100% | Dormant |
| Flagship Community Housing Limited | 09892942 | 100% | Dormant |
| Gasway Services Limited | 04158628 | 100% | Gas installation and maintenance |
| Airwolf Limited | 07336837 | 100% | Dormant |
| Milgas Services Limited | 04871692 | 100% | Dormant |
| Seagway Limited | 09929104 | 100% | Dormant |
| Betts Holdings Limited | 06430297 | 100% | Dissolved 21 November 2017 |

| | Group 2018 £'000 | Group 2017 £'000 | Group 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| At 1 April 2017 | 12,236 | 12,236 | 33,187 | 22,336 |
| Additions | 880 | - | 12,943 | 10,851 |
| Capital reduction in subsidiary | - | - | (3,500) | - |
| At 31 March 2018 | 13,116 | 12,236 | 42,630 | 33,187 |
| Group companies | - | - | 29,514 | 20,951 |
| Liquidity deposit reserve | 13,114 | 12,234 | 13,114 | 12,234 |
| Other Investments (at historical cost) | 2 | 2 | 2 | 2 |
| | 13,116 | 12,236 | 42,630 | 33,187 |

Flagship Housing Developments Ltd issued £10m of ordinary shares.

RFT Repairs Limited reduced its issued ordinary £1 shares held by Flagship Housing Group Limited at cost by £3,500,000. RFT distributed this balance back to Flagship Housing Group Ltd as a dividend.

Flagship Housing Group Limited purchased Milgas Services Limited and its parent company Airwolf Limited for £1,980k. This trade was transferred to Gasway Services Limited, and the companies are now dormant.

# 14. Inventories

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Raw materials and consumables | 1,143 | 1,052 | - | - |
| Completed properties for sale | 3,578 | 906 | 1,794 | 906 |
| Work in progress | 8,045 | 4,292 | - | - |
| | 12,766 | 6,250 | 1,794 | 906 |

# 15. Debtors

| Debtors due within one year | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Amounts owed by group undertakings | - | - | 4,600 | - |
| **Rent arrears** | | | | |
| Amounts due from tenants | 7,412 | 7,168 | 7,412 | 7,168 |
| Net present value adjustment | - | - | - | - |
| Bad and doubtful debt provision | (4,806) | (3,757) | (4,806) | (3,757) |
| **Other trade debtors** | | | | |
| Amounts due from other trade debtors | 2,374 | 1,710 | 132 | 213 |
| Bad and doubtful debt provision | (94) | - | (30) | - |
| Other debtors | 453 | 636 | 262 | 231 |
| Prepayments and accrued income | 7,597 | 8,839 | 2,466 | 3,626 |
| | 12,936 | 14,596 | 10,036 | 7,481 |

# 16. Current asset investments

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Unlisted investments – at cost less impairment | 35,570 | 30,450 | 35,570 | 30,450 |

# 17. Creditors – Amounts falling due within one year

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Bank loans and overdrafts (note 19) | 7,627 | 7,360 | 7,627 | 7,360 |
| Obligations under finance leases and hire purchase contracts (note 23) | 1,529 | 1,699 | 1,462 | 1,635 |
| Trade creditors | 7,526 | 6,124 | 4,787 | 3,741 |
| Other creditors | 4,084 | 3,552 | 4,066 | 3,349 |
| Accruals and deferred income | 13,949 | 17,154 | 11,114 | 12,399 |
| Other taxes and social security costs | 771 | 854 | - | 234 |
| SHPS past service deficit | 909 | 875 | 909 | 875 |
| Deferred capital grant (note 20) | 2,287 | 2,290 | 2,287 | 2,290 |
| Recycled Capital Grant Fund (note 21) | 1,856 | 1,590 | 1,856 | 1,590 |
| Disposals Proceeds Fund (note 22) | 62 | 62 | 62 | 62 |
| Corporation tax | 16 | 251 | - | - |
| | 40,616 | 41,811 | 34,170 | 33,535 |

