Longhurst Group

Financial Statement 2018


Longhurst Group

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Board Members, Executive Officers, Principal Advisors and Bankers

Board Members

Robert Wilson	Chair
Patricia Brandum	Vice Chair, Chair of the Keystone Board
Clive Barnett	Chair of the Libra Treasury Board
Daniel Elkins	Chair of Remunerations and Nominations Committee
Stephen Wenham	Chair of the Homes Board
Julie Doyle	Chief Executive
Hilary Lindsay	Chair of the Audit and Risk Committee (appointed 07.07.2017)
Patricia Stanley	Non-Executive Director
Parmjit Dhanda	Non-Executive Director

Executive Officers

Julie Doyle	Chief Executive
Rob Griffiths	Deputy Chief Executive and Chief Financial Officer
Lynn Stubbs	Executive Director of People and Performance
Jonathan Driffill	Executive Director of Partnerships, Care and Community
Ian Jackson	Executive Director of Investment Portfolio
Sharon Guest	Executive Director of Housing
Louise Platt	Executive Director of Care and Business Partnerships (appointed 16.10.2017)

Company Secretary

Rachel Challinor	Director of Governance, Performance and Compliance

Registered Head Office
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Birmingham B1 3JN

Principal Bankers
Lloyds Banking Group
Third Floor
25 Gresham Street
London EC2V 7HN

Auditors
Beever and Struthers
Chartered Accountant and
Statutory Auditor
St George's House
215–219 Chester Road
Manchester M15 4JE

Solicitors
Wright Hassall LLP
Olympus Avenue
Leamington Spa
Warwickshire CV34 6BF

Trowers & Hamlins LLP
3 Bunhill Row
London EC1Y 8YZ

Winckworth Sherwood LLP
Minerva House
5 Montague Close
London SE1

Chair, Chief Executive and Directors' Reports

Report from the Chair and Chief Executive

As the uncertainty around how Britain will leave the European Union remains, it is unclear what the long-term effects will be on the UK economy. Although the economic crash many predicted is yet to materialise, future projections around productivity and growth are inconsistent. However, one certainty the country continues to face is an increasingly challenging housing crisis.

Both the Government and the opposition have shown commitment to investing in the development of new homes, particularly affordable ones, with the Government pledging a further £2billion that means more than £9billion invested in affordable housing.

As a Group, we remain focused on realising our ambitious growth plans and providing high-quality affordable homes across our operating areas. As well as remaining on course to deliver 3,500 new homes by 2023, we have continued to grow by adding 144 rented and general needs properties to our stock in the last financial year which were transferred from another registered provider in March 2018 and transferred 595 leasehold properties for the elderly in July 2017.

We also completed a transfer of a further 308 properties in May 2018, which means the Group now owns and manages over 22,500 properties across the Midlands and East of England.

Our operating environment

We have continued to adapt well to the political and economic challenges that the housing sector faces. By being bold, yet prudent we are mitigating the risks emerging from rent reductions, Welfare Reform and austerity.

Last October's government announcement that social housing rents will rise by the consumer price index (CPI) plus 1% from 2020 to 2025 provided much-needed stability and certainty for the sector.

Following considerable lobbying, the Prime Minister announced in October 2017 that the Local Housing Allowance (LHA) and Shared Accommodation Rate (SAR) rates will not be applied to Supported Housing nor the wider social housing sector.

Despite these welcome changes, the continued roll out of Universal Credit remains a source of concern and many of our customers are still likely to find the transition from housing benefit a significant challenge.

The much-anticipated roll out of a Voluntary Right to Buy pilot for the Midlands will commence in July 2018, and we have modelled the potential impact in our business plan.

The Group is taking a pragmatic approach to dealing with the uncertainty provided by Brexit. It is on our risk register and remains a watching brief, but focussed on future development, we remain mindful of potential pressures on inflation, exchange rate and labour.

As an organisation, we continue to realise our vision of working as one team with one vision. We have restructured teams across the Group to ensure we provide the best service to our customers.

In the last financial year, we appointed a new repairs contractor, Wates Living Space, who now provide repairs services to three of our four member companies, with the fourth going live in April 2019. This new contract will generate further efficiencies by reducing overhead costs and provide a consistent level of service to all our customers.

We remain committed to providing care and support services at a time when many other organisations are moving away from providing services in these areas due to a worsening funding model and greater public scrutiny of services provided.

Despite these challenges, we are proud to offer a variety of care and support services that help improve the lives of many vulnerable people.

One year on from the tragic fire at Grenfell Tower, we are reminded of the importance of ensuring that our properties meet the very highest health and safety standards and all of our fire risk assessments are up-to-date and fit for purpose.

Our response to the operating environment

Longhurst Group retains a clear focus on developing new homes and providing essential local services that include care and support. We are committed to managing the challenges provided by the wider political and economic environment to realise our ambitions to grow and improve as an organisation.

In July 2017 we completed the merger with Axiom Housing Association which is now successfully integrated into the business. We continue to assess potential merger opportunities as well as further stock rationalisation opportunities where there would be a good fit with our business.

Making an impact on the housing crisis to address the shortage of affordable homes is a key priority for us and we are one of the leading developing registered providers in the country. We achieved 480 completions during 2017/18 across a range of different tenures and have plans in place to deliver 3,500 new homes in the next five years for affordable rent, low cost home ownership and market sales. In the year ahead we expect to complete over 750 new homes, the majority of which are on sites already secured.

In May 2018 we raised a further £150m via a listed bond to finance our forward development programme. With funding facilities in place at competitive rates and a strong financial performance we have a strong platform for future growth. We will continue to work with regional and commercial partners to deliver more new homes that improve people's lives and further boost the local economy.

Our results for 2017/18 have been even stronger than we predicted. Following on from a record financial performance in 2016/17, we have posted an end of year turnover of £145.6m, a net surplus after tax of £26m and an operating margin of 32.29%

We still have much work to do to achieve our growth ambitions, but we are well placed to deliver these targets. We remain financially resilient, with a strong and stable Board and leadership team and a dedicated staff team.

Together, working as one team with one vision, we are confident that we will continue to grow, realise our ambitions and improve the lives of our customers.

Bob Wilson
Chair

Julie Doyle
Chief Executive

Directors' Report

Introduction
The Board presents its report and audited consolidated financial statements for Longhurst Group and its subsidiary undertakings for the year ended 31 March 2018.

Principal Activities
The principal activity of Longhurst Group is as a leading provider of affordable housing, care, and support in the Midlands and surrounding areas.

Directors
See page 4 for listing of Board Members and Executive Officers.

Strategic Report
The Company has chosen, in accordance with section 414C (11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, to set out in the Group's Strategic Report and Review of Financial Performance the information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. This includes information that would have been included in the business review and the principal risks and uncertainties.

Charitable and Political Donations
The Group has made no donations during the year.

Statement of the Board's Responsibilities in Respect of the Accounts
The Board is required to prepare financial statements for each financial year that give a true and fair view of the Company's state of affairs and of its income and expenditure for that period.

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

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed
- Prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

By order of the Board

Bob Wilson
Chair

Date: 23 July 2018

2(a) Caption

Strategic Report

Strategic Report

Introduction

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

Our Vision

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

Our Values

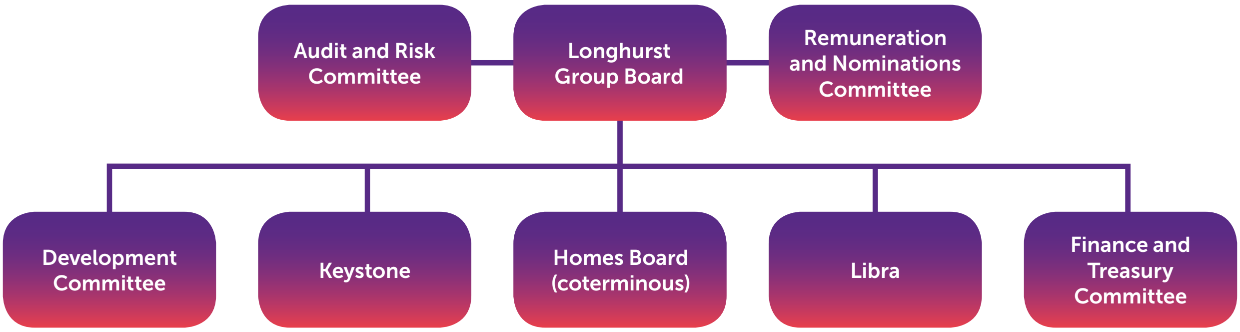
We are united by a shared set of values that guide everything we do as a Group and show what matters to us. These are:

Governance and Reporting Structure

The Group consists of the following organisations:

- Longhurst Group Limited (the parent)
- Longhurst and Havelok Homes Limited (subsidiary)
- Spire Homes (LG) Limited (subsidiary)
- Friendship Care and Housing Limited (subsidiary)
- Axiom Housing Association Limited (subsidiary)
- Keystone Developments (LG) Limited (subsidiary)
- Libra (Longhurst Group) Treasury PLC (subsidiary)
- Libra 2 (Longhurst Group) Treasury PLC (subsidiary)

The Group's governance structure is shown in the diagram below.



The Group Board defines and sets the strategic vision, values and corporate objectives of the Group.

Subsidiary Boards and Committees contribute to the development of the Group's Business Plan and overall strategy and play a key role in overseeing operational delivery plans, performance and risks. The Homes Board is a Coterminous Board operating across Spire Homes, Longhurst & Havelok Homes, Friendship Care & Housing and Axiom Housing Association. The responsibility of each Board and Committee is clearly defined in their Terms of Reference and Group Financial Regulations.

Business Overview

Longhurst Group is a leading provider of housing and care and support services across the Midlands with nearly 22,000 homes in management at the end of the year across a range of different tenure types. Our stock has grown by over 3,300 units during the year through development (349 units), stock acquisitions from other providers (739) and by Axiom Housing Association joining the Group (2,200 units).

We have plans in place to deliver over 3,500 new homes in the next five years with a development pipeline of nearly 1,600 homes.

We have made further improvements to our operating performance in 2017/18, achieving an operating margin of 32.3% and a surplus after tax of £26.59m.

Review of Group Financial Performance

The Board is pleased to present the financial results for the year ended 31st March 2018.

Statement of Comprehensive Income

	2017/18 £'000	2016/17 £'000	2015/16 £'000	2014/15 £'000
Turnover	145,602	110,843	112,913	106,278
Cost of Sales	(26,849)	(9,543)	(14,627)	(11,956)
Less Operating Expenditure	(73,079)	(60,971)	(65,493)	(62,203)
Gain/(Loss) on disposal of Property, Plant & Equipment	1,324	939	(623)	703
Operating Surplus	46,998	41,268	32,170	32,822
Interest Receivable	53	24	293	288
Interest Payable	(24,591)	(24,139)	(25,365)	(23,777)
Increase in valuation of investment properties	**(21)**	**18**	**119**	**75**
Negative Goodwill	4,568	0	0	0
Surplus before tax	**27,006**	**17,171**	**7,217**	**9,408**
Taxation	(416)	(146)	25	(56)
Net Surplus	**26,591**	**17,025**	**7,242**	**9,352**

The consolidated group surplus for the year ended 31st March 2018 was £26.59m after tax, compared to a surplus of £17.03m for the same period in 2016/17.

