Network Homes

Annual Report and Financial Statements

For The Year Ended 31 March 2017

Because good homes
make everything possible


Network Homes

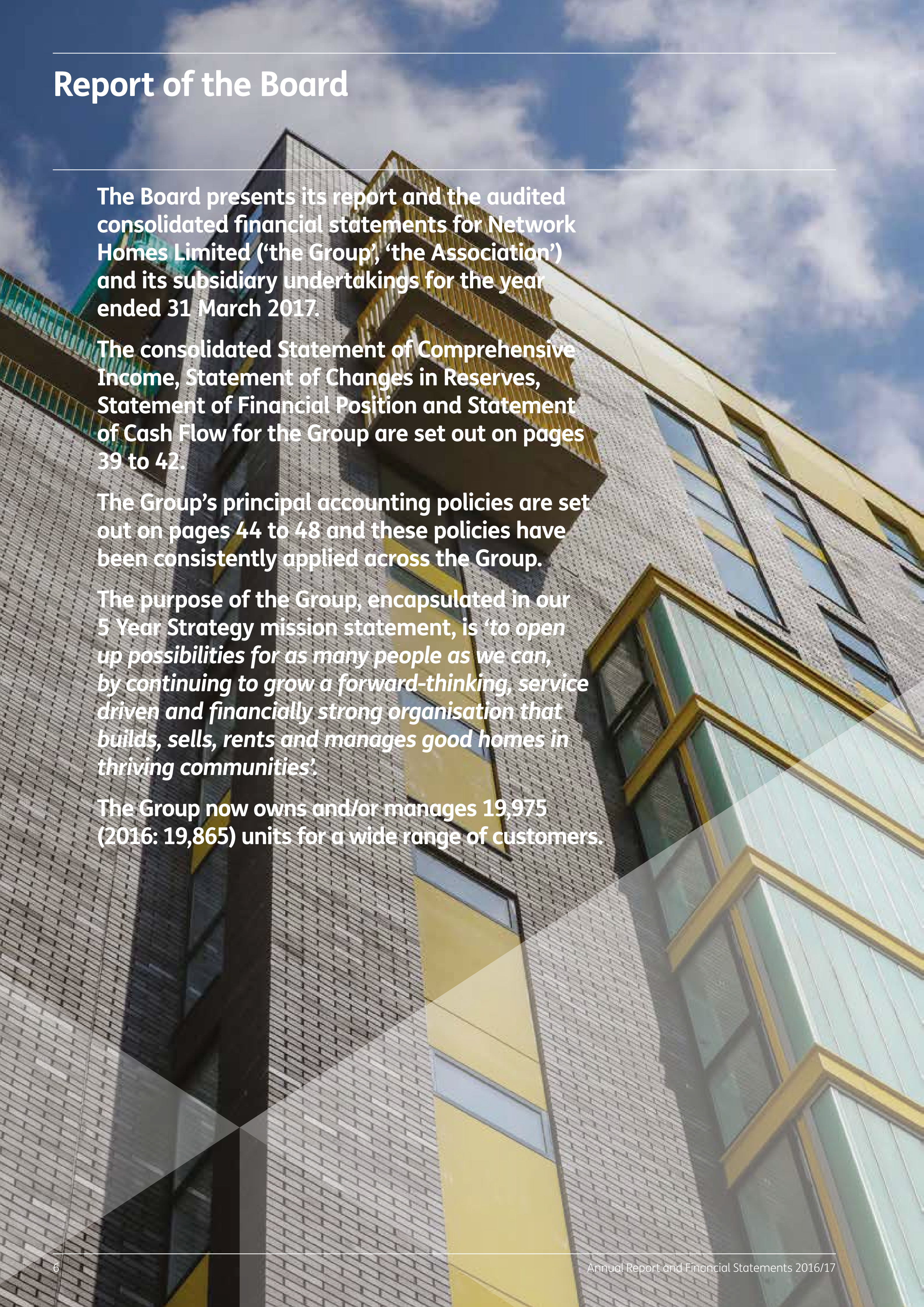
Contents

The Board, Executive Officers and advisors

The Directors of the Association who were in office during the year and up to the date of signing the financial statements were:

Network Homes Limited Board	Common Board was replaced on 29 April 2016 at the time of amalgamation with the Network Homes Limited Board: Andrew Watson, Chair (appointed 29 April 2016, resigned 28 July 2016) Bernadette Conroy, Chair (appointed 28 July 2016) Peter Fiddeman (appointed 29 April 2016) Anne Turner (appointed 29 April 2016) Peter Stredder (appointed 29 April 2016) Helen Evans, Group Chief Executive (appointed 29 April 2016) Chris Kane (appointed 29 April 2016) Charmian Boyd (appointed 29 April 2016) Alan Head (appointed 29 April 2016, resigned 28 July 2016) Trevor Morley (appointed 29 April 2016) Nick Sharman (appointed 29 April 2016) Alan Hall (appointed 29 April 2016) Valerie Vaughan-Dick (appointed 29 April 2016) Jon Gooding (appointed 24 January 2017)
Company secretary	Ibi Eso (appointed 2 February 2016, resigned 8 June 2016) Tabitha Kassem (appointed 9 June 2016)
Executive officers	Helen Evans - Group Chief Executive Barry Nethercott – Executive Director of Finance and Deputy Chief Executive Gerry Doherty – Executive Director of Asset Management Vicky Savage – Executive Director of Development Jon Dawson – Executive Director of Strategy and Infrastructure Fiona Deal – Executive Director of People and Culture Darren Levy – Executive Director of Customer Services
Registered office	Olympic Office Centre, 8 Fulton Road, Wembley Middlesex HA9 0NU
Independent auditors	PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH
Principal Solicitors	Trowers & Hamlins, 3 Bunhill Row, London EC1Y 8YZ
Bankers	Barclays Bank PLC, 27th Floor, 1 Churchill Place, London E14 5HP
Registrations	Registered Provider No. 7326, Community Benefit Societies No. 4825