# 18. Creditors – Amounts falling due after more than one year

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Bank loans and overdrafts (note 19) | 615,035 | 589,936 | 615,035 | 589,936 |
| Deferred debt issue costs | - | (25) | - | (25) |
| Obligation under finance leases and hire purchase contracts (note 23) | 15,658 | 15,309 | 15,550 | 15,129 |
| SHPS past service deficit | 4,817 | 5,725 | 4,817 | 5,725 |
| Other creditors | - | 378 | - | 378 |
| Accruals and deferred income | 565 | 604 | 565 | 604 |
| Deferred Capital Grant (note 20) | 191,786 | 194,609 | 191,786 | 194,609 |
| | 827,861 | 806,536 | 827,753 | 806,356 |

# 19. Debt analysis

Housing loans are secured by way of a fixed charge on specific assets of the Group. They bear interest at variable (linked to LIBOR) and fixed rates. The current average interest rate is 3.80% (2017: 3.80%); the average during the year was 3.80% (2017: 3.90%). The maturities are calculated by reference to the existence of committed facilities at 31 March 2018. The earliest dates on which repayment could be demanded under committed revolving facilities are as follows:

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| **Housing loans** | | | | |
| Repayable in one year or less | 7,627 | 7,360 | 7,627 | 7,360 |
| Repayable between one and two years | 7,827 | 7,545 | 7,827 | 7,545 |
| Repayable between two and five years | 29,422 | 23,882 | 29,422 | 23,882 |
| Repayable in five years or more | 577,786 | 558,509 | 577,786 | 558,509 |
| | 622,662 | 597,296 | 622,662 | 597,296 |

| The interest rate profile of the Group was | Variable Rate £'000 | Fixed Rate £'000 | Total £'000 |
|---|---|---|---|
| Syndicated bank loans | 123,554 | 327,246 | 450,800 |
| RSL Finance (No 1) Bond | - | 124,136 | 124,136 |
| THFC – EIB Loan (No 1) | - | 15,000 | 15,000 |
| THFC – AHF Loan | - | 22,839 | 22,839 |
| THFC – EIB Loan (No 2) | - | 9,887 | 9,887 |
| | 123,554 | 499,108 | 622,662 |

| | Weighted Average Rate % | Weighted Average Term of fixing Years | Undrawn Facilities £'000 |
|---|---|---|---|
| Syndicated bank loans | 3.8% | 19 | - |
| RSL Finance (No 1) Bond | 6.65% | 21 | - |
| THFC – EIB Loan (No 1) | 2.0% | 28 | - |
| THFC – AHF Loan | 2.2% | 25 | - |
| THFC – EIB Loan (No 2) | 2.0% | 28 | - |
| Revolving credit facilities | 0.0% | - | 50,000 |

# 20. Deferred capital grant

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| At the start of the year | 196,899 | 200,664 | 196,899 | 200,664 |
| Grant received in the year | - | 198 | - | 198 |
| Grant released on disposals | (438) | (1,673) | (438) | (1,673) |
| Released to income in the year | (2,388) | (2,290) | (2,388) | (2,290) |
| | 194,073 | 196,899 | 194,073 | 196,899 |

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Amount due to be released < 1 year | 2,287 | 2,290 | 2,287 | 2,290 |
| Amount due to be released > 1 year | 191,786 | 194,609 | 191,786 | 194,609 |
| | 194,073 | 196,899 | 194,073 | 196,899 |

# 21. Recycled capital grant fund

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| At the start of the year | 1,590 | 1,455 | 1,590 | 1,455 |
| Inputs: | | | | |
| Grant recycled | 265 | 521 | 265 | 521 |
| Interest accrued | 1 | 1 | 1 | 1 |
| Recycling: | | | | |
| New build | - | (387) | - | (387) |
| At the end of the year | 1,856 | 1,590 | 1,856 | 1,590 |

# 22. Disposals proceeds fund

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| At the start and end of the year | 62 | 60 | 62 | 60 |
| Inputs: | | | | |
| Grant recycled | - | - | - | - |
| Interest accrued | - | 2 | - | 2 |
| At the end of the year | 62 | 62 | 62 | 62 |

# 23. Obligations under finance leases

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Net finance lease obligations: | | | | |
| In one year or less | 1,529 | 1,699 | 1,462 | 1,635 |
| Between two and five years | 15,658 | 15,309 | 15,550 | 15,129 |
| | 17,187 | 17,008 | 17,012 | 16,764 |

# 24. Provision for deferred tax

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Accelerated capital allowances | 88 | 86 | - | - |

# 25. Non-equity share capital

| | 2018 £ | 2017 £ |
|---|---|---|
| Allotted, issued and fully paid | | |
| At start of the year | 5 | 142 |
| Redeemed during the year | - | (137) |
| At end of the year | 5 | 5 |

The shares do not have a right to any dividend or distribution in a winding-up, and are not redeemable. Each share has full voting rights.