The Group's total turnover for the year increased from £110.84m in 2016/17 to £145.60m in 2017/18. The increase in turnover was achieved through increased sales activity of nearly £19m with the remainder being due to increased turnover on social housing lettings as a result of Axiom joining the Group at the beginning of July 2017 and rental income on new homes acquired and developed during the year coming into management. Total turnover from social housing lettings was £102.4m for the year and this remains the main source of income. As a percentage of turnover this dropped from 79.7% in 2016/17 to 70.3% in 20176/18 as a result of the increased activity in low cost home ownership.

Total operating costs grew from £60.97 in 2016/17 to £73.08m in 2017/18. The increase in operating costs was primarily due to the acquisition of Axiom and some marginal increase in costs on new stock developed and acquired.

The Group's operating margin for 2017/18 was 32.2% down from 37.23% in 2016/17. The margin has reduced in the last 12 months due to the increased sales activity where the margin was 21.7% and the acquisition of Axiom which operated at a lower operating margin. Excluding sales, our operating margin for 2017/18 was 35.7% compared to 37.72% the previous year.

New interest costs for the year grew to £24.59m from £24.14m in 2016/17. The increase in interest costs over the last year is due to additional debt being drawn to fund the development programme and debt taken on from Axiom joining the Group. The average cost of borrowing for the year was 5.167% down from 5.305% the previous year.

Axiom Housing Association joining the Group in July 2017 was treated as an acquisition in the preparation of the Group consolidated Financial Statements.

The valuation of assets and liabilities has resulted in negative goodwill of £4.57m which has been written off in full at the end of the year.

Statement of Financial Position

	2017/18 £'000	2016/17 £'000	2015/16 £'000	2014/15 £'000
Fixed Assets	1,083,401	932,385	912,184	892,092
Current Assets	54,840	41,989	29,135	26,232
Creditors due within 1 year	(37,567)	(31,304)	(30,711)	(25,552)
Total Assets less Current Liabilities	**1,100,674**	**943,070**	**910,608**	**892,772**
Creditors due after 1 year	(853,190)	(727,935)	(712,848)	(702,048)
Pension Provision	(3,224)	(3,505)	(3,165)	(3,801)
Total Net Assets	**244,260**	**211,630**	**194,595**	**186,923**
Reserves				
Income & Expenditure Reserve	131,282	103,563	85,791	76,958
Revaluation Reserve	138,562	139,502	140,757	141,811
Cashflow hedge reserve	(26,584)	(32,435)	(32,953)	(32,846)
Restricted reserve	1,000	1,000	1,000	1,000
	244,260	**211,630**	**194,595**	**186,923**

The net book value of the Group's fixed assets grew by £151m in the year to £1.03bn at the end of March 2018. The increase in the recorded value of the fixed assets was realised through the acquisition of Axiom and the increased investment in the provision of new homes. Total debt outstanding at the end of March 2018 increased to £543.7m from £465m the previous year. The increase in debt being due to Axiom joining the Group and debt drawn down to fund the development programme.

The cash flow hedge reserve reduced by £5.85m to £26.554m at the end of March 2018. The reduction was due to an increase in swap rates reducing our mark to market position.

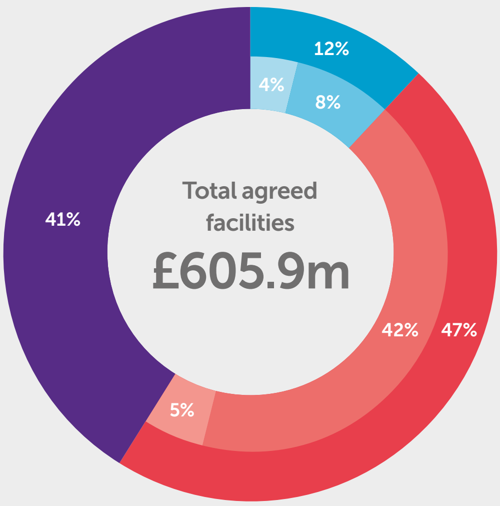
Treasury and Capital Structure

The Group's Treasury Management Strategy is instrumental in the delivery of our strategic objectives and financial plan. The Treasury Strategy is approved annually by the Board and reviewed quarterly by the Finance & Treasury Committee.

The purpose of the Treasury Strategy and Policy is to ensure that we have sufficient funds in place to finance our operations and committed development projects for a minimum of 18 months.

At the 31st March 2018, Longhurst Group has agreed loan facilities totalling £605.9m of which £552.3m was drawn. Since the Group's Bond issue and the restructuring of a significant proportion of Bank debt in August 2012, loans are managed through the Group's Special Purpose Vehicle, Libra (Longhurst Group) Treasury plc with the remainder of loans being held within the individual operating company.

At the 31st March 2018 the Group had total loan facilities available of £605.9m of which £53.6m was undrawn. The increase in agreed facilities is due to Axiom Housing Association joining the Group in July 2017.



Total committed funding

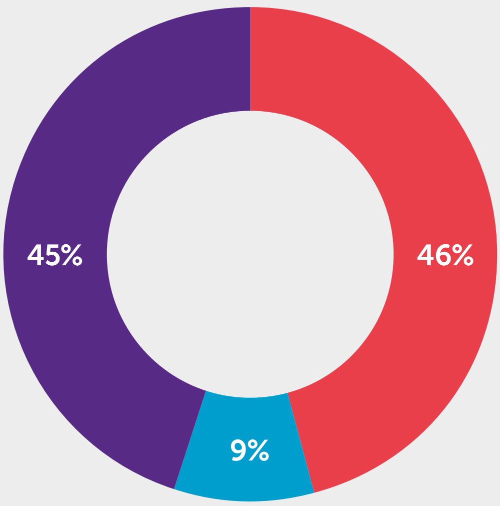
During the financial year 2017/18:

- £50.0m of existing bank facilities were extended to mature in 2023.
- £445.2m of total committed facilities has either been issued or is managed under Group Loan facilities by Libra (Longhurst Group) Treasury plc

Bank Loans
Drawn
Undrawn

Other/capital markets/LA
Drawn
Undrawn

Libra Bond 2012



Bank vs Capital Market

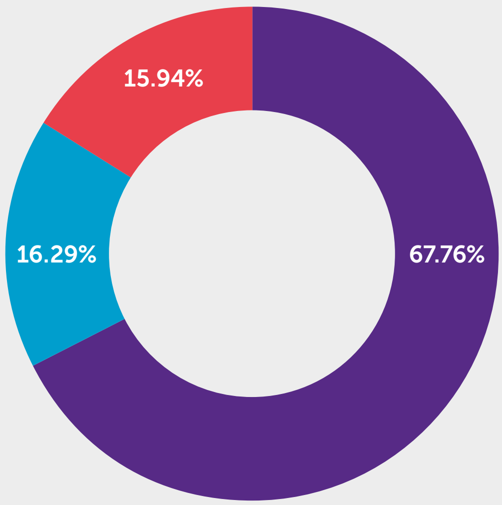
Bond and capital markets debt now account for 54% of the Group's total debt with the balance being provided through a mix of short, medium and long-term bank debt.

Bank

Capital markets/other

Libra Bond

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



Hedging activity

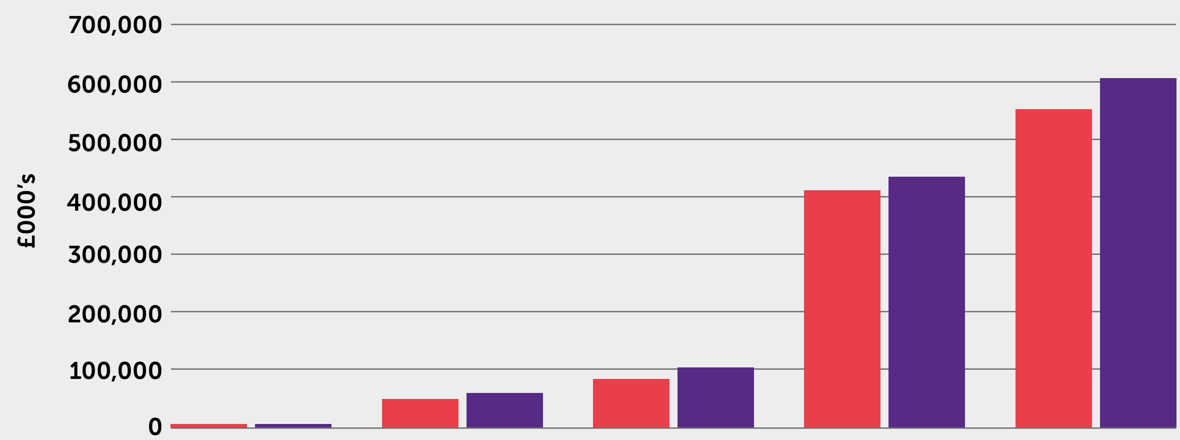
The Group's hedging activity is within the Treasury Management policy's agreed parameters, with a total of 84.06% fixed through a combination of embedded fixed rates and standalone derivatives (ISDA).

The ratio of fixed rate debt has reduced during 2017-18 as a result of additional variable debt drawn, fixed rate maturities and maturity of fixed rate loans (final repayment).

Embedded fixed **ISDA** **Variable**

75% of the Group's Loans have been arranged under long term facility periods with 25% being arranged as short term facilities with a final repayment date of between two and five years.

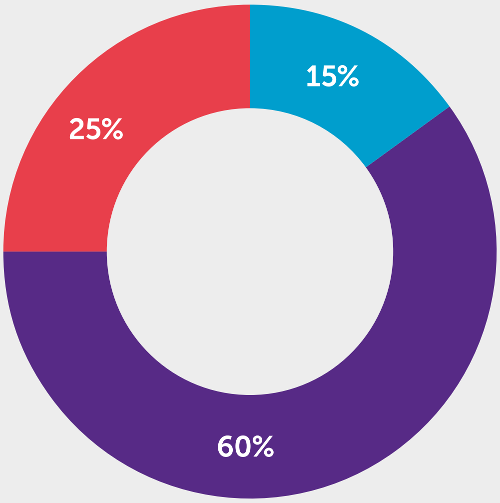
The repayment profile for the drawn and undrawn debt held across the Group is summarised in the chart below, including loan discount/premiums totalling (891k).



	Within one year	1–2 years	2–5 years	> 5 years	Total
Drawn	£6,267	£49,414	£84,282	£411, 495	£551,458
Committed	£6,267	£60,214	£104,282	£434,295	£605,058

The undrawn committed facilities of £53.6m includes £30.8m undrawn revolving credit facilities repayable within the next five years and £22.8m of local authority funding repayable after five years.

Seventy two per cent of committed facilities mature in more than five years, a majority of which relates to our £250m 26 Year (2038) Bond issue.



Available liquidity

At the 31st March 2018 the Group had available cash of £10.51m and £38.0m of undrawn facilities available to draw with two day's notice.

£15.6m of undrawn facilities are undrawn not yet secured.

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

A majority of loan facilities for L&H and Spire are now held and/or managed within Libra with the exception of long standing THFC and Housing Corporation (Orchardbrook) loans which are held at company level.