Report of the Board



Report of the Board

The Board presents its report and the audited consolidated financial statements for Network Homes Limited ('the Group', 'the Association') and its subsidiary undertakings for the year ended 31 March 2017.

The consolidated Statement of Comprehensive Income, Statement of Changes in Reserves, Statement of Financial Position and Statement of Cash Flow for the Group are set out on pages 39 to 42.

The Group's principal accounting policies are set out on pages 44 to 48 and these policies have been consistently applied across the Group.

The purpose of the Group, encapsulated in our 5 Year Strategy mission statement, is *'to open up possibilities for as many people as we can, by continuing to grow a forward-thinking, service driven and financially strong organisation that builds, sells, rents and manages good homes in thriving communities'.*

The Group now owns and/or manages 19,975 (2016: 19,865) units for a wide range of customers.

Chair’s review

In my first year as Chair I am delighted to be reporting another strong set of results for Network Homes Limited.

2016/17 saw the vote to leave the EU and a change of government, with a more hesitant housing sales market perhaps an inevitable consequence of the uncertainty generated in the political and economic environment. It was also the first year of the Government’s 1% real terms reduction in affordable rents for all social landlords. These were significant challenges, but we have managed them effectively.

Network Homes Limited achieved a net surplus for 2016/17 of £51.8m (2016: £155.3m). Our results in 2015/16 were inflated by two things: a large beneficial accounting adjustment under the new FRS102 rules to take account of a restructuring of financial instruments and a large peak in the Group’s sales programme, including 239 outright market sales. This year, the beneficial adjustment has reduced very substantially and, as we moved into a new development cycle, our overall completions and sales activity have also fallen. Apart from 2016’s outlying result, this year’s surplus represents the best in the organisation’s history and is in line with our expectations.

During the year we completed 468 homes, with 308 for social or affordable rent and 160 for shared ownership or outright sale. Given the prevailing environment, our margins on sales held up extremely well, supporting the overall surplus. As we move deeper into this development grant cycle, new home production will increase again. We started 1,235 homes in 2016/17 and have a current pipeline of around 3,200 new homes. This includes our first Build to Rent scheme of 270 homes, which will complete in 2017/18.

The reduction in our sales programme and the rent cut saw a fall in our turnover to £223.5m (2016: £311.0m) and in our operating margin to 31.1% (2016: 39.2%). Despite the rent cut, we increased our margin on social housing letting activities slightly to 25.5%. Gearing remained stable at 49% (2016: 49%). We were able to transfer a further £60m to reserves, bringing total reserves to £336.5m and our overall asset base rose to £1.54bn.

Network Homes Limited is a financially strong organisation. We need that financial strength to deliver on our strategic objective of ‘maximising growth within our capacity’ and to invest in other parts of our business. The Board believes we should ‘sweat our assets’ to do all we can to tackle the housing crisis in London and the South East. This year we invested £112m in new development activity and £24m in our existing properties.

Financial strength also provides crucial resilience in difficult and uncertain times. As well as the beginning of the long Brexit negotiations, since the year end we have seen an unexpected general election result, which seems likely to make the political environment less stable, and the deeply tragic Grenfell Tower fire.

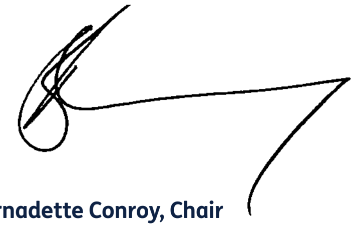
The repercussions from the Grenfell fire for the entire sector are multiple and still being quantified. At the time of writing, Network Homes Limited had a small number of medium or high rise buildings either partially or fully clad with Aluminium Composite Material (ACM) cladding which has failed the Government’s flammability test. This is a nationwide problem and it was not yet clear at writing whether, because of other fire safety measures within the buildings, some ACM cladding might remain in place or it will all need to be removed.

It is therefore difficult to assess with accuracy what the costs and practicalities of remediation will be. We are providing regular updates to lenders, other stakeholders and, of course, all affected customers, as the situation develops, but all our base assumptions and financial testing suggest we are in a good position to manage the position, while maintaining business as usual in other parts of our operation.