# 26. Capital commitments

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Capital expenditure that has been contracted for but has not been provided for in the financial statements | 63,982 | 26,186 | 63,982 | 26,186 |

The total amount contracted for at 31 March 2018 in respect of new dwellings relates to approved schemes for which grant approval has been received and or private finance arranged.

# 27. Operating leases

The Group holds housing stock, distribution centres, office accommodation and other plant & machinery under non-cancellable operating leases. At 31 March 2018, the Group had commitments of future minimum leases payments as follows:

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| **Within one year:** | | | | |
| Land & buildings | 380 | 405 | 329 | 329 |
| Other operating leases | 405 | 181 | - | - |
| **Between one to five years:** | | | | |
| Land & buildings | 1,016 | 1,138 | 780 | 856 |
| Other operating leases | 427 | 146 | - | - |
| **Between five to ten years:** | | | | |
| Land & buildings | 1,006 | 1,304 | 975 | 975 |
| Other operating leases | - | - | - | - |
| **Between 10 and 20 years:** | | | | |
| Land & buildings | 975 | 1,170 | 975 | 1,170 |
| Other operating leases | - | - | - | - |
| | 4,209 | 4,344 | 3,059 | 3,330 |

# 28. Pension obligations

The Group and Company participates in four defined benefit schemes: the Norfolk County Council Pension Fund, Suffolk County Council Pension Fund, the Social Housing Pension Scheme (which is managed by The Pensions Trust), and the Plumbing & Mechanical Services (UK) Industry Pension Scheme. The Group participates in various defined contribution schemes. Details of the schemes operated are outlined on the next page.

# 28(a) Norfolk County Council Pension Fund and Suffolk County Council Pension Fund

The Norfolk County Council Pension Fund and Suffolk County Council Pension Fund are defined benefit pension schemes. Valuations for the purposes of FRS 102 were carried out at 31 March 2018. The results of the valuations are as follows:

| Assumptions: | Group and Company 2018 | Group and Company 2017 |
|---|---|---|
| **Financial assumptions:** | % per annum | % per annum |
| Pension increase rate | 2.40% | 2.40% |
| Salary increase rate | 2.70% | 2.70% |
| Discount rate | 2.60% | 2.50% |

Mortality rates (based on the funds VitaCurves with improvements in line with the CMI 2010 model)

| | Males 2018 Years | Females 2018 Years | Males 2017 Years | Females 2017 Years |
|---|---|---|---|---|
| **Current pensioners: post-retirement life expectancy** | 22.00 | 24.40 | 22.00 | 24.40 |
| **Future pensioners: post-retirement life expectancy** | 24.00 | 26.40 | 24.00 | 26.40 |

| The major categories of plan assets as a percentage of total plan assets | Group and Company 2018 | Group and Company 2017 |
|---|---|---|
| Equities | 57.0% | 66.5% |
| Bonds | 30.0% | 21.5% |
| Property | 11.0% | 9.5% |
| Cash | 2.0% | 2.5% |
| | 100.0% | 100.0% |

# 28(a) Norfolk County Council Pension Fund and Suffolk County Council Pension Fund (continued)

Changes in the Fair Value of Plan Assets, Defined Benefit Obligation and Net Liabilities

| Opening position | Group and Company 2018 £'000 | Group and Company 2017 £'000 |
|---|---|---|
| Fair value of plan assets | 17,424 | 15,300 |
| Present value of funded liabilities | (24,674) | (20,473) |
| Present value of unfunded liabilities | (119) | (117) |
| Opening position as at 1 April 2017 | (7,369) | (5,290) |
| **Service cost** | | |
| Current service cost | (137) | (96) |
| Total Service cost | (137) | (96) |
| **Net Interest** | | |
| Interest income on plan assets | 436 | 521 |
| Interest cost on defined benefit obligation | (612) | (695) |
| Total Net Interest | (176) | (174) |
| Total Defined Benefit Cost Recognised in the Statement of Comprehensive Income | (313) | (270) |
| **Cash Flows** | | |
| Plan participants' contributions (net) | - | - |
| Employers Contributions | 718 | 523 |
| Contributions in respect of unfunded benefits | 9 | 9 |
| Benefits paid (net) | - | - |
| Unfunded benefits paid (net) | - | - |
| Closing position before re-measurements | (6,955) | (5,028) |