Friendship Care & Housing Loans are currently held at company level, however, new facilities which were arranged during 2017/18 include Friendship as a borrower none of which was drawn by Friendship at the 31st March 2018.

Axiom Housing Association's loans are mostly held at company level, with the exception of one Group revolving credit facility where Axiom is a borrower and had drawn £1.5m under this facility at the 31st March 2018.

L&H, Spire, Friendship are all party to the Group Security structure with all lenders and Libra being beneficiaries of their respective Security Trust Deeds allowing for cross collateralisation for all Group facilities. Axiom is also party to the Group security structure; however, as at the 31st March 2018 only one lender was a beneficiary to the Axiom security trust deed.

The Group's Loan Covenants are based on interest cover; loan gearing and asset cover ratios. A majority of Loan Covenants are measured on a Group Consolidated basis with the exception being Friendship Care & Housing Ltd where Loan Covenants are measured at individual company level and Axiom where some facilities remain measurable at individual company level.

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

At the 31st March 2018, the Group had a negative stand-alone interest swap exposure of £23.9m (2017: £29.5m), based on £90.0m (2017:£90.0m) of notional paying fixed rate/ receiving 3m LIBOR swaps.

All of the Group's interest rate swaps allow for the Mark to Market (M2M) position to be covered by either property assets or cash. At the 31st March 2018 the Group's position was covered by property security of £13.9m for the M2M position in excess of the agreed threshold.

Value for Money

Value for Money

Value for money (VFM) is fully integrated into the way in which we work and deliver services to our customers.

We are developing our 2025 Vision which builds upon our successful growth strategy and strong financial performance in 2017/18 and the preceding three years.

We have reviewed the VFM Standard and undertaken a self-assessment against the new standard and code of practice of which we can confirm we meet.

One Team One Vision

We have completed the restructuring of key business areas across the Group to ensure that the appropriate structures and resources are in place to deliver on our Business Plan objectives. These changes have taken account of Axiom joining the Group, with an assimilated Governance and Senior Leadership structure.

Growth and development

We are focused on strong yielding; low risk developments with 75% of programme over the next 18 months likely to come via low risk Section 106 Agreements. Our Business Plan assumes 50% shared ownership (+ outright sale) and 50% affordable rent, of which a significant proportion we be let at an affordable or intermediate rent.

In 2017/18 we delivered 480 new homes, including 131 for outright sale which have provided strong returns to re-invest into the affordable housing programme. Our stock acquisition strategy has delivered an additional 144 units into housing management in the year and increased our Leasehold portfolio by nearly 50% through 595 properties transferred from Waterloo.

Mergers and partnerships

In July 2017 we successfully completed the acquisition of Axiom Housing Association. The combined business case for Axiom joining the Group was based on a drive to improve services, be more efficient and develop more homes. Over the next two years we expect to deliver efficiency savings of £1.6m on operating costs as a result of Axiom joining our Group. We have also increased the size of our combined development programme such that we are aiming to deliver 700 new homes a year which is 100 more than we were delivering individually.

The delivery of the integration plan is ahead of schedule with nearly 80% of the plan now delivered. We have successfully completed phase 1 of the ICT implementation which incorporates key business systems for housing, finance, customer and property services. Full integration will be achieved during 2018/19 with the adoption of HR Shared Services and Tenant Portals.

We remain open to exploring new opportunities to work with other organisation where we are able to demonstrate efficiencies and increased capacity for new development.

Managing our assets

During 2017/18 we have invested over £17million in maintaining our homes and 80% of our customers have recently told us they are either satisfied or very satisfied with the quality of their home which is extremely important to us.

To ensure value for money and crucially investment certainty, we have undertaken an independent stock condition survey of 70% of our stock during 2017/18. This work has ensured that we hold accurate up to date information on the condition of our stock which will be used to inform our future investment plans.

This results of the independent surveys has confirmed our stock is in good condition and that the level of investment needed is consistent with that provided in the business plan but with a reduced investment need during the next 10 years.

The Group entered into a lon.-.erm contract for Responsive and Planned Maintenance in April 2018 with Wates Living Space. This achieved procurement savings of £90k compared with the costs which would have been incurred by the individual RP's if they had re-tendered individually. The consolidated repairs contract with Wates will reduce our overheads in the future through working with one contractor to a consistent set of service standards.

Building on our recent procurement activity, we commissioned Procurement for Housing (PfH) to complete an independent review of the Groups Procurement arrangements and activities. We are now working with a set of recommendations looking at options to improve procurement processes and achieve future savings on items outside of our development and property services framework.

Maximising our income

2017/18 was again a year of improvement in performance despite the increasing number of tenants in receipt of Universal Credit. Total current tenant arrears percentage fell from 2.35% in 2017 to 2.32%. The collection rate was 100.00%. We collected £893,069 of former tenant debt, an increase of £303,000 on the previous year.

The rent first culture and improved income collection and processing tools which have been embedded over the past 12 months has resulted in just under 12,000 customers paying by direct debit and £29m of income being received this way.

In 2017/18 our void rate for our general needs and housing for older people showed a slight increase from 0.54% in 2016/17 to 0.55%, costing around £7,563. The slight increase can be attributed to an increase of void times during quarter 4 when news of the new repairs contractor was released coupled with a number of difficult to let homes in the East region.

Despite a slight increase in void loss, re-let times have reduced across our regions. In 2016/17 it was taking an average of 18.11 days to re-let our homes compared to 18.04 days in 2017/18.

Investing in our communities

As part of our commitment to 'Improving Lives', we have introduced a number of measures to have a positive impact on our residents and communities. We have replaced our affordability assessment with a sustainability matrix which allows us to assess affordability, health and wellbeing issues as well as risks associated with the tenancy. This enables us to put a tailored tenancy sustainment plan in place for the incoming tenant.

Our House2Home project continues to provide much needed support to new customers whilst our Money Advice Service has achieved excellent results, supporting over 750 customers, generating additional income of £303,291 against service costs of £106,000.

VFM metrics and benchmarking

In March 2018 the Regulator of Social Housing issued new guidance around the reporting of VFM. The new guidance incorporated a series of standard metrics which would be measured based on a standard definition from information contained within the Financial Statements.

The following section shows the Group's performance against each of the VFM metrics for both 2017/18 and the previous year.

Alongside the VFM metrics, we compare our performance with other Registered Providers as part of the Vantage Benchmarking Group. This Benchmarking Group meets quarterly and allows members to compare performance across a range of indicators using consistent definitions.

Metric number	Metric name	2018 LG	2017 LG	2017 Global
Metric 1	Reinvestment %	18.02%	4.54%	5.67%
Metric 2A	New Supply Delivered (Social Housing Units) %	15.20%	2.13%	1.48%
Metric 2B	New Supply Delivered (Non-Social Housing Units) %	0.59%	0.10%	0.17%
Metric 3	Gearing %	52.05%	53.13%	44.92%
Metric 4	EBITDA (MRI) Interest Cover %	193.96%	170.55%	170.00%
Metric 5	Headline Social Housing Cost Per Unit	£2,673	£2,546	£3,300
Metric 6A	Operating Margin % (Social housing lettings only)	37.62%	40.26%	39.31%
Metric 6B	Operating Margin % (Overall)	31.37%	36.38%	33.50%
Metric 7	Return on capital employed (ROCE) %	4.27%	4.38%	4.29%

Metric 1
Investment in the provision of affordable new homes and maintaining our existing stock to a high standard is a key priority for Longhurst. The level of investment for 2017/18 at 18.02% is artificially high due to the inclusion of Axiom, where the stock has been recorded as an acquisition. Excluding the Axiom stock from the calculation, the percentage drops to 4.87% which is slightly up on the 2016/17 figure of 4.54%. The increase in planned development activity over the coming years will see this rise to nearer 6% in 2018/19.

Metric 2A
The figure for new supply is again distorted due to the inclusion of the Axiom stock which brings the percentage up to 15.20 per cent. Excluding the Axiom stock reduces the percentage of re-investment to 2.26%. This is very close to the level of new supply from 2016/17 and is a key priority for us to be delivering over 2% each year.

Metric 2B
The level of investment in non-social housing units grew to 0.59% in 2017/18 up from 0.10%. The increased investment reflects a change in mix of our development programme with a target to deliver around 100 market sale properties each year. With surpluses generated being used to help support our affordable homes programme.

Metric 3
The Group's overall level of gearing has reduced during the year from 53.13% in 2016/17 to 52.05% at the end of March 2018. The slight reduction reflects the lower level of debt held in Axiom now reflected in the consolidated Group Accounts. The higher level of gearing above the average reported in the 2017 Global Accounts is due to the increased development activity we have been undertaking and the low carrying value of some of our older stock.

Metric 4
The Group's EBITDA MRI Interest Cover stood at 193.96% for the year ending 31st March 2018. Significant progress has been made to improve the Group's level of interest cover position with further improvements being made in 2017/18.

Metric 5
We have focussed hard in the last few years on reducing our cost base whilst still maintaining high quality services. Our average cost per unit did increase by nearly 5% during

2017/18; this increase in costs is due to the inclusion of Axiom in the Group consolidated figures. The Axiom average cost per unit is higher due to the higher proportion of Care & Support activities being undertaken.

Metric 6A

The Group's operating margin on social housing lettings dropped to 37.62% in 2017/18 from 40.26% in 2016/17. The reduction in margin on social housing lettings has been due to the higher proportion of supported housing activities where the margin is lower than on general needs stock.

Metric 6B

Our operating margin for the year to 31st March 2018 stood at 31.37% down from 36.38% in 2016/17. The reduction in the operating margin is due to two factors, firstly the increase in lower margin supported housing services when compared to the previous year and secondly the significant increase in turnover from low cost home ownership sales and outright sales.

Metric 7

The Group's Return on Capital Employed has remained relatively consistent in the last few years and very close to the sector averages. The decrease in 2017/18 from the previous year was due to the lower operating margin relative to the increase in net assets.

Risk management and internal controls

In the context of the operating environment that we operate in, a robust approach to risk management has never been more relevant or important.

Our approach to risk management continues to evolve to reflect the changing operating environment that we are working in, continued economic uncertainty brought about by the Brexit negotiations and the diverse range of risks which we are faced with.

We have developed robust systems and procedures to identify, assess and manage the strategic risks which our business faces.

We use an online risk management database to support our work on risk management across the organisation. This database provides real time access for all managers across the organisation, capturing both operational and strategic risks along with the key controls that are used to manage individual risks. This system has improved the quality of reporting on strategic risks and provides real time updates for both senior staff and internal auditors.

The group uses the 'three lines of assurance' on controls with the risk system, this forms the basis of the Controls Assurance reporting to Board and the Audit & Risk Committee.

New business opportunities and key projects are individually reviewed to determine the key risks and reported to Board before any new commitments are made. This process incorporates sensitivity analysis and stress testing and considers whether any further management controls are required in to order to appropriately manage the key risks.

We take a proportionate view of both known and possible future risks and do not make decisions which prioritise short term gains above the long-term viability and sustainability of the business and the security of social housing assets.

The strategic risk register is reviewed by the Group Board and Audit & Risk Committee quarterly. The risks identified in the following table are considered to be the most significant risks facing the organisation at present.

Principal Risks and Uncertainties

The risks identified below are those which the Board and Executive team see presenting the greatest potential impact to our business and the achievement of the organisations business plan objectives.