In the last 18 months we have been investing strongly in our culture, our systems and in achieving more consistency and higher quality in our customer service, working to harness the benefits of our new organisational structure. This year overall customer satisfaction rose from 80% to over 85%. This is an excellent performance, well ahead of our g15 peer group average. We are closing in on our organisational ambition of delivering and maintaining 90% overall satisfaction, though substantial work remains to be done to get us there.

It was also very satisfying in my first year as Chair to see Network Homes Limited win numerous prestigious national awards for both development and customer service. Our 14 major awards in 2016/17 included being named Overall Winner at the National Housing Awards and Housing Association of the Year at the What House? Awards. In May 2017, we also won Residential Landlord of the Year (Social) at the RESI Awards.

I have joined a fine and ambitious organisation, with a capable and strong Board, an excellent executive, and committed, caring staff. My thanks for a very solid year in challenging circumstances go to them all.



Bernadette Conroy, Chair
Network Homes Limited

Group Chief Executive's review

The amalgamation of the Group's operating associations achieved at the beginning of 2016/17 has had a profoundly positive effect. It is not just that we are taking decisions more quickly, are more agile, and able to deliver economies of scale in contracts and more consistency of service. It is about how our own people and our stakeholders, including our customers, perceive us.

The new Network Homes Limited brand and the internal cultural programme have brought a new confidence to the way we work, supported by our success in so many national awards. We have seen this confidence reflected in independently produced survey results during the year.

Our latest stakeholder perceptions survey found positive perceptions of the Group had increased across every part of our business since 2015, and are now, according to our consultants, well ahead of many other associations. More than 80% of external stakeholders would now recommend us as a development partner and nearly three quarters would now recommend us as a housing manager/service provider, a massive rise from the 48% recommending us in 2015.

Internally, staff engagement with our organisational goals rose to over 80% and belief in the leadership of the organisation grew by 13%, another big jump. Practically, we have seen this reflected in lower sickness and staff turnover, to levels considerably below the g15 peer group average.

I am absolutely clear, however, that the work to make Network Homes Limited one of the best housing associations in the country is far from over. While we have held down our operating costs this year and put more structure and rigour behind our efforts to deliver efficiencies through our value for money strategy, we are still one of the more expensive organisations in the g15 on a cost per property basis. We have conducted a substantive analysis into our costs and performance this year, and this has given rise to three important service reviews which we will carry out in 2017/18. These reviews will ensure that we continue to drive forward our efficiency savings, reducing our costs.

The important major investments in our business are continuing, even as we seek overall efficiencies. We are two thirds of the way through our three year people and culture agenda, but the significant investments in our IT systems are only now gathering pace. These form a critical plank of the new customer service strategy we adopted in April 2017, as we look to modernise and digitalise our customer service offer online and through our customer service centre, in line with customer expectations of a modern service provider. Achieving our 90% customer satisfaction target is a key driver of these changes for us.

Our development delivery continues to out-perform many of our larger housing association peers. To start over 1,200 in a single year for an organisation of our size is a considerable achievement. As well as widening our product range to include Build to Rent, this year we made an unconditional purchase of land close to Southall town centre and the new Crossrail station which should supply over 500 new mixed tenure homes. We will continue to operate in line with our financial capacity, but this is an indication of our continuing development ambition to deliver our social objectives. As Grenfell Tower has so powerfully and tragically shown, quality and safety must be essential watchwords of our development programme, and if that means we build slightly fewer homes than we expected in future years then so be it. We will ensure we take any lessons from Grenfell fully on board.

Finally, the Group's Board has been undoubtedly strengthened by the arrival of Jon Gooding (also Investment Committee Chair) and especially Bernadette Conroy as our new Chair. I am very grateful for her support and guidance as the external environment continues to change around us at a startling pace. In light of the changes, we are planning to review our Five Year Strategy once more in 2017/18 to ensure it remains fit for purpose.

Helen Evans, Group Chief Executive
Network Homes Limited

"Our development delivery continues to out-perform many of our larger housing association peers. To start over 1,200 in a single year for an organisation of our size is a considerable achievement."

Report of the Board

Development Performance

The development programme is made up of Affordable Housing Programme (AHP) and the Mayor's Housing Covenant (MHC). 402 (2016: 706) new homes were handed over into management across the Group in 2016/17 and 66 (2016: 239) units were developed for private sales.

Additionally there were 31 affordable rented homes, 15 social rented homes and 10 shared ownership homes (in total 56 homes) deemed practically complete for funding programme purposes which will hand over into management early 2017/18.

Having secured one of the largest grant funded development programmes for the 2015-18 programme, we are continuing to increase our development capabilities, including looking to establish more partnerships for development of larger schemes with more private sale units. Other growth initiatives include the tightly monitored, unconditional purchase of a small number of sites when circumstances are right, and strengthening our Build to Rent programme.

Highlights from the 2016/17 financial year include exchanging contracts on land at Merrick Place, where we expect to provide up to 520 mixed tenure homes and entering into contract on our first Build to Rent project at Atrium Point which has also attracted London Housing Bank loan funding from the GLA, the first in the country. Other large schemes currently in progress are South Kilburn, Thrayle House and Ridgeway. These and some other smaller schemes are due for completion in the period 2017 to 2021, in total around 3,200 units.