| Re-measurements | Group and Company 2018 £'000 | Group and Company 2017 £'000 |
|---|---|---|
| Change in demographic assumptions | - | 245 |
| Changes in financial assumptions | 399 | (4,097) |
| Other experience | - | (233) |
| Return on assets excluding amounts held in net interest | 54 | 1,744 |
| Total measurements recognised in Other Comprehensive Income | 453 | (2,341) |
| **Closing position** | | |
| Fair value plan assets | 17,955 | 17,424 |
| Present value of funded liabilities | (24,345) | (24,674) |
| Present value of unfunded liabilities | (112) | (119) |
| Closing position as at 31 March 2018 | (6,502) | (7,369) |

# 28(b) Social Housing Pension Scheme

The Group participates in the scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the United Kingdom. It is not possible for the Group 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 Group closed the scheme to new entrants from 1 April 2008.

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

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 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

| Deficit contributions | |
|---|---|
| Tier 1<br>From 1 April 2016 to 30 September 2020: | £40.6m per annum<br>(payable monthly and increasing by 4.7% each year on 1st April) |
| Tier 2<br>From 1 April 2016 to 30 September 2023 | £28.6m per annum<br>(payable monthly and increasing by 4.7% each year on 1st April) |
| Tier 3<br>From 1 April 2016 to 30 September 2026: | £32.7m per annum<br>(payable monthly and increasing by 3.0% each year on 1st April) |
| Tier 4<br>From 1 April 2016 to 30 September 2026: | £31.7m per annum<br>(payable monthly and increasing by 3.0% each year on 1st April) |

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 & 3 deficit contributions.

Where the scheme is in deficit and where the Group has agreed to a deficit funding arrangement, the Group recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost

# 28(b) Social Housing Pension Scheme (continued)

| Reconciliation of opening and closing provisions | Group and Company 2018 £'000 | Group and Company 2017 £'000 |
|---|---|---|
| Provision at 1 April 2017 | 6,600 | 7,116 |
| Unwinding of the discount factor (interest expense) | 81 | 137 |
| Deficit contribution paid | (875) | (843) |
| Remeasurements - impact of any change in assumptions | (80) | 190 |
| Provision at 31 March 2018 | 5,726 | 6,600 |

| Statement of Comprehensive Income impact | | |
|---|---|---|
| Interest expense | 81 | 137 |
| Remeasurements - impact of any change in assumptions | (80) | 190 |
| Contributions paid in respect of future service* | - | 193 |
| Costs recognised in the Statement of Comprehensive Income | 1 | 520 |

*includes defined contribution schemes and future service contributions (i.e. excluding any deficit reduction payments) to defined benefit schemes which are treated as defined contribution schemes.

| Assumptions | 31 March 2018 % per annum | 31 March 2017 % per annum | 31 March 2016 % per annum |
|---|---|---|---|
| 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.

# 28(b) Social Housing Pension Scheme (continued)

**Social Housing Pension Scheme – Growth Plan**

Flagship Housing Group participates in the SHPS's Growth Plan. The Plan is funded and is not contracted out of the state scheme. The Growth Plan is a multi-employer pension plan.

It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the Scheme is a multi-employer scheme where the Scheme assets are co-mingled for investment purposes, and benefits are paid from total Scheme assets. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS102 represents the employer contribution payable.

The last formal valuation of the scheme was performed as at 30 September 2014 by a professionally qualified actuary using the projected unit credit method. The market value of the scheme's assets at the latest valuation date was £793m. The valuation revealed a shortfall of assets compared to liabilities of £176.5m, equivalent to a funding level of 81.8%. The next full actuarial valuation is due as at 30 September 2017, which has not been finalised at the time of publication.