Risk/opportunity	Causes and impact	Principal mitigations	Key control assurances
Delivery of Development and Sales Programme The group aims to provide approximately 3,500 new homes over the next five years across a range of different tenure types	**Cause** ▸ A downturn in the housing and sales market ▸ Increases in the cost and availability of labour and materials **Impact** ▸ Business Plan (BP) targets could be missed ▸ Adverse impact on cash flow if sales aren't achieved in line with the approved Business Plan	▸ The Business Plan is based on prudent development and sales assumptions, which are independently reviewed by external advisors ▸ Development scheme commitments are phased to ensure the programme is not over committed ▸ The Business Plan is extensively stress tested in respect of development and sales with the plan able to withstand a number of negative scenarios. ▸ Flexibility exists to amend scheme profiles in terms of outright sale to rented ▸ A proportion of the schemes already have agreed prices up to 18 months in advance.	▸ Development Strategy and Land Acquisition Strategy approved at Group Board ▸ Development and Sales programme performance better than budget for the last three years ▸ Development Partnering status retained with Homes England
Health and Safety Managing areas such as fire risk, gas and electrical safety, legionella and asbestos	**Cause** ▸ Failure of systems and policies ▸ Failure to comply with legislation and regulations ▸ Contractor fails to deliver required level of service **Impact** ▸ Injury or fatality to customer, contractor or employees ▸ Criminal proceedings against Group or individual ▸ Reputation damage ▸ Financial loss/fines ▸ Regulator action/governance downgrade	▸ Annual review and update of key H&S policies ▸ Close management and supervision given to contracts that cover this area ▸ Professional contractors engaged to provide specialist services where needed ▸ Regular and continuous KPI reporting to Group Board	▸ Key focus of Internal Audit programme ▸ Internal H&S Team and their internal verification role of property compliance areas

Risk/opportunity	Causes and impact	Principal mitigations	Key control assurances
Government policy Uncertainty of government policy, Brexit implications, and economic conditions	**Cause** - Failure to anticipate and be responsive to changes in government policy **Impact** - BP assumptions and strategies can become outdated or obsolete - Managing reputational issues following the new deregulatory approach from the RSH - Possible downturn in the housing market	- Engagement and horizon scanning by the Executive Leadership Team and Board to ensure key issues can be anticipated - BP modelled with various adverse scenarios to ensure financial robustness going forward under various strategies and government policies	- Extensive stress tested of Business Plan under a number of different negative multi-variant scenarios
Welfare reform and income collection levels Under occupancy rules, introduction of Universal Credit, direct payments to tenants and LHA benefit caps	**Cause** - Government policy in this area and austerity measures - Confusion around status with supported housing services - General economic environment faced by our tenants **Impact** - Rent element of benefit may not get paid to us as promptly as under previous system - Pressure on discretionary Housing Benefit payments - Under occupancy leaves tenants having to make extra payments.	- Income Teams, Money Guidance Officers and Benefit advice is available to tenants - Specialist Rent Sense system used to prioritise arrears cases - Prudent assumptions in the Business Plan for future years on arrears levels - Our Tenancy Policies amended to reflect the changes in Welfare Reform	- Rent collection performance has improved significantly over the last five years

Risk/opportunity	Causes and impact	Principal mitigations	Key control assurances
Serious loss of ICT infrastructure and GDPR requirements ▸ Cyber-attacks have increased on all types of business in the last 12 months. ▸ Increasing risk of issues arising from data protection legislation	**Cause** ▸ Cyber-attacks, hacking, crypto locking and ransom ware are becoming ever more sophisticated with increased frequency of attacks ▸ Weakness in controls of a third party who we deal with/share information ▸ Failure of a member of staff to follow procedures (fraudulent attachment opened or link followed) **Effect** ▸ Loss of ICT systems ▸ Unable to provide services to customers ▸ Regulator intervention and reputation damage	▸ Firewalls, anti-virus software and close monitoring by ICT Teams ▸ Passwords, restrictions and permissions required to access systems, controlled and monitored by ICT Teams ▸ Training and policies in place for staff. ▸ Data Controller Office appointed.	▸ Penetration testing carried out ▸ ICT business continuity testing undertaken ▸ Membership of a Data Action Network hosted by Professional in this area ▸ Strong rating on cyber security independently provided by Bitsight

Internal Controls Assurance

The Board acknowledges that it has the ultimate responsibility to ensure the organisation has an appropriate and effective system of internal controls in place. The system of internal control is designed to manage risk and to provide reasonable assurance that the organisations strategic objectives will be met. The system of internal control is also there to provide reasonable assurance on the preparation and reliability of financial and operational information and the safeguarding of the organisations Assets.

The Board understands our internal controls system is designed to appropriately manage rather than eliminate all risks from our business and that no system of internal control can provide absolute assurance or remove all risks from the business.

The Board is supported in its responsibility in overseeing the adequacy and effectiveness of internal controls by the Audit & Risk Committee.

The Board and Audit & Risk Committee receive an independent assessment on the overall quality and robustness of internal controls via the programme of work undertaken by the Group's Internal Auditors – PWC. The programme of internal audit work for 2017/18 was developed through meetings with senior staff, board members, reviewing the strategic risk register and through specific sector and business issues identified by PWC.

Review of Internal Controls

The annual review from PWC has confirmed that the Group has an appropriate system of internal controls in place for the financial year ending 31st March 2018. All internal audit recommendations were either classified as either low or medium, with no high risk ratings applied. No weaknesses were found in internal controls that resulted in material losses, contingencies, or uncertainties that require disclosure in the financial statements or in the auditor's report on the financial statements. In reviewing the Association's compliance with all relevant laws and regulations, no breaches were identified.

The in depth internal audit review of cyber security concluded that the Group's cyber security maturity needed to improve. Improvements had been made prior to the year end and a further independent report highlighted that the Group's cyber security controls were strong.

Corporate Governance

The Group is committed to achieving and maintaining the highest standards of corporate governance in the delivery of the Group's Business Plan objectives and management of risk.

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

Compliance with Governance and Financial Viability Standard

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

Compliance with Governance Code

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

Employees

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

Disabled Employees

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

Board members

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

	Remuneration	Longhurst Group Board	Homes Board	Libra Board and Finance and Treasury Committee	Keystone Board and Development Committee	Audit and Risk Committee	Remuneration and Nominations Committee
Robert Wilson	£20,000	Chair			✓		✓
Patricia Stanley	£4,958	✓				Chair (to 1 October 2017)	
Daniel Elkins	£8,977	✓		✓			Chair
Julie Doyle Executive member		✓	✓				
Clive Barnett	£8,500	✓		Chair			✓
Stephen Wenham	£12,000	✓	Chair				✓
Parmjit Dhanda	£7,000	✓				✓	
Patricia Brandum	£13,113	✓			Chair		
Hilary Lindsey Appointed 7 July 2018	£6,000	✓	✓	✓		Chair (from 1 October 2017)	✓

Strategic Report

The Company has chosen, in accordance with section 414C (11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, to set out in the Group's Strategic Report and Review of Financial Performance the information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. This includes information that would have been included in the business review and the principal risks and uncertainties.

Auditors

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

Approved by the Group Board on 23 July 2018 and signed on its behalf by:

Rachel Challinor
Company Secretary

Auditor’s Report

Independent Auditor's Report to the Members of Longhurst Group Limited

We have audited the financial statements of Longhurst Group Limited ("the parent company") and its subsidiaries ("the group") for the year ended 31 March 2018 which comprise the consolidated Statement of Comprehensive Income, the consolidated and parent company Statement of Financial Position, the consolidated and parent company statement of changes in reserves, the consolidated Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including 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 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 Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group 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 to you in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have 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 directors are 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors

The directors are 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 directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are 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 directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 web-site at frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Beever and Struthers

Maria Hallows (Senior Statutory Auditor)
For and on behalf of

BEEVER AND STRUTHERS
Statutory Auditor
St George's House
215/219 Chester Road
Manchester M15 4JE

Date: 23/07/2018

Financial Statements

Statement of comprehensive income

	Notes	Year ended 31 Mar 2018		Year Ended 31 Mar 2017	
		Consolidated	Parent Company	Consolidated	Parent Company
		£'000	£'000	£'000	£'000
Turnover	2	**145,602**	**10,067**	110,843	8,850
Cost of sales	2	**(26,849)**	**–**	(9,543)	–
Operating expenditure	2	**(73,079)**	**(9,864)**	(60,971)	(8,718)
Gain on disposal of property, plant and equipment (fixed assets)	6	**1,324**	**–**	939	–
Operating surplus		**46,998**	**203**	41,268	132
Interest receivable		**53**	**2**	24	2
Interest and financing costs	7	**(24,591)**	**(24)**	(24,139)	(41)
Increase in valuation of investment properties		**(21)**	**–**	18	–
Negative Goodwill	32	**4,568**	**–**	–	–
Surplus before tax	8	**27,007**	**181**	17,171	93
Taxation	9	**(416)**	**–**	(146)	–
Surplus for the year after tax		**26,591**	**181**	17,025	93
Actuarial gain/(loss) in respect of pension schemes		**188**	**0**	(508)	–
Total comprehensive income for the year		**26,779**	**181**	16,517	93

The financial statements on pages 34 to 37 were approved and authorised for issue by the Board on 23 July 2018 and were signed on its behalf by:

Board member **Board member** **Secretary**

The consolidated and parent results relate wholly to continuing activities and the notes on pages 40 to 74 form an integral part of these accounts.

Statement of financial position

	Notes	Year ended 31 Mar 2018		Year Ended 31 Mar 2017	
		Consolidated £'000	Parent Company £'000	Consolidated £'000	Parent Company £'000
Fixed assets					
Tangible fixed assets	13	1,077,929	542	926,937	364
Investment properties	14	5,472	—	5,448	—
Investment in subsidiaries	15	—	50	—	50
		1,083,401	592	932,385	414
Current assets					
Stock	16	31,114	—	27,348	—
Trade and other debtors	17	8,076	1,077	4,415	755
Cash and cash equivalents	18	15,650	398	10,226	812
		54,840	1,475	41,989	1,567
Less: Creditors: amounts falling due within one year	19	(37,567)	(1,436)	(31,304)	(1,234)
Net current assets		17,273	39	10,685	333
Total assets less current liabilities		1,100,674	631	943,070	747
Creditors: amounts falling due after more than one year	20(a)	(853,190)	(1,379)	(727,935)	(1,676)
Provisions for liabilities					
Pension provision	12	(3,224)	0	(3,505)	—
Total net assets/(liabilities)		244,260	(748)	211,630	(929)
Reserves					
Non — equity share capital	30	—	—	—	—
Income and expenditure reserve		131,282	(748)	103,563	(929)
Revaluation reserve		138,562	—	139,502	—
Cashflow hedge reserve		(26,584)	—	(32,435)	—
Restricted reserve		1,000	—	1,000	—
Total reserves		244,260	(748)	211,630	(929)

The financial statements on pages 34 to 37 were approved and authorised for issue by the Board on 23 July 2018 and were signed on its behalf by:

Board member **Board member** **Secretary**

The notes on pages 40 to 74 form an integral part of these accounts.