Grant Arrangements 2016-2021

Network Homes Limited has existing grant programmes under AHP 2015-18, MHC 2015-18 and the Mayor's Housing Zones programme. A bid for funding has been submitted under the GLA's 2016-2021 Affordable Homes Programme and is expected to deliver 1,752 affordable homes for £45.7m subsidy. Funding agreements for this amount were confirmed on 13 July 2017.

Tenure	2017 Units	2016 Units	Funding Programme
Social Rent	88	81	MHC 15-18
Affordable Rent	220	300	AHP 15-18, MHC 15-18
Shared Ownership	94	175	AHP 15-18, MHC 15-18
Flexible Affordable Home Ownership	-	130	MHC Homes For Working Londoners
Shared Equity / Equity Loan	-	15	AHP 11-15
Market Rent	-	5	Network Homes Limited
Total handed over to management	**402**	**706**	
Private Sale	66	239	Network Homes Limited
Total	**468**	**945**	

Report of the Board

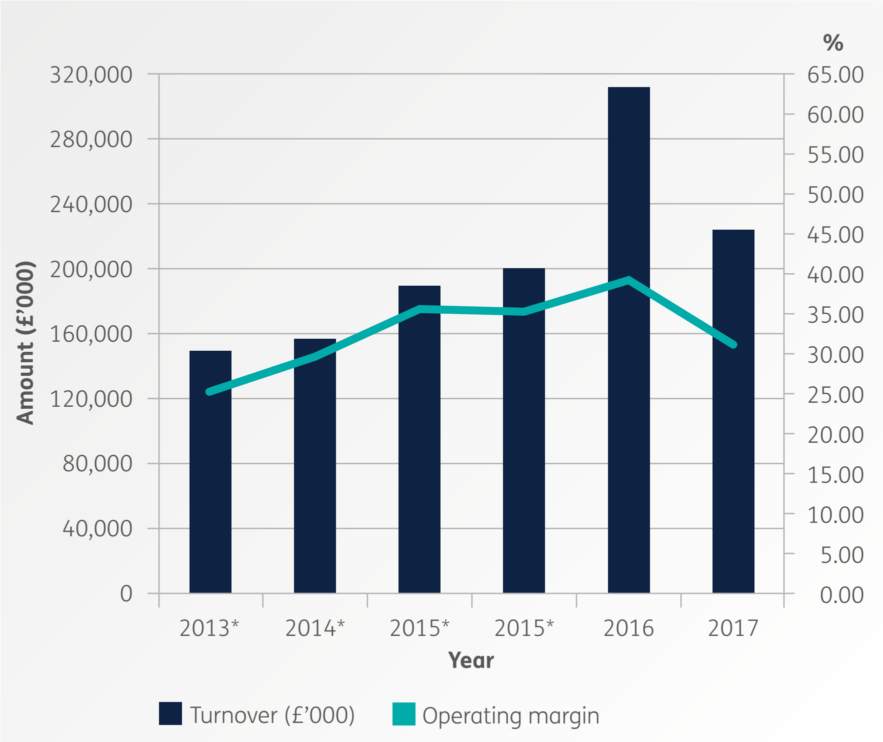
Financial Review

This has been another positive year for the Group. We achieved a net surplus of £51,822k (2016: £155,323k), which includes a £8,720k (2016: £52,356k) gain from restructuring financial instruments. The underlying surplus in 2016 excluding restructuring financial instruments was £102,967k. Our operating margin has reduced from 39.2% in 2016 to 31.1%. Turnover reduced by 28.1% to £223,484k (2016: £311,012k). The major reason for this reduction is the reduced property sales in the year 2016/17. The operating costs remained under control at £115,570k, almost the same level as last year (2016: £113,902k). A tax charge of £9,228k (2016: £7k) was made for transactions that occurred in the 2015/16 financial year.

During the year, the surplus in relation to property sales was £37,570k (2016: £93,234k) in total. £30,245k (2016: £85,769k) was from first tranche sales and outright sales which were reported under turnover and £7,325k (2016: £7,465k) reported under property sales.

The trend in turnover and operating margin over the last five financial years is shown by the graph opposite:

Network Housing Group Turnover and Operating Margin



The comparatives are based on the previous UK GAAP which was replaced by FRS 102.

The tables below show a summary of our consolidated financial performance and position over the last five financial years:

Statement of Comprehensive Income summaries

	2017 £'000	2016 £'000	2015 £'000	2015* £'000	2014* £'000	2013* £'000
Turnover	223,484	311,012	199,100	189,516	156,170	149,068
Operating costs	(154,030)	(188,958)	(129,386)	(122,213)	(109,886)	(111,459)
Operating surplus	**69,454**	**122,054**	**69,714**	**67,303**	**46,284**	**37,609**
Surplus on sale of assets	7,325	7,465	8,066	8,066	2,977	2,694
Revaluation surplus on investment properties	1,347	2,594	-	-	-	-
Net interest and other financial income	(25,796)	(29,139)	(26,785)	(26,134)	(25,958)	(22,449)
Restructuring of financial instruments	8,720	62,335	-	-	-	-
Fair value element of LOBO loans	-	(9,979)	(41,382)	-	-	-
Tax	(9,228)	(7)	(1)	(1)	(6)	4
Surplus for the year	**51,822**	**155,323**	**9,612**	**49,234**	**23,297**	**17,858**
Operating margin	31.08%	39.24%	35.01%	35.51%	29.64%	25.20%

The comparatives are based on the previous UK GAAP which was replaced by FRS 102.