Employers joining the scheme after 1 October 2002, including the Group, that do not transfer any past service liabilities to the scheme, pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and applies until the second valuation after the date of joining the scheme, at which point the standard employer contribution rate is payable. Contribution rates are changed on the 1 April that falls 18 months after the valuation date.

Following a change in legislation in September 2005 there is a potential debt on the employer that could be levied by the Trustee of the Plan. The Trustee's current policy is that it only applies to employers with pre-October 2001 liabilities in the Plan. The debt is due in the event of the employer ceasing to participate in the Plan or the Plan winding up.

The debt for the Plan as a whole is calculated by comparing the liabilities for the Plan (calculated on a buyout basis i.e. the cost of security benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Plan. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buyout debt is the proportion of the Plan's pre-October 2001 liability attributable to employment with the leaving employer compared to the total amount of the Plan's pre-October 2001 liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Plan liabilities, Plan investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buyout market. The amounts of debt can therefore be volatile over time.

Flagship Housing Group has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Plan based on the financial position of the Plan as at 30 September 2017.

| Estimated employer debt on withdrawal | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Pension scheme | 50,240 | 50,240 | 50,240 | 50,240 |
| Growth plan | 54 | 54 | 54 | 54 |

# 28(c) The Plumbing & Mechanical Services (UK) Industry Pension Scheme

The Group participates in the Plumbing & Mechanical Services (UK) Industry Pension Scheme (the Scheme). The Scheme is funded and is contracted-out of the State Pension scheme.

It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the Scheme is a multi-employer scheme where the Scheme assets are co-mingled for investment purposes, and benefits are paid from total Scheme assets. Accordingly, due to the nature of the Scheme, the accounting charge for the period under FRS102 represents the employer contribution payable.

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

The last formal valuation of the Scheme was performed as at 5 April 2014 by a professionally qualified actuary using the Projected Unit Method and the actuary found that the assets were sufficient to cover 101% of the Scheme's liabilities.

The Scheme Actuary has prepared an Actuarial Report that provides an approximate update on the funding position of the Scheme as at April 2017. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. This shows that the assets covered liabilities by about 102% on an ongoing basis.

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Contributions | 7 | 5 | - | - |

# 28(d) Defined Contribution Pension Schemes

The Group participates in a number of defined contribution pension schemes. From 1 February 2014, the Group offered auto-enrolment in a pension scheme for all staff. The scheme offered is a defined contribution workplace pension scheme. Contributions paid by the Group to the schemes were:

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Contributions | 968 | 778 | 571 | 468 |

# 29. Directors' emoluments

The Directors are defined as the members of the Board and the Executive Directors. All the Executive Directors' remuneration was borne by Flagship.

The aggregate amount of emoluments (including pension contributions) with respect to service as Directors and paid to or receivable by the Directors in the Group during the year was Group: £643,070 (2017: £735,130). Retirement benefits are accruing to the Executive Directors under defined benefit schemes 2 members; (2017 – 2 members) and defined contribution schemes 1 member, (2017 – 1 members). The Chief Executive, who is also the highest paid Director, was an ordinary member of the Social Housing Pension Scheme until 31 March 2016 (see Note 28b). From 1 April 2016, the Chief Executive opted out of the scheme, the company contributions being rolled into their salary.

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Executive Directors £ | 2018 Non-Executive Directors £ | Total £ | Executive Directors £ | 2017 Non-Executive Directors £ | Total £ |
| Salary | 476,101 | 74,815 | 550,916 | 553,778 | 75,525 | 629,303 |
| Benefits | 30,654 | - | 30,654 | 22,883 | - | 22,883 |
| Total excluding pension contributions | 506,755 | 74,815 | 581,570 | 576,661 | 75,525 | 652,186 |
| Pension contributions | 61,500 | - | 61,500 | 82,994 | - | 82,994 |
| Aggregate total | 568,255 | 74,815 | 643,070 | 659,655 | 75,525 | 735,180 |

| Emoluments paid to the highest paid Director | 2018 £ | 2017 £ |
|---|---|---|
| Salary | 208,951 | 204,321 |
| Benefits | 9,665 | 6,215 |
| Total excluding pension contributions | 218,616 | 210,536 |
| Pension contributions | - | - |
| Aggregate total | 218,616 | 210,536 |

# 30. Employee information

| | Group 2018 Number | Group 2017 Number | Company 2018 Number | Company 2017 Number |
|---|---|---|---|---|
| The average full time equivalent number of persons (including Executive Directors) employed during the year was: | 705 | 599 | 286 | 263 |

The full time equivalent number is calculated based on a 37-hour working week.