Parent company statement of changes in reserves

Group	Income and expenditure reserve £'000	Restricted reserve £'000	Cashflow hedge reserve £'000	Revaluation reserve £'000	Total £'000
Balance at 31 March 2017	103,563	1,000	(32,435)	139,502	211,630
Surplus from Statement of Comprehensive Income	26,779	–	–	–	26,779
Transfer of depreciation	940	–	–	(940)	–
Fair value movement on financial derivative	–	–	5,851	–	5,851
Balance at 31 March 2018	**131,282**	**1,000**	**(26,584)**	**138,562**	**244,260**

The notes on pages 40 to 74 form an integral part of these accounts.

Parent Company	Income and expenditure reserve £'000
Balance at 31 March 2017	**(929)**
Surplus from Statement of Comprehensive Income	181
Balance at 31 March 2018	**(748)**

The notes on pages 40 to 74 form an integral part of these accounts.

Consolidated statement of cashflows

	Year ended 31 Mar 2018 £'000	Year Ended 31 Mar 2017 £'000
Net cash generated from operating activities	**54,117**	36,096
Cash flow from investing activities		
Purchase of tangible fixed assets	**(57,811)**	(40,535)
Proceeds from sale of tangible fixed assets	**6,091**	6,399
Grants received	**1,785**	578
Interest received	**971**	608
Acquisition of Axiom Housing Association	**1,309**	—
Tax paid	**(416)**	(146)
	(48,071)	(33,096)
Cash flow from financing activities		
Interest paid	**(25,434)**	(24,921)
New secured loans	**36,925**	40,234
Repayment of borrowings	**(12,113)**	(19,541)
	(622)	(4,228)
Net change in cash and cash equivalents	**5,424**	(1,228)
Cash and cash equivalents at beginning of the year	**10,226**	11,454
Cash and cash equivalents at end of the year	**15,650**	10,226

Note i **Cash flow from operating activities**	Year ended 31 Mar 2018 £'000	Year Ended 31 Mar 2017 £'000
Surplus for the year	**26,779**	17,169
Adjustments for non-cash items:		
Depreciation of tangible fixed assets	**15,823**	13,791
Amortisation of intangible assets	**(2,323)**	(2,286)
Negative goodwill	**(4,568)**	—
Impairment charges	—	243
(Increase) in stock	**(3,685)**	(14,148)
Decrease/(increase) in trade and other debtors	**(2,045)**	(781)
(Increase) in trade and other creditors	**2,838**	(49)
Pension costs less contributions payable	**(1,856)**	(1,005)
Adjustments for investing or financing activities:		
Proceeds from the sale of tangible fixed assets	**(1,370)**	(939)
Movement on valuation of investment properties	**21**	(18)
Interest payable	**25,455**	24,726
Interest received	**(952)**	(607)
Net cash generated from operating activities	**54,117**	36,096

The notes on pages 40 to 74 form an integral part of these accounts.

Notes to the financial statements for the year ended 31 March 2018

Legal Status
Longhurst Group Limited is incorporated in England under the Companies Act 2006 as a company limited by guarantee without share capital (registered number 3958380) and is registered with the Homes and Communities Agency as a Private Registered Provider of Social Housing by the Housing and Regeneration Act 2088, (registration number L4277). The registered office is 50 Newhall Hill, Birmingham, B1 3JN.

1 Principal Accounting Policies

Basis of Accounting

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

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

Parent company disclosure exemptions

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

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

Basis of consolidation

The consolidated financial statements incorporate the results of Longhurst Group Limited and all of its subsidiary undertakings as at 31 March 2018.

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. The consolidated Group have total net assets of £244,260k at the balance sheet date; however the parent company has net liabilities of £748k at this date. The directors consider the use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast doubt about the ability of the parent company to continue as a going concern.

Judgements and key sources of estimation uncertainty

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

a *Development expenditure*
The Group capitalises development expenditure in accordance with the accounting policy described on page 45. Initial capitalisation of costs is based on management's judgement that development scheme is confirmed, usually when Board approval has taken place including access to the appropriate funding. In determining whether a project is likely to cease, management monitors the development and considers if changes have occurred that result in impairment.

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

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

Other key sources of estimation and assumptions:

a *Tangible fixed assets*
Other than investment properties, tangible fixed assets are depreciated over their useful lives taking into account residual

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

b *Revaluation of investment properties.* The Group carries its investment property at fair value, with changes in fair value being recognised in the Statement of Comprehensive Income. The Group engaged independent valuation specialists to determine fair value at 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 14.

c *Pension and other post-employment benefits.* The cost of defined benefit pension plans and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific sector. Future salary increases and pension increases are based on expected future inflation rates for the respective sector. Further details are given in note 12.

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

During the year no trigger to necessitate an impairment review has occurred and no impairment losses were identified in the reporting period.

Turnover and revenue recognition

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

Floating Support income and costs

Floating Support contract income received from Administering Authorities is accounted for as Floating Support income in the Turnover as per note 2. The related support costs are matched against this income in the same note. Support charges included in the rent are included in the Statement of Comprehensive

Income from social housing lettings note 3 and matched against the relevant costs.

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

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

Loan finance issue costs
These are amortised over the life of the related loan. Loans are stated in the Statement of Financial Position at the amount of the net proceeds after issue, plus increases to account for any subsequent amounts amortised.

Where loans are redeemed during the year, any redemption penalty and any connected loan finance issue costs are recognised in the Statement of Comprehensive Income account in the year in which the redemption took place.

Financial Instruments

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

Measurement subsequent to initial recognition
Subsequently, financial assets and liabilities (including derivatives) are measured at fair value, with the following exceptions;

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

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

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

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

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

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

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

A cash flow hedge is accounted for as follows:

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

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

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

i If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group will remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or liability;

ii For cash flow hedges other than those covered by (i), that amount will be reclassified from the cash flow hedge reserve to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss (for example, in the periods that interest income or interest expense is recognised or when a forecast sale occurs); and

iii If the amount is a loss, and all or part of that loss is not expected to be recovered, the amount of the loss not expected to be recovered will be reclassified to profit or loss immediately.

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

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

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

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

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

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

Financial instruments held by the Group are classified as follows:

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

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

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

Taxation

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

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

Value Added Tax

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

Tangible fixed assets and depreciation

Housing properties

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

	Years
Structure	120
Roof	60–80
Windows	20–30
Electricals, bathrooms, windows & doors	20–40
Kitchen	20
Heating & lifts	15

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

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

	% per annum on cost
Freehold offices	1%
Fixtures and fittings	15–25%
Motor vehicles	25%

Low cost home ownership properties

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

Capitalisation of interest and administration costs

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

Property managed by agents

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

Leasing

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

Investment property

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

Valuation of investments

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

Current asset investments

Current asset investments include cash and cash equivalents recognised at cost.

Stock and properties held for sale

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

Short-term debtors and creditors

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

Non-government grants

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

Social Housing and other government grants

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

Recycling of Capital Grant

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

Disposal Proceeds Fund (DPF)

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

Holiday pay accrual

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

Retirement benefits

The cost of providing retirement pensions and related benefits is charged to management expenses over the periods benefiting from the employees' services. The disclosures in the accounts follow the requirements of Section 28 of FRS 102 in relation to multi-employer funded schemes in which the Group has a participating interest. Contributions payable under an agreement with SHPS to fund past deficits are recognised as a liability in the Group's financial statements calculated by the repayments known, discounted to the net present value at the year-end using a market rate discount factor of 1.72% at 31 March 2018 and 1.33% at 31 March 2017. The unwinding of the discount is recognised as a finance cost in the Statements of Comprehensive Income in the period incurred.

Revaluation Reserve

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

Loan Prepayment Clause

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

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

Group	2018 Turnover	Cost of sales	Operating costs	Operating surplus
	£'000	£'000	£'000	£'000
Social housing lettings (note 3a)	102,399	—	(63,881)	38,518
Other social housing activities				
First tranche low cost home ownership sales	13,486	(10,543)	—	2,943
Charges for support services	628	—	(508)	120
Supporting people	3,530	—	(3,100)	430
Development services	1,712	—	(971)	741
Managed associations	2,846	—	(2,801)	45
Other activities	978	—	(101)	877
Activities other than social housing				
Lettings (Note 3b)	375	—	(39)	336
Properties developed for outright sale	18,337	(16,306)	—	2,031
Other	1,311	—	(1,678)	(367)
Total	145,602	(26,849)	(73,079)	45,674

	2017			
	£'000	£'000	£'000	£'000
Social housing lettings (note 3a)	88,390	—	(52,801)	35,589
Other social housing activities				
First tranche low cost home ownership sales	9,405	(6,596)	—	2,809
Charges for support services	648	—	(645)	3
Supporting people	2,680	—	(2,488)	192
Development services	1,348	—	(1,157)	191
Managed associations	2,221	—	(2,183)	38
Other activities	737	—	(130)	607
Activities other than social housing				
Lettings (Note 3b)	365	—	(41)	324
Properties developed for outright sale	3,530	(2,947)	—	583
Other	1,519	—	(1,526)	(7)
Total	110,843	(9,543)	(60,971)	40,329

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

Parent company	Turnover	Operating costs	Operating surplus
	2018		
	£'000	£'000	£'000
Activities other than social housing			
Development	1,632	(1,405)	227
General Management	2,773	(2,777)	(4)
Health & Safety	307	(273)	34
IT	1,774	(2,062)	(288)
Marketing	555	(481)	74
Human Resources	940	(958)	(18)
Group Financial Services	1,667	(1,613)	54
Sales	315	(295)	20
Other	104	—	104
Total	**10,067**	**(9,864)**	**203**

	2017		
	£'000	£'000	£'000
Activities other than social housing			
Development	1,587	(1,329)	258
General Management	2,101	(2,278)	(177)
Health & Safety	300	(266)	34
IT	1,724	(1,844)	(120)
Marketing	509	(466)	43
Human Resources	935	(956)	(21)
Group Financial Services	1,617	(1,579)	38
Other	77	—	77
Total	**8,850**	**(8,718)**	**132**

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

Group	General housing	Supported housing & housing for older people	Low cost home ownership	Care homes	Total 2018	Total 2017
	£'000	£'000	£'000	£'000	£'000	£'000
Income						
Rent receivable net of identifiable service charge and voids	74,277	6,256	3,599	1,914	86,046	77,439
Service charge income	2,868	4,044	300	2,450	9,662	4,917
Amortised government grants	2,220	215	143	87	2,665	2,286
Other grants	–	–	–	2,869	2,869	3,582
Other income from social housing lettings	–	52	173	932	1,157	166
Total turnover from social housing lettings	79,365	10,567	4,215	8,252	102,399	88,390
Operating expenditure						
Management	10,969	1,941	658	1,333	14,901	12,976
Service charge costs	3,662	4,054	138	7,089	14,943	10,030
Routine maintenance	9,971	807	20	143	10,941	9,802
Planned maintenance	5,252	495	7	172	5,926	4,174
Major repairs expenditure	1,321	230	1	11	1,563	2,067
Bad debts	520	52	13	17	602	532
Depreciation of housing properties	12,937	1,235	451	323	14,946	12,912
Impairment of housing properties	–	–	–	–	–	242
Other costs	59	–	–	–	59	58
Operating expenditure on social housing lettings	44,691	8,814	1,288	9,088	63,881	52,801
Operating surplus/(deficit) on social housing lettings	34,674	1,753	2,927	(836)	38,518	35,589
Void losses[1]	611	300	8	176	1,095	972

1 Being rental income lost as a result of property not being let, although it is available for letting

3(b) Turnover from activities other than social housing

Lettings	2018	2017
	£'000	£'000
Market Renting	375	365
Total	375	365

4 Accommodation owned, managed and in development

	2018		2017	
	Number of properties		Number of properties	
	Owned	Managed	Owned	Managed
Social housing				
Under development at end of year				
General needs housing social rent	4	–	155	–
General needs housing affordable rent	298	–	157	–
General needs housing intermediate rent	249	–	252	–
Market Rent	26	–	–	–
Low-cost home ownership	501	–	356	–
Deferred equity	8	–	8	–
Help to Buy	–	–	–	–
Outright sale	453	–	39	
Extra care – rented	60	–	–	–
	1,599	–	967	–
Under management at end of year				
General needs	15,210	152	13,900	188
Intermediate rent	553	13	443	–
Affordable rent	824	–	558	–
Supported housing	520	9	256	–
Care homes	96	–	96	–
Housing for older people	1,253	–	741	–
Low-cost home ownership	1,653	34	1,515	35
Leasehold schemes for the elderly	1,482	182	887	155
Social leased 100% (freehold retained)	388	–	337	–
	21,979	390	18,733	378
	23,578	390	19,700	378
Non-Social Housing				
Under management at end of year:	–	–	–	–
Market rent	53	–	53	–
	53	–	53	–
	23,631	390	19,753	378

5 Accommodation managed by others

The Longhurst Group owns property managed by other bodies.