Report of the Board

	Social housing activity	Other social housing activity	Total social housing activity	Non-social housing activity	Total 2017
Turnover (£k)	146,497	33,362	179,859	43,625	223,484
Surplus (£k)	37,306	11,974	49,280	20,174	69,454
Operating margins (%)	**25.5%**	**35.9%**	**27.4%**	**46.2%**	**31.1%**
	Social housing activity	**Other social housing activity**	**Total social housing activity**	**Non-social housing activity**	**Total 2016**
Turnover (£k)	137,969	62,416	200,385	110,627	311,012
Surplus (£k)	34,880	28,749	63,629	58,425	122,054
Operating margins (%)	**25.3%**	**46.1%**	**31.8%**	**52.8%**	**39.2%**

Total turnover has decreased by £87,528k to £223,484k. Total operating surplus has decreased by £52,600k to £69,454k. The main contributors to this reduction were decrease of £16,775k in other social housing activities, resulting primarily from the reduced first tranche properties sales, and a decrease of £38,251k in non-social housing activity resulting from reduced sales of market properties in amount £37,606k. The good news is that the turnover in social housing area increased by £2,506k in leasehold, shared ownership and general rented areas (notes 3 and 4).

The surplus of £51,822k (2016: £155,523k) comprises operating surplus of £69,454k (2016: £122,054k), plus surplus on 99 stair-casing and Right to Buy (RTB) property sales of £7,325k (2016: £7,465k), revaluation surplus on investment properties £1,347k (2016: £2,594k), net impact of restructuring the financial instruments £8,720k (2016: £52,356k), less net interest charges £25,796k (2016: £29,139k) and tax of £9,228k (2016: £7k). The previous 2016 financial year was exceptionally good in respect of property sales with the overall surplus of £93,234k achieved.

The margins in social housing activity increased from 25.3% to 25.5%, other social housing activity margins reduced from 46.1% to 35.9% and non-social housing activity margins reduced from 52.8% to 46.2% in 2017. As explained above, the unusually high income from property sales in 2016 had the major influence. First tranche sales recorded under other social housing reduced from £29,064k in 2016 to £12,260k. Outright sales recorded under non-social housing reduced from £55,591k in 2016 to £17,983k in 2017.

Report of the Board

Statement of financial position summaries

	2017 £'000	2016 £'000	2015 £'000	2015* £'000	2014* £'000	2013* £'000
Total fixed assets	1,609,990	1,489,907	1,471,430	864,809	749,681	652,700
Net current assets	78,441	127,424	61,176	56,429	55,451	95,785
Total	**1,688,431**	**1,617,331**	**1,532,606**	**921,238**	**805,132**	**748,485**
Creditors due in more than one year and pension liability	1,349,673	1,326,205	1,396,306	736,111	667,875	620,357
Provisions for liabilities and charges	11,012	14,544	16,358	8,541	9,891	22,978
Reserves	327,746	276,582	119,942	176,586	127,366	105,150
Total	**1,688,431**	**1,617,331**	**1,532,606**	**921,238**	**805,132**	**748,485**

The comparatives are based on the previous UK GAAP which was replaced by FRS 102.

At the end of the year, the Group's housing properties at cost less depreciation and impairment totalled £1,540,248k (2016: £1,417,026k). This value is reflected in the consolidated Statement of Financial Position.

During the year, the Group undertook a professional revaluation of some of its housing stock by external valuers. The figures provided below are for information only. The accounting policy is to hold the housing properties at historical cost. The value of the Group's housing stock is as follows:

- Existing Use Value for Social Housing (EUV-SH) £1,356.2m (2016: £1,248.7m)
- Market value, tenanted (MV-T) £2,325.5m (2016: £2,159.6m)
- Vacant possession market value (VPMV) £4,532.3m (2016: £3,859.1m)

The Group continues to borrow to fund its affordable housing development programme. Housing loans increased from £711.4m to £745.3m (note 26). The Group's reserves increased from £276.6m to £327.2m. As at 31 March 2017, gearing based on borrowings against historic cost of properties for the Group was 49% (2016: 49%). The most common gearing covenant across the Group's bank facilities is 65% (2016: 65%).

Report of the Board

Brexit
Following last year's referendum vote, the UK is set to leave the EU by the end of March 2019. Both the UK Government and the EU have set out their demands and the formal Brexit negotiations have started. Brexit is likely to cause market volatility in the short to medium term. Network Homes Limited has stress tested itself against extreme scenarios and as a result our judgement is that the impacts modelled can be contained.

Grenfell Tower tragedy
Following the tragedy of the Grenfell Tower fire, a full public inquiry has been ordered. There have also been a number of requests for information from various bodies, including the Department for Communities and Local Government (DCLG). As part of these enquiries, the Group has had cladding from some of its buildings sent to the British Research Establishment (BRE) for testing.