Staff costs (for the above persons):

| | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Wages and salaries (including redundancy costs) | 24,136 | 19,685 | 9,327 | 8,555 |
| Social Security costs | 2,419 | 1,911 | 969 | 830 |
| Pension costs | 1,288 | 1,169 | 919 | 814 |
| Total – excluding temporary staff costs | 27,843 | 22,765 | 11,215 | 10,199 |
| Temporary staff costs | 112 | 134 | 63 | 73 |
| Total | 27,955 | 22,899 | 11,278 | 10,272 |

**Salary Bands**

Salary banding for all employees earning over £60,000 (including salaries and benefits in kind and compensation for loss of office, but excluding pension contributions paid by the employer):

| | Group 2018 Number | Group 2017 Number | Company 2018 Number | Company 2017 Number |
|---|---|---|---|---|
| £60,000 to £70,000 | 2 | 3 | 1 | 3 |
| £70,001 to £80,000 | 7 | 2 | 4 | 2 |
| £80,001 to £90,000 | 4 | 4 | 4 | 3 |
| £90,001 to £100,000 | 4 | 2 | 3 | 2 |
| £100,001 to £110,000 | 1 | - | - | - |
| £110,001 to £120,000 | - | 3 | - | 3 |
| £120,001 to £130,000 | 2 | 2 | 2 | 2 |
| £130,001 to £140,000 | 1 | - | 1 | - |
| £140,001 to £150,000 | 2 | - | 2 | - |
| £210,001 to £220,000 | 1 | 1 | 1 | 1 |
| | 24 | 17 | 18 | 16 |

# 31. Housing stock

| Group and company<br>Social properties | 2018<br>Units | 2017<br>Units |
|---|---|---|
| General needs housing | 18,438 | 18,373 |
| Housing accommodation at intermediate rent | 470 | 355 |
| Supported housing and housing for older people | 1,777 | 1,778 |
| Shared ownership accommodation | 1,101 | 1,098 |
| Keyworker properties | 19 | 19 |
| **Non-social properties** | | |
| Housing accommodation let at market rent | 298 | 296 |
| Student accommodation | 600 | 600 |
| Other | 2 | 2 |
| Total | 22,705 | 22,521 |

# 32. Notes to the cash flow statement

| Cash flow from operating activities | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| **Surplus for the year** | 37,128 | 31,474 | 37,500 | 32,254 |
| **Adjustment for non-cash items:** | | | | |
| Depreciation of housing properties | 16,116 | 18,305 | 16,116 | 18,305 |
| Depreciation of other fixed assets | 1,864 | 2,344 | 1,256 | 998 |
| Amortisation of intangible assets | 1,317 | 514 | 638 | 413 |
| (Increase) in inventories | (6,516) | 937 | (889) | 720 |
| (Increase) in debtors | (1,947) | (3,208) | (1,167) | (3,121) |
| Decrease / (increase) in current asset investments | (5,119) | 9,861 | (5,119) | 9,861 |
| (Decrease) in creditors | (965) | (621) | (4,256) | (1,723) |
| (Decrease) in provisions | (333) | (452) | (334) | (452) |
| Pension costs less contributions payable | (874) | (516) | (874) | (516) |
| Carrying amount of intangible asset disposals | - | 108 | - | - |
| Carrying amount housing property disposals | 5,865 | 6,532 | 5,865 | 6,532 |
| Carrying amount other fixed asset disposals | 516 | 790 | 509 | 640 |
| (Increase) in fair value of investment property | (1,941) | (1,293) | (1,941) | (1,293) |
| **Adjustments for investing or financing activities:** | | | | |
| Proceeds from the sale of housing properties | (7,922) | (8,286) | (7,918) | (8,175) |
| Proceeds from the sale of other fixed assets | - | - | - | - |
| Interest payable | 23,791 | 24,993 | 23,778 | 24,952 |
| Interest received | (732) | (1,030) | (2,674) | (2,335) |
| **Net cash generated from operating activities** | 60,248 | 80,452 | 60,490 | 77,060 |