	2018 Number of properties	2017 Number of properties
General Needs	**41**	44
Market Rent	**47**	47
Supported housing and housing for older people	**105**	52
Intermediate Rent	**4**	—
Residential care homes	**5**	5
	202	148

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

	Right to Buy & Voluntary Sales	Shared Ownership Staircasing Sales	Total 2018	Total 2017
Proceeds of sales	1,093	5,079	**6,172**	6,444
Less: Costs of sales	(1,249)	(3,599)	**(4,848)**	(5,505)
(Deficit)/surplus	(156)	1,480	**1,324**	939
Capital grant recycled (Note 22)	376	514	**890**	992
Disposal proceeds fund (Note 23)	—	—	**—**	35
	376	514	**890**	1,027

7 Interest and financing costs

	Group		Parent company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Deferred benefit pension charge	**274**	360	**24**	41
On loans repayable within five years	**7,701**	8,176	**–**	–
On loans wholly or partly repayable in more than five years	**18,333**	16,453	**–**	–
Costs associated with financing	**1,065**	1,314	**–**	–
	27,373	26,303	**24**	41
Less: interest capitalised on housing properties under construction	**(2,782)**	(2,164)	**–**	–
	24,591	24,139	**24**	41

The weighted average interest on borrowings of 5.17% (2017: 5.71%) was used for calculating capitalised finance costs.

8 Surplus/(deficit) on ordinary activities

	Group		Parent company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
The operating surplus is stated after charging/(crediting):				
Auditors remuneration (excluding VAT):				
Audit of the group financial statements	**16**	20	**16**	20
Audit of Subsidiaries	**69**	46	**–**	–
Fees payable to the company's auditor and its associates for other services to the group:	**25**	31	**0**	14
Operating lease rentals:				
▸ Motor Vehicles	**574**	641	**246**	232
▸ Land and buildings	**84**	56	**–**	–
▸ Office equipment	**70**	49	**14**	20
Impairment losses of housing properties	**–**	–	**–**	–
Depreciation of housing properties	**14,926**	12,707	**–**	–
Depreciation of other fixed assets	**1,125**	878	**312**	293
Amortisation of government grants	**(624)**	2,286	**–**	–
Surplus on sale of other fixed assets	**1,397**	1,232	**–**	–

9 Tax on surplus/(deficit) on ordinary activities

	Group		Parent company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Current tax				
UK corporation tax on surplus for the year	**416**	147	**–**	–
Tax on surplus on ordinary activities	**416**	147	**–**	–
Deferred tax	**–**	–	**–**	–
Adjustments to tax charge in respect of prior periods	**–**	(1)	**–**	–
	416	146	**–**	–

The tax assessed in the year is lower than the standard rate of corporation tax in the United Kingdom at 19% (2017: 19%). The differences are explained as follows:

Total tax reconciliation	Group		Parent company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Surplus on ordinary activities before tax	**27,007**	17,171	**181**	93
Theoretical tax at UK corporation tax rate 19% (2017: 19%)	**5,131**	3,434	**34**	19
Profits arising in non-taxable charitable entities	**(4,715)**	(3,288)	**–**	–
Expenses not deductible for tax purposes	**–**	–	**–**	–
Other short term timing differences	**–**	–	**–**	–
Increase in losses carried forward	**–**	–	**–**	–
Movement on deferred tax other fixed assets and short term timing differences	**–**	–	**(34)**	(19)
Marginal relief	**–**	–	**–**	–
Group relief surrendered free of charge	**–**	–	**–**	–
Current tax charge for the period	**416**	146	**–**	–

10(a) Key management personnel – Group

	2018 £'000	2017 £'000
The aggregate emoluments paid to or receivable by non-executive directors and former non-executive directors	**121**	101
The aggregate emoluments paid to or receivable by executive directors and former executive directors	**1,000**	912
The aggregate amount of directors' or past directors' pensions, excluding amounts payable under a properly funded pension scheme	**–**	–
The aggregate amount of any consideration payable to directors for loss of office	**–**	–
The emoluments paid to the highest paid director excluding pension contributions Chief Executive – 2018: Ms J Doyle (2017: Ms J Doyle)	**203**	200

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

10(b) Key management personnel – parent company

	2018 £'000	2017 £'000
The aggregate emoluments paid to or receivable by non-executive directors and former non-executive directors	**81**	79
The aggregate emoluments paid to or receivable by executive directors and former executive directors	**1,000**	912
The emoluments paid to the highest paid director excluding pension contributions Chief Executive – 2018: Ms J Doyle (2017: Ms J Doyle)	**203**	200
The aggregate amount of directors' or past directors' pensions, excluding amounts payable under a properly funded pension scheme	**–**	–

The Chief Executive (Ms J Doyle) is an ordinary member of the pension scheme. The pension scheme is a Care 1/60th scheme funded by annual contributions by the employer and employee. No enhanced or special terms apply. There are no additional pension arrangements. A contribution by the Company of £11,177 was paid in addition to the personal contributions of the Chief Executive.

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

11 Employee information

	Group		Parent company	
	2018 Number	2017 Number	2018 Number	2017 Number
The average number of persons employed during the year expressed in full time equivalents (36.25 hours per week) was:				
Office based	**439**	346	**159**	121
Site based	**535**	368	**2**	2
	974	714	**161**	123

Staff costs (for the above persons)	**£'000**	£'000	**£'000**	£'000
Wages and salaries	**24,262**	19,505	**5,774**	5,225
Social Security costs	**2,004**	1,498	**588**	482
Other pension costs	**894**	1,340	**255**	311
	27,160	22,343	**6,617**	6,018

Aggregate number of full time equivalent staff whose remuneration exceeded £60,000 in the period:	**Number**	Number	**Number**	Number
£60,000–£70,000	**8**	5	**3**	2
£70,000–£80,000	**6**	3	**3**	1
£80,000–£90,000	**1**	5	**—**	3
£90,000–£100,000	**5**	3	**4**	3
£100,000–£110,000	**1**	2	**—**	2
£110,000–£120,000	**—**	—	**—**	—
£120,000–£130,000	**—**	—	**—**	—
£130,000–£140,000	**3**	1	**2**	1
£140,000–£150,000	**3**	2	**2**	2
£150,000–£160,000	**—**	—	**—**	—
£160,000–£170,000	**—**	—	**—**	—
£170,000–£180,000	**1**	1	**1**	1
£180,000–£190,000	**—**	—	**—**	—
£190,000–£200,000	**—**	—	**—**	—
£200,000–£210,000	**—**	—	**—**	—
£210,000–£220,000	**1**	1	**1**	—
£220,000–£230,000	**—**	—	**—**	1
	29	23	**16**	16

12 Pension obligations

Social Housing Pension Scheme and Pensions Trust Growth Plan

SHPS deficit payment agreement

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

	Group		Parent company	
	2018	2017	**2018**	2017
	Number	Number	**Number**	Number
At start of the year	**14,891**	13,183	**1,963**	2,145
Re-measurements in the year	**(150)**	351	**(23)**	52
Interest for the year	**183**	254	**23**	41
Released to expenditure in the year	**(2,019)**	(1,557)	**(286)**	(275)
	12,905	12,231	**1,677**	1,963

During the year ended 31 March 2018 no additional payments to reduce the deficit have been agreed with SHPS (2017 – £577k).

Social Housing Pension Scheme

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

During the year under review, Longhurst Group paid contributions at the rate of 6.45% for the final salary scheme and 6.65% for the career average scheme plus a monthly lump sum to fund past deficit amounts. Contributions by members varied between 8.45% and 14.55% depending on their age and which scheme they are in. At the balance sheet date there were 92 active members of the scheme employed by Longhurst Group and the scheme remains open to new members.

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

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

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

There is a potential debt on the employer that could be levied by the Trustee of the scheme. The debt is due in the event of the employer ceasing to participate in the scheme, or the scheme winding up. The estimated amount of employer debt on withdrawal liability for Longhurst Group as at 30 September 2016 has been calculated as £21,078,663.

Growth Plan

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

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

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

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

Spire Homes (LG) Limited

Spire Homes (LG) Limited contributes to the Northamptonshire County Council Pension Fund and the Leicestershire County Council Pension Fund, which are both local government funded defined benefit pension schemes. The total contributions made for the year ended 31 March 2018 were £259k (2017: £256k), of which employer's contributions totalled £245k (2017: £241k) and employees' contributions totalled £14k (2017: £15k). The agreed employer contribution rates for future years are 29.5% for the Northamptonshire County Council scheme and 26.69% for the Leicestershire County Council scheme.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund and updated to 31 March 2018 by a qualified independent actuary.