At the time of signing these financial statements, BRE testing confirmed that four of the Group's buildings failed the BRE tests. The London Fire Brigade carried out a full fire safety inspection of the four buildings following these test results and has confirmed that appropriate fire safety measures are in place to manage the risk of fire in the buildings inspected and that residents do not need to vacate.

Due to the uncertainty and timing of the ongoing activities, it is not yet possible to estimate the financial impact of this across the Group's housing property portfolio.

Capital structure

The Group is financed by a combination of retained reserves, which are not distributable, long-term committed loan facilities from banks and other lending institutions and grants awarded by the HCA and GLA and other organisations to support the development activities of the Group. Some bank loans are arranged through Network Treasury Services Limited ('NTSL'), the Group's treasury vehicle and on-lent to the Association. These loans are secured upon assets of the Association. The total facilities as at 31 March 2017 amounted to £944,300k, of which £745,253k had been drawn (note 26).

In the year to 31 March 2017 the Association entered into one new facility with London Housing Bank - GLA totalling £20,827k. The total Association facilities as at 31 March 2017 amounted to £332,439k, of which £292,439k had been drawn.

Network Homes has stress tested itself against extreme scenarios.

The Group's reserves increased from £276.6m to £327.2m.

Report of the Board

Treasury policy

Treasury services are provided to the Group by the Association.

Each year the Group's Board approves the treasury management strategy and updates to the treasury policy for the Group. This policy addresses funding and liquidity risk, covenant compliance and investment policy. In addition, the Group Board receives reports on treasury activities.

Treasury management activities are monitored by the Board of NTSL which meets at least four times per year.

The Group borrows at both fixed and floating interest rates, with the treasury policy requiring a minimum of 50% of drawn debt to be on fixed interest rates or hedged.

The Group's debt is a mixture of fixed and floating rate loans. As at 31 March 2017, 77.6% (2016: 77.4%) of the Group's debt was at fixed rates and 22.4% (2016: 22.6%) at floating rates.

The Group's' treasury team monitors covenant compliance for the Group on a regular basis and is required to report on covenant compliance to the Group's lenders and the borrowers on a quarterly basis. At 31 March 2017 the Group complied with its loan covenants. Business plans demonstrate that it will continue to do so in the future.

The borrowings summary and repayment schedule is at the nominal value – see table below:

Investment policy

At 31 March 2017 the sinking funds were in place in respect of:

1. The Housing Finance Corporation (THFC) 2043 Bond
2. Affordable Housing Finance (AHF) 2042 Bond
3. Affordable Housing Finance (EIB).

THFC 2043 Bond

A 4.5% gilt with a maturity date of 2042 and a carrying value of £6.4m with a nominal value of £5.2m is held in an Interest Service Reserve Fund. We plan to hold this until the maturity date.

In 2042 the proceeds of the gilt in the Interest Service Reserve Fund will amount to the par value of £5.2m. The excess carrying value in the amount of £1.4m is being amortised over the remaining 28 year life of the gilt.

A Sinking Fund of £726k is held by THFC as replacement for security to account for sales of shared ownership properties (2016: £1,180k).

Affordable Housing Finance 2042 Bond

There is currently a Liquidity Reserve Fund £1,155k (2016: £1,150k).

Affordable Housing Finance (EIB)

There is currently a Liquidity Reserve Fund £754k (2016: £750k).

Review

In the light of prevailing market conditions, the investment strategy is constantly under review to ensure that the Group's risks relating to the capital invested and income accrued to date are protected so far as possible.

Cash flows

The statement of cash flow on page 42 shows that during the year the Group generated net cash inflow from operating activities of £98,887k (2016: £126,074k), made net interest payments of £29,719k (2016: £32,273k) and invested a net £98,209k (2016: £22,447k) in fixed assets.

Liquidity policy

The liquidity policy is to retain sufficient liquidity to fund the business for the next 18 months, whilst allowing for some uncertainty in sales receipts. This was reviewed in April 2017. Liquidity is defined as cash and facilities available to be drawn at any time. At least £25m or three months cash flow must be held in liquid cash deposits. The treasury policy ensures loan facilities are in place to fund future requirements. At 31 March 2017, the Group had £76,752k (2016: £65,106k) in cash and bank (note 36), of which £42,680k (2016: £44,630k) were held as money market cash deposits as part of the Group treasury policy.

Short-term cash balances are placed in AAA rated money market funds or short-term deposits at competitive rates with A1/P1 rated banks or main UK clearing banks.

Security

As at 31 March 2017 all bank facilities were secured against the Group's properties, with the exception of a £20,872k facility from Greater London Authority signed in March 2017 where security is in process of being charged. The EUV-SH for the units charged was £802,800k (2016: £888,500k) and the number of units charged was 9,618 (2016: 10,879).

Summary of borrowings

	2017 £'000	2016 £'000
Fixed	578,616	550,449
Variable	166,637	160,923
Total drawn	**745,253**	**711,372**
The debt falls due for repayment in:		
Less than one year	8,091	4,916
Between two and five years	108,037	113,688
After five years	629,125	592,768
Total drawn	**745,253**	**711,372**

Value for Money Statement for 2016/17

Value for Money Statement for 2016/17

Introduction

Our industry regulator, the Homes and Communities Agency, requires all housing associations to publish an annual Value for Money (VfM) Statement for our stakeholders. We are regulated partly against a Value for Money Standard, with a specific expectation that we will report:

- A comprehensive and clear view of our strategic approach to value for money;
- The return on our assets, measured against our organisational objectives;
- Our absolute and comparative costs for delivering specific services; and
- The value for money gains we have made or expect to make, and how these are realised over time.