# 33. Financial instruments

The carrying value of the Group and Company's financial assets and liabilities are summarised by category below:

| Financial assets | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| **Measured at discounted amount receivable:** | | | | |
| • Rent arrears financing transactions (see note 15) | - | - | - | - |
| **Measured at undiscounted amount receivable:** | | | | |
| • Rent arrears and other debtors (see note 15) | 4,886 | 5,121 | 2,708 | 3,624 |
| • Amounts due from related undertakings (see note 15) | - | - | 4,600 | - |
| • Unlisted investments | 35,570 | 30,450 | 35,570 | 30,450 |
| | 40,456 | 35,571 | 42,878 | 34,074 |

| Financial liabilities | | | | |
|---|---|---|---|---|
| **Measured at amortised cost:** | | | | |
| • Loans payable (see note 19) | 622,662 | 597,296 | 622,662 | 597,296 |
| • Obligations under finance leases (note 23) | 17,187 | 17,008 | 17,012 | 16,764 |
| • SHPS past service deficit (notes 17 and 18) | 5,726 | 6,600 | 5,726 | 6,600 |
| **Measured at undiscounted amount payable:** | | | | |
| • Trade and other creditors (see note 17) | 7,428 | 6,429 | 4,787 | 3,854 |
| | 653,003 | 627,333 | 650,187 | 624,514 |

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

| Interest income and expense | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|
| Total interest income for financial assets at amortised cost | 731 | 1,031 | 1,302 | 1,839 |
| Total interest expense for financial liabilities at amortised cost | (24,510) | (24,956) | (24,497) | (24,952) |
| **Fair value gains and losses** | | | | |
| On financial assets measured at fair value through the statement of comprehensive income | 533 | (2,531) | 533 | (2,531) |

# 34. Related parties

Flagship Housing Group Limited is the Parent entity in the Group and ultimate controlling party. The Group has taken advantage of the exemption available under Section 33 FRS 102 not to disclose transactions with wholly owned subsidiary undertakings.

**Transactions with non-registered elements of the business**
The Company provides management services to its subsidiaries. It also receives charges from its subsidiaries.

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| **Payable to Company from subsidiary** | | |
| RFT Repairs Limited – management charges | 1,988 | 1,492 |
| Flagship Housing Developments Limited – management charges | 327 | 177 |
| **Payable by Company to subsidiary** | | |
| RFT Repairs Limited – provision of maintenance services | 30,663 | 23,040 |
| Flagship Housing Developments Limited – development of housing properties | 9,600 | 8,619 |

# 35. Explanation of adoption of FRED 68

As stated in note 1, the company has adopted the provisions of FRED 68 within these financial statements. The provisions of FRED 68 have been applied in the preparing the financial statements for the year ended 31 March 2018, the comparative information presented in these financial statements for the year ended 31 March 2017 and in the preparation of an opening balance sheet at 1 April 2016 (the company's date of transition).

On adoption of FRED 68, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old accounting policy under FRS 102. An explanation of the impact of the adoption of FRED 68 on the company's financial position, fina ncial performance and cash flows is set out in the following tables and the notes that accompany the tables. There is no change to the Group results, the parent company results only are affected the adoption of this accounting standard.

**Company**

| | Pre FRED 68 £'000 | 1 April 2016 Adjustment £'000 | FRED 68 adoption £'000 | Pre FRED 68 £'000 | 31 March 2017 Adjustment £'000 | FRED 68 adoption £'000 |
|---|---|---|---|---|---|---|
| **Fixed assets** | | | | | | |
| Intangible assets | 690 | - | 690 | 810 | - | 810 |
| Housing properties | 1,275,027 | - | 1,275,027 | 1,280,355 | - | 1,280,355 |
| Investment properties | 38,029 | - | 38,029 | 62,727 | - | 62,727 |
| Other property, plant & equipment | 4,121 | - | 4,121 | 4,862 | - | 4,862 |
| Investments - Homebuy | 38 | - | 38 | 38 | - | 38 |
| Investments - Other | 22,336 | - | 22,336 | 33,187 | - | 33,187 |
| | 1,340,241 | - | 1,340,241 | 1,381,979 | - | 1,381,979 |