	At 31 March 2018	At 31 March 2017
Rate of increase in salaries	**3.05%**	3.05%
Rate of increase for pensions	**2.40%**	2.40%
Discount rate for scheme liabilities	**2.65%**	2.55%

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

	At 31 March 2018 **Years**	At 31 March 2017 Years
Retiring today	**3.05%**	3.05%
Males	**22.10**	22.10
Females	**24.25**	24.25
Retiring in 20 years		
Males	**23.85**	23.85
Females	**26.15**	26.15

	At 31 March 2018 £'000	At 31 March 2017 £'000
Analysis of the amount charged to operating costs in the Statement of Comprehensive Income		
Contributions by employer including unfolded	**245**	241
Current service cost	**(85)**	(53)
Total operating charge	**160**	188
Analysis of pension finance income/(costs)		
Interest on assets	**131**	148
Interest costs	**(182)**	(211)
Amounts charged/credited to financing costs	**(51)**	(63)
Amount of gains and losses recognised in the Statement of Comprehensive Income		
Actuarial gains(/losses) on pension scheme assets	**6**	680
Actuarial gains/(losses) on scheme liabilities	**112**	(990)
Actuarial gain/(loss) recognised	**118**	(310)
Local Government Pension Scheme (continued)		
Movement in surplus/(deficit) during year		
Surplus/(deficit) in scheme at 1 April	**(2,107)**	(1,922)
Movement in year:		
Current service costs	**(85)**	(53)
Interest income on plan assets	**131**	148
Interest cost on defined benefit obligation	**(182)**	(211)
Employer contributions	**245**	241
Change in financial assumptions	**112**	(990)
Return on assets, excluding net interest	**6**	680
(Deficit)/surplus in scheme at 31 March	**(1,880)**	(2,107)
Asset and Liability Reconciliation		
Reconciliation of liabilities		
Opening defined benefit obligation	**7,300**	6,249
Current service cost	**85**	53
Interest Cost	**182**	211
Contributions by Scheme participants	**14**	15
Change in financial assumptions	**(112)**	990
Estimated benefits paid net of transfers in	**(250)**	(218)
Closed defined benefit obligation	**7,219**	7,300
Reconciliation of assets		
Opening fair value of Fund Assets	**5,193**	4,327
Interest on assets	**131**	148
Return on assets less interest	**6**	680
Contributions by employer including unfunded	**245**	241
Contributions by Fund participants	**14**	15
Estimated benefits paid plus unfunded net of transfers in	**(250)**	(218)
Closing fair value of Fund assets	**5,339**	5,193

The total return on the fund assets for the year to 31 March 2018 is £137k (2017: £828k).

Friendship Care and Housing Limited

Friendship Care and Housing Limited contributes to the West Midlands Pension Fund, a Local Government Pension Scheme which is a funded defined-benefit scheme, with the assets held in separate funds administered by West Midlands Local Authority. The total contributions made for the year ended 31 March 2018 were £45k (2017: £103k), of which employer's contributions totalled £41k (2017: £100k) and employees' contributions totalled £4k (2017: £3k). The agreed contribution rates for future years are 25.3% for employers.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2017 updated to 31 March 2018 by a qualified independent actuary.

	At 31 March 2018	At 31 March 2017
Rate of increase in salaries	**3.85%**	4.10%
Rate of increase for pensions in payment/inflation	**2.35%**	2.60%
Discount rate for scheme liabilities	**2.55%**	2.60%
Inflation assumption (CPI)	**2.35%**	2.60%

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

	At 31 March 2018	At 31 March 2017
	Years	Years
Retiring today		
Males	**21.9**	21.8
Females	**24.3**	24.2
Retiring in 20 years		
Males	**24.0**	23.9
Females	**26.6**	26.5

	At 31 March 2018 £'000	At 31 March 2017 £'000
Analysis of the amount charged to operating costs in the Statement of Comprehensive Income		
Contributions by employer including unfunded	**41**	100
Total operating charge	**41**	100
Analysis of pension finance income/(costs)		
Interest on assets	**90**	98
Interest costs	**(126)**	(140)
Amounts charged/credited to financing costs	**(36)**	(42)
Amount of gains and losses recognised in the Statement of Comprehensive Income		
Actuarial gains(/losses) on pension scheme assets	**(88)**	504
Actuarial (losses) on scheme liabilities	**(158)**	(1,039)
Actuarial (loss) recognised	**(246)**	(535)
Movement in surplus/(deficit) during year		
(Deficit) in scheme at 1 April	**(1,398)**	(1,243)
Movement in year:		
Employer service cost (net of employee contributions)	**(19)**	(14)
Employer contributions	**41**	100
Past service cost	–	–
Net interest/return on assets	(38)	(43)
Re-measurements	**70**	(198)
Curtailments and settlements	–	–
(Deficit) in scheme at 31 March	**(1,344)**	(1,398)
Asset and Liability Reconciliation		
Reconciliation of liabilities		
Opening defined benefit obligation	**4,918**	4,072
Current service cost	**19**	14
Interest cost	**126**	140
Contributions by scheme participants	**4**	3
Change in financial assumptions	**(158)**	1,039
Change in demographic assumptions	–	(122)
Experience loss/(gain) on defined benefit obligation	–	(65)
Past service cost	–	–
Past service costs, including curtailments	–	–
Closed defined benefit obligation	**4,773**	4,918
Reconciliation of assets		
Opening fair value of Fund Assets	**3,520**	2,829
Interest on assets	**90**	98
Return on assets less interest	**(88)**	504
Other actuarial gains/(losses)	–	150
Administration expenses	**(2)**	(1)
Contributions by employer including unfunded	**41**	100
Contributions by Fund participants	**4**	3
Estimated benefits paid plus unfunded net of transfers in	**(136)**	(163)
Closing fair value of Fund Assets	**3,429**	3,520

The total return on the fund assets for the year to 31 March 2018 is £2k (2017: £602k).

13(a) Tangible fixed assets

	Housing properties					Fixed assets			
	Social housing properties for letting		Low cost home ownership properties		Total	Freehold offices	Long Leasehold Property	Furniture and office equipment	Total
	Completed	Under construction	Completed	Under construction					
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost									
At start of the year	917,680	17,985	72,635	9,692	1,017,992	14,450	1,221	4,402	1,038,065
Additions to properties	121,905	40,836	2,785	14,860	180,386	2,511	–	5,010	187,907
Schemes completed in year	26,236	(26,236)	8,485	(8,485)	–	–	–	–	–
Components capitalised	10,517	–	–	–	10,517	–	–	–	10,517
Components replaced	(2,006)	–	–	–	(2,006)	–	–	–	(2,006)
Disposals	(3,556)	–	(3,256)	–	(6,812)	–	–	(747)	(7,559)
At end of the year	1,070,776	32,585	80,649	16,067	1,200,077	16,961	1,221	8,665	1,226,924
Depreciation and impairment									
At start of the year	102,880	–	2,891	–	105,771	1,998	245	3,114	111,128
Charge for the year	35,068	–	572	–	35,640	262	8	4,155	40,065
Components replaced	(1,122)	–	–	–	(1,122)	–	–	–	(1,122)
Disposals	(244)	–	(103)	–	(347)	–	–	(729)	(1,076)
At end of the year	136,582	–	3,360	–	139,942	2,260	253	6,540	148,995
Net book value									
At the end of the year	934,194	32,585	77,289	16,067	1,060,135	14,701	968	2,125	1,077,929
At the start of the year	814,800	17,985	69,744	9,692	912,221	12,452	976	1,288	926,937

	Housing properties				
	Social housing properties for letting		Low cost home ownership properties		Total
	Completed	Under construction	Completed	Under construction	
	£'000	£'000	£'000	**£'000**	£'000
Housing Properties comprise:				**2018**	2017
Freeholds				**513,596**	506,433
Long leaseholds				**436,922**	405,648
Total				**950,518**	912,081

Cost of properties includes £1,712k (2017:£1,348k) for direct administrative costs capitalised during the year.

	2018	2017
Expenditure on works to existing properties in the year	**£'000**	£'000
Components capitalised	**9,870**	7,615
Amounts charged to expenditure	**1,568**	2,067
Total	**11,438**	9,682
The aggregate amount of interest and finance costs included in the cost of housing properties	**15,228**	13,627

13(b) Tangible fixed assets

Parent company	Computer equipment	Furniture and office equipment	Total fixed assets
	£'000	£'000	£'000
Cost			
At start of the year	1,140	42	1,182
Additions	479	11	490
Disposals	(412)	(4)	(416)
At end of the year	1,207	49	1,256
Depreciation			
At start of the year	793	25	818
Charge for the year	301	11	312
Disposals	(412)	(4)	(416)
At end of the year	682	32	714
Net book value			
At the end of the year	**525**	**17**	**542**
At the start of the year	**347**	**17**	**364**

14 Investment properties held for letting

	Group		Parent company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
At start of year	**5,448**	5,461	**–**	–
Additions	**45**	(31)	**–**	–
Gain from adjustment in value	**(21)**	18	**–**	–
At end of year	**5,472**	5,448	**–**	–

Investment properties were valued at 31 March 2018 using Savills Rental Automated Valuation Model which operates in accordance with the Royal Institute of Chartered Surveyors Valuation Standards.

15 Fixed asset investments (parent company)

	2018	**2017**
	£'000	£'000
This represents the parent company's investment in Libra (Longhurst Group) Treasury PLC (Libra). The Company owns 100% of the share capital of Libra.	**50**	50

16 Stock

	Group	
	2018	2017
	£'000	£'000
Properties held for sale		
Completed	**9,949**	7,414
Work in progress	**21,165**	19,934
Total	**31,114**	27,348

17 Trade and other debtors

Amounts falling due within one year	Group		Parent company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Rent arrears	**3,740**	3,075	**—**	—
Less: provision for bad debts	**(2,011)**	(1,588)	**—**	—
Social Housing Grant receivable	**1,211**	222	**—**	—
Other debtors	**1,693**	833	**157**	153
Prepayments and accrued income	**3,292**	1,729	**628**	384
Deferred Tax Credit	**92**	92	**92**	92
Amount owed by Group companies	**—**	—	**200**	126
Other taxation	**59**	52	**—**	—
Total	8,076	4,415	1,077	755

18 Cash and cash equivalents

	Group		Parent company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Money market investments	**—**	—	**—**	—
Cash at bank	**15,650**	10,226	**398**	812
	15,650	10,226	**398**	812

In the above Group total are balances totalling £5,140k (2017: £2,861k) which are held in trust for leaseholders.

19 Creditors: amounts falling due within one year

	Group		Parent company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Loans and overdrafts (Note 20b)	**6,267**	8,455	**–**	–
Funders Interest	**3,839**	3,408	**–**	–
Trade creditors	**2,729**	1,727	**79**	31
Social Housing Grant received in advance	**–**	–	**–**	–
Amounts owed to group undertakings	**–**	–	**474**	363
Rents and service charges paid in advance	**3,306**	2,416	**–**	–
Service charge balances held on behalf of leaseholders	**5,093**	2,841	**–**	–
Corporation tax	**416**	147	**–**	–
Other taxation and social security payable	**956**	705	**319**	207
Accruals and deferred income	**8,204**	5,887	**266**	346
SHPS pension agreement plan (Note 12)	**2,065**	1,619	**298**	287
Deferred Capital Grant (Note 21)	**2,774**	2,270	**–**	–
Recycled Capital Grant Fund (Note 22)	**909**	827	**–**	–
Disposal proceeds fund (Note 23)	**110**	109	**–**	–
Other creditors	**899**	893	**–**	–
	37,567	31,304	**1,436**	1,234

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

	Group		Parent company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Loans (Note 20b)	**537,439**	456,998	**–**	–
Interest Rate Swap (Note 20b)	**26,584**	32,313		
Deferred Capital Grant (Note 21)	**276,522**	226,734	**–**	–
Recycled capital grant fund (Note 22)	**1,805**	1,277	**–**	–
SHPS pension agreement plan (Note 12)	**10,840**	10,612	**1,379**	1,676
Disposal proceeds fund (Note 23)	**–**	1	**–**	–
	853,190	727,935	**1,379**	1,676

20(b) Debt analysis

	Group	
	2018	2017
	£'000	£'000
Loans repayable by instalments		
Within one year	**6,267**	4,483
In one year or more but less than two years	**6,589**	5,317
In two years or more and less than five years	**22,682**	24,469
In five years or more	**127,148**	94,867
Loans not repayable by instalments		
Within one year	**—**	3,850
In one year or more but less than two years	**42,825**	—
In two years or more and less than five years	**61,600**	83,315
In five years or more	**284,347**	257,393
Less: loan issue costs	**(7,752)**	(8,063)
Total loans	**543,706**	465,631

These loans are secured by specific charges to the Association's housing properties and are repayable at varying rates of interest. The average rate at 31 March 2018 was 5.167%. (2017: 5.305%).