Aside from the regulatory requirement, Network Homes Limited recognises that there are sound business reasons for delivering excellent value for money. Improved efficiency, economy and effectiveness help us to increase our financial resources and quality of service, which supports our ability to build more homes and drive up the satisfaction of our customers.

Our strategic approach to value for money

Network Homes Limited has made substantial improvements to its financial performance and service quality over the last five years. In 2016/17 we made a net surplus including sales of £51.8m, with an operating margin of 31.1%. In 2012/13 our net operating surplus was £17.8m and our operating margin was 25.0%.

In 2016/17 we've seen a decrease in our surplus, margin and turnover, but we expected this. 2015/16 was an exceptional year and represented the peak of a development cycle. Turnover in 2016/17 dropped by 28.1%, mainly due to a reduction of income from sales. 2016/17 still represents a very solid financial performance, with turnover and surplus higher than in any other year except 2015/16.

Income has been affected by changes in government policy announced in the last two years which have now come into effect, such as the social rent reduction. In light of these changes to policy, we have revised our financial models to ensure we maintain strong margins with the aim of achieving a minimum 32% operating margin before sales by 2021.

Increasing and maintaining financial strength is one of our four strategic objectives. It allows us to invest more in new homes, in our existing homes and in driving up the quality of our customer service. It also provides resilience during times of ongoing economic or political uncertainty, such as we have seen this year and can expect to continue at least until the culmination of Brexit negotiations. Financial strength underpins our corporate strategy and is crucial to value for money.

Organisational strategy

Our four strategic objectives are:

- Maximising growth within our resources
- Delivering first class customer service
- Increasing financial strength
- Building a great organisation.

The last two objectives are vital in enabling the first two.

Value for Money Statement for 2016/17

Each of our objectives has a linked ambition:

- Growth ambition: Produce around 1,000 new homes a year
- Customer service ambition: 90% overall customer satisfaction
- Financial strength ambition: Increase borrowing capacity by £450m
- Great organisation ambition: A Sunday Times Best 100 Company to Work For

Our Board defined these objectives in the Five Year Strategy 2016-21 and these therefore guide our business and value for money approach. They are challenging ambitions and require us to ensure our value for money is strong. These objectives and ambitions have a number of impacts on our approach to VfM.

Development approach

The Network Homes Limited's development programme continues to demonstrate the scale or our ambition, both in terms of the size and number of developments and the diversity of housing options we offer. We maximise growth by 'sweating our assets'. We are also prepared to take measured risks to ensure we make as strong a contribution as we can to meeting housing need.

The Government's decision in 2015 to impose a reduction in social sector rents of 1% a year is affecting revenue streams. Between 2016 and 2020 analysis shows that Network Homes Limited's income will reduce by around £45m. We are absorbing that fall in revenue by reducing operating costs and increasing efficiency, with the aim of achieving operating margins at or above 32.0% by 2021. This will allow us to protect our development pipeline and underlines our commitment to maximising growth, even in difficult circumstances.

We operate a cross subsidy model of development, with market sales and shared ownership helping to support the delivery of sub-market homes to rent. In an era of low grant rates, this is essential practice if we are to continue providing homes for people who are most in housing need.

Network Homes Limited is halfway through delivering the 2015-18 Affordable Homes Programme. This is split roughly one third market sale or rent, one third shared ownership, and one third homes for social or affordable rent. We are the second largest recipient of government housing grant in London and we have a significant grant funded programme in Hertfordshire, which supports our capacity to deliver homes for shared ownership and sub-market rent.

The Network Homes Limited's Board has been able to invest an additional £20.0m in the bid for the 2016-21 GLA programme, with funds generated as part of the unusually high surplus in 2015/16. Our bid will deliver 1,052 affordable homes for £45.7m subsidy. In July 2017 we were selected to become one of the Mayor of London's Strategic Partners in development, committing us to delivering a minimum of 60% affordable housing on our developments through the programme. As a consequence of this agreement we will provide a further 700 homes in addition to those in the bid.

We are continually looking for ways to improve our development procurement and construction methods. We will use modern methods of construction on our Press House development, and have an ambition to build more homes using offsite manufacturing over the next few years. We are looking for partnerships that will allow us to get the right balance between risks and rewards, costs and benefits. We focus on a relatively tight operational area, based around a number of core boroughs that will enable our housing management services to operate in an efficient manner. This approach is described in more detail in the Growth Strategy 2016-21.

Approach to customer service

Value for money is also crucial in helping us to achieve our customer service ambition. We finished 2016/17 with overall customer satisfaction for the year at 85.4%. There is still some way to go to meet our overall ambition of 90% satisfaction, and the Board is focused on continuing to improve. However, this beats our target for the year of 82% and represents an improvement of over 5% compared to the previous year. In 2012/13 overall customer satisfaction was at 73%, demonstrating that our investments and actions to improve our services are working.