# 35. Explanation of adoption of FRED 68 (continued)

| | Pre FRED 68 £'000 | 1 April 2016 Adjustment £'000 | FRED 68 adoption £'000 | Pre FRED 68 £'000 | 31 March 2017 Adjustment £'000 | FRED 68 adoption £'000 |
|---|---|---|---|---|---|---|
| **Current assets** | | | | | | |
| Inventories | 1,624 | - | 1,624 | 906 | - | 906 |
| Debtors | 8,114 | (1,309) | 6,805 | 8,852 | (1,371) | 7,481 |
| Current asset investments | 40,312 | - | 40,312 | 30,450 | - | 30,450 |
| Cash at bank and in hand | 29,061 | - | 29,061 | 31,963 | - | 31,963 |
| **Total current assets** | 79,111 | (1,309) | 77,802 | 72,171 | (1,371) | 70,800 |
| **Creditors** | | | | | | |
| Creditors – falling due within one year | (34,038) | - | (34,038) | (33,535) | - | (33,535) |
| **Net current assets** | 45,073 | (1,309) | 43,764 | 38,636 | (1,371) | 37,265 |
| **Total assets less current liabilities** | 1,385,314 | (1,309) | 1,384,005 | 1,420,615 | (1,371) | 1,419,244 |
| **Financed by:** | | | | | | |
| **Creditors** | | | | | | |
| Amounts falling due after one year | 802,919 | - | 802,919 | 806,356 | - | 806,356 |
| Provisions for liabilities | | - | | 7,369 | - | 7,369 |
| Pension liability | 5,290 | - | 5,290 | - | - | - |
| **Capital and reserves:** | | | | | | |
| Share capital | - | - | - | - | - | - |
| Retained earnings | 159,557 | (1,309) | 158,248 | 192,842 | (1,371) | 191,471 |
| Revaluation reserves | 417,548 | - | 417,548 | 414,048 | - | 414,048 |
| **Total reserves** | 1,385,314 | (1,309) | 1,384,005 | 1,420,615 | (1,371) | 1,419,244 |

**Notes to the reconciliation of shareholder's funds above**

Prior to the adoption of FRED 68 the company accrued gift aid receipts at the period end. Following the adoption of FRED 68 the company now recognises the gift aid receipts as a distribution (akin to a dividend) in the period in which the payment is made. As such the movement in shareholder's funds is equivalent to the value of the gift aid receipt.

# 35. Explanation of adoption of FRED 68 (continued)

**Notes to the reconciliation of profit**

The adoption of FRED 68 impacts the statement of comprehensive income as shown below

| | Year ended 31 March 2017 | | |
|---|---|---|---|
| Company | Pre FRED 68 £'000 | Adjustment £'000 | FRED 68 adoption £'000 |
| **Turnover** | 117,841 | - | 117,841 |
| Cost of sales | (1,610) | - | (1,610) |
| Operating costs | (64,582) | - | (64,582) |
| **Operating surplus** | 51,649 | - | 51,649 |
| Gain on disposal of property, plant and equipment | 1,928 | - | 1,928 |
| Interest receivable and similar income | 2,398 | (62) | 2,336 |
| Interest and financing costs | (24,952) | - | (24,952) |
| Surplus on revaluation of investment properties | 1,293 | - | 1,293 |
| **Surplus for the year before taxation** | 32,316 | (62) | 32,254 |
| Taxation | - | - | - |
| **Surplus for the year** | 32,316 | (62) | 32,254 |
| Actuarial gain / (loss) in respect of pension schemes | (2,531) | - | (2,531) |
| **Total comprehensive income for the year** | 29,785 | (62) | 29,723 |

**Notes to the statement of comprehensive income above**

Prior to the adoption of FRED 68 the company accrued the gift aid receipts at the period end. Following the adoption of FRED 68 the company now recognises the gift aid receipts as a distribution (akin to a dividend) in the period in which the payment is made. As such the movement in Interest receivable and similar income is equivalent to the difference in accrued gift aid and gift aid received in the period.