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

Counterparty	Type	Period years	Maturity date	Rate %	Swap Amount (£'000)
Lloyds	Standalone	10	18 June 2019	4.32%	10,500
Lloyds	Standalone	17	19 January 2021	5.07%	4,000
Lloyds	Standalone	7	01 April 2021	4.49%	3,000
Lloyds	Standalone	20	01 June 2022	5.10%	6,000
Lloyds	Standalone	15	17 October 2022	5.40%	5,000
Lloyds	Standalone	13	01 April 2023	4.49%	4,000
Lloyds	Standalone	13	03 April 2023	4.61%	5,000
Lloyds	Standalone	12	03 April 2023	4.49%	4,000
Lloyds	Standalone	25	19 February 2026	5.43%	6,000
Lloyds	Standalone	20	31 March 2027	4.42%	5,000
Lloyds	Standalone	20	05 October 2027	4.55%	3,000
Lloyds	Standalone	20	18 October 2027	4.90%	3,000
Lloyds	Standalone	15	03 April 2028	4.49%	4,000
Lloyds	Standalone	25	03 June 2030	4.64%	10,000
Lloyds	Standalone	22	02 January 2032	4.49%	5,000
Lloyds	Standalone	23	01 December 2034	4.68%	5,000
Lloyds	Standalone	27	01 April 2039	4.59%	7,500
Lloyds	Embedded	22	30 March 2035	4.35%	5,000
					95,000

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

Interest Rate Swap Creditor Profile	**2018**	2017
	£'000	£'000
Within one year	**—**	122
In one year or more but less than two years	**439**	—
In two years or more and less than five years	**2,707**	2,080
In five years or more	**23,438**	30,233
Total	**26,584**	32,435

21 Deferred capital grant

Group	**2018**	2017
	£'000	£'000
At start of the year	**229,004**	230,523
Grant received in the year	**53,097**	607
Grant disposed of in the year	**(1,018)**	(1,401)
Released to income in the year	**(2,513)**	(2,098)
Transferred from RCGF	**726**	1,373
At the end of the year	**279,296**	229,004
Amount due to be released < 1 year	**2,774**	2,270
Amount due to be released > 1 year	**276,522**	226,734
	279,296	229,004

22 Recycled capital grant fund

Group		**2018**	2017
		£'000	£'000
At the start of the year		**2,104**	2,602
Inputs:	Grants recycled	**1,332**	992
	Interest accrued	**4**	3
Recycling:	New build	**(726)**	(1,338)
	Major repairs	**—**	(155)
At the end of the year		**2,714**	2,104
Amount three years or older where repayment may be required. This grant is from the HCA.		**—**	—

23 Disposal proceeds fund

Group		2018 £'000	2017 £'000
At the start of the year	Funds recycled	**110**	110
	Net PRTB receipts	**–**	35
	Interest accrued	**–**	–
Use/allocation of funds	New build	**–**	–
	Major repairs and works to existing stock	**–**	(35)
Repayment of funds to the HCA/GLA		**–**	–
At the end of the year		**110**	110
Amounts three years old or older where repayment may be required.		**–**	–

24 Operating leases

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

Leases expiring in:	Group		Parent company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Land and buildings				
Not later than one year	**47**	38	**–**	–
Later than one year and not later than five years	**74**	110	**–**	–
Later than five years	**–**	–	**–**	–
Others				
Not later than one year	**482**	535	**186**	205
Later than one year and not later than five years	**617**	636	**227**	264
Later than five years	**–**	–	**–**	–
	1,220	1,319	**413**	469

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

25 Contingent liability

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

26 Grant and financial assistance

Group	2018 £'000	2017 £'000
The total accumulated government grant and financial assistance received or receivable at 31 March:		
Held as deferred capital grant	**279,297**	228,824
Recognised as income in statement of Comprehensive Income	**58,159**	47,334
	337,456	276,158

27 Related parties

Transactions with Regulated Group Members

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

Transactions with Non-Regulated Group Members

During the year the parent company transacted with two non-regulated subsidiaries. This involved the parent company providing back office support and development project management services to Keystone (LG) Developments and Libra (LG) Treasury PLC. The services provided to Keystone were based upon staff time and direct costs incurred and totalled £471k for the year (2017: £297k). The back office support provided to Libra involved the management and administration of the loan portfolio which Libra manages on behalf of Spire Homes, Longhurst and Havelok Homes, Axiom Housing Association and Friendship Care & Housing. This service is provided at no cost to Libra with the related staff costs being recharged to Spire Homes, Longhurst and Havelok Homes, Axiom Housing Association and Friendship Care & Housing.

Libra acts as the Group's Loans Manager with new funding arranged and managed through Libra. At the year end facilities arranged through Libra and re-distributed to Group members amounted to £217.53 million to L&H Homes, £184.01 million to Spire Homes, £1.50 million to Axiom Housing Association and £12.35 million to Keystone Developments.

Other

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

28 Group Subsidiaries

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

i **Longhurst and Havelok Homes Limited (Regulated)**
Registered under the Co-Operative and Community Benefit Societies Act 2014, the principal activity of this association is the provision of social housing.

ii **Spire Homes (LG) Limited (Regulated)**
Registered under the Companies Act and a Registered Charity, the principal activity of this association is the provision of social housing.

iii **Jubilee Teetotal Homes (Regulated)**
Jubilee Teetotal Homes is a subsidiary of Longhurst and Havelok Homes and is registered with the Charity Commission and the HCA.

iv **Keystone Developments (LG) Limited (Non-Regulated)**
Registered under the Companies Act, the principal activity of this company is to build housing for sale.

v **Friendship Care and Housing Limited (Regulated)**
Registered under the Co-Operative and Community Benefit Societies Act 2014, the principal activity of this association is the provision of social housing.

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

vii **Libra (Longhurst Group) Treasury PLC (Non-Regulated)**
Registered under the Companies Act, the principal activity of this company is to provide treasury management and loan services to the Group.

viii **Axiom Housing Association (Regulated)**
Registered under the Co-Operative and Community Benefit Societies Act 2014, the principal activity of this association is the provision of social housing.

29 Financial instruments

Risk management

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

Financial assets and financial liabilities at book value and fair value

With the exception of the bond stock, the book value of all financial assets and financial liabilities is deemed to equal fair value. At 31 March 2018 the fair value of the £250m bond stock was £329,689,937 (2017: £336,999,928). The fair value of the bond stock is based on market value at 31 March 2018. The terms of the 2038 bond are fixed and it is intended that the 2038 bond will be in place until maturity. Therefore, no adjustment has been made to align the book value to fair value.

Fair value hierarchy

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

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

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is not currently exposed to fluctuations where loans are subject to a variable rate of interest as the company's loans are currently 84.06% (2017: 90.49%) fixed either on an embedded basis or by the use of Interest Rate SWAPS.

The Group's strategy is to maintain its hedging activity within flexible parameters, as defined within the Treasury Management Policy. The precise proportion of fixed (where the rate is fixed for 12 months or more) rate borrowings will be set each year when the Board agrees the Group's annual treasury strategy. It will be determined by an analysis of how sensitive the Group's cash flow forecast is to fluctuations in prevailing market interest rates, but subject always to the Group having at least 70% of its net position subject to fixed rates of interest, on a rolling five-year average basis. The Group will ensure that no more than 100% of its net exposure is fixed at any time. Any fluctuations in interest rates are fully borne by each group borrower.

Financial assets & liabilities

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

Cash flow hedge reserve

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

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

At 31 March 2018 the fair value of derivative financial instruments held by Libra is £26.584m (2017: £32.435m). A reduction in fair value of £5,851k has therefore been recognised in the cash flow hedge reserve.

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

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

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

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

Financial assets	2018 £'000	2017 £'000
i. **Financial assets that are debt instruments measured at amortised cost**		
Cash at bank and in hand	**16,064**	10,226
Trade debtors	**1,808**	1,542
Other debtors	**1,605**	830
Accrued income	**1,350**	496
Fixed asset investments	**386,495**	386,495
Social Housing Grant	**1,211**	222
ii. **Derivative financial instruments designated as hedges of variable interest rate risk**	**32,435**	32,435
iii. **Financial liabilities at amortised cost**		
Loans	**955,093**	876,718
Finance leases	—	—
Trade creditors	**2,013**	1,728
Accruals	**8,284**	5,887
Other creditors	**11,474**	7,527
Recycled capital grant fund	**2,714**	2,104
Disposal proceeds fund	**110**	109
Deferred capital grant fund	**279,296**	229,004
SHPS agreement plan fund	**11,218**	10,268

30 Share Capital

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

31 Capital Commitments

Group	2018 £'000	2017 £'000
Capital expenditure that has been contracted for but not provided for in the accounts	**130,842**	103,367
Capital expenditure that has been authorised by the Board but has not yet been contracted for	**9,925**	17,920
	140,767	121,287
The Group expects these commitments to be financed with:		
▸ Social housing grant	**4,139**	956
▸ Proceeds from the sale of properties	**115,808**	34,981
▸ Committed loan facilities	**20,819**	85,350
	140,767	121,287

32 Goodwill

On 7 April 2017, Axiom Housing Association Limited (and it's subsidiaries Axiom Homeless Action Limited and Axiom Care Limited (dormant)), joined the Group. The Group accounted for the integration using the acquisition method of accounting in accordance with section 19 of Financial Reporting Standard 102. The fair value of the gifted assets and liabilities is recognised as a gain in the Statement of Comprehensive Income in the year of acquisition.

The acquisition of Axiom Housing Association, at £nil consideration, gave rise to an amount of negative goodwill. The negative goodwill arises because of the difference between the Fair Value of the assets and liabilities acquired and the consideration paid.

The Fair Value of Axiom Housing Association's housing property assets was deemed to be their Existing Use Value – Social Housing (EUV-SH) at the time of acquisition. The EUV-SH has been determined by reference to an independent valuation of Axiom Housing Association's assets. The Fair Value of Axiom Housing Association's other assets and liabilities was deemed to be the same as their Net Book Value as at 7 July 2017.

The negative goodwill generated due to the excess of assets over liabilities has been recognised as income in the year of acquisition in line with the Housing SORP.

The negative goodwill calculation is set out below.

	Book value at 7 July 2017 £'000	Fair Value adjustment £'000	Fair Value at 7 July 2017 £'000
Housing properties	106,337	(4,147)	102,190
Other fixed asset	2,841		2,841
Current assets	2,488		2,488
Current liabilities	(2,148)		(2,148)
Long term liabilities	(100,803)		(100,803)
Fair value of assets acquired			4,568
Less Acquisition Price (nil)			–
Negative Goodwill			4,568

One Team
One Vision

Longhurst Group

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