One area where performance has dipped compared to last year is customer satisfaction with the repairs service. In 2015/16 a satisfaction rate of 82.3% was achieved; last year this fell to 80.6%. In November 2016 we mobilised a new responsive repairs contract with Wates Living Space, involving new ways of working and contract terms bespoke to Network Homes Limited. While it is disappointing to see a slight drop in satisfaction, this is not unusual as new ways of working are formalised with a different contractor. Overall performance is now improving, so over time we are confident the service our customers receive will be of a very high quality.

Value for money requires a balance between the cost and quality of services. We consult with residents about their priorities, measure our performance regularly internally and through benchmarking with our peer group of broadly similar housing associations, and make investment decisions accordingly.

In early 2017 we launched a newly developed Customer Service Strategy, based on five principles driving our approach:

- Having the right culture internally
- Providing an accessible service
- A more personal service
- A high quality service
- An added value service.

We will work to these principles through a four tiered hierarchy of provision. By 2020 we have a target of 50% of customer transactions being self-serviced online, with 80-90% of transactions resolved online or through a single enquiry to the Customer Service Centre. The remaining 10-20% of transactions will require specialist input – this could be from a specialist team, or it could mean offering an intensive service to a minority of customers who need more support to sustain their tenancies. We believe this approach will offer good value for money, through top quality service provision and focusing more intensive resourcing towards the customers that need the most support.

The success of this model depends on our IT platforms being adequate to deliver services to the quality required by our staff and our customers. We are building this capacity through our IT business transformation programme with £7.7m of investment over the next three years.

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One of the first steps towards meeting our customer service ambitions was the launch of a basic self service portal, which took place in June 2016. While this will evolve over time, it already allows customers to make a rent payment, update personal information, and monitor the progress of repairs. By the end of 2016/17 over 1,300 customers were registered to use the self service portal, with more joining each month. To date there have been 4,606 visits to the portal, with just over a third paying rent, a third viewing communal repairs and just under a third raising a request for a repair.

Infrastructure upgrades have been made to the telephony platform, to pave the way for introducing two new products in 2017/18. Queue buster technology will allow customers to hold their place in a queue or receive a call back at a convenient time, while speech analytics software will allow improved analysis of the calls we receive, as well as flagging key words of concern when they are used by customers.

Through this investment our service is modernising and making it simpler for customers to engage with us.

A simpler structure

A key driver of Network Homes Limited's approach to value for money in recent years has been the concerted steps taken to simplify our management and governance structures. Between 2013/14 and 2016/17 we took £5.0m off the cost base through the Fit for the Future change programme and subsequent fundamental governance review. April 2016 marked the completion of the legal amalgamation with the new Network Homes Limited brand instituted from May 2016.

Since then we have been able to move forward as a single organisation, with a single brand, which has had multiple value for money benefits. We are implementing more consistent ways of working, our decision making is faster, and we have greater strategic and cultural clarity. We expect to be able to reduce costs by achieving improved economies of scale, for example with board servicing and administration and accounting practice. We have identified additional cost savings linked to our structure of around £1.1m. Specific gains are detailed later in this document, but particularly notable savings are:

- Reduction in interest negotiated on restructured financial instruments of £388,650 per year
- Saving of £100,000 against consultancy costs in 2016/17, with further savings planned for 2017/18
- £200,000 saved through the re-procurement of the Group insurance policy contract.

The structural changes have allowed us to critically re-examine our overall management and maintenance costs. In early 2017 we carried out detailed research to understand the key factors underpinning our costs and performance, based on comparative benchmarking data collated by Housemark. Three priority areas have been identified with a review of each to be led by members of the Executive Leadership Team.

We now have a single balance sheet, with a (historical cost) value of £1.5bn. The new structure, as well as providing a small increase in overall financial capacity, delivers greater resilience in the event of financial shocks and therefore instils greater confidence for existing and future investors.

In early 2017 an independent perceptions survey was carried out with Network Homes Limited's main stakeholders, with very strong results. The organisation's profile and reputation was seen as much improved compared to the last survey in 2015 and positive perceptions rose across almost every area of our business. Many responded very positively that the new branding and improved structure demonstrate a focus on ambition, quality and efficiency. These changes are clearly bringing added value in addition to the cost savings seen through the balance sheet.

Our people and culture

An engaged and effective workforce is vital to achieving our customer service goals. As of May 2017 we are midway through the three year People & Culture Agenda which is based around improving leadership and management quality, employee engagement, and our employer offer, to build a great organisation.

We continue to invest significantly to ensure our staff can deliver first class customer service. During the last year all staff (including new starters) have attended training in the Mary Gober customer service method, which focusses on equipping staff with the capability to take ownership, be resilient and communicate positively in a solution oriented manner. We have implemented the ROCKSTAR leadership and management training programme for managers at all levels of the organisation. This should ensure all staff receive the support and guidance they need to work to the best of their ability, and that all managers feel equipped to manage the performance of their teams.

We are now implementing a 360 degree feedback programme for all managers including the Chief Executive.

Benefits of this investment in our people are already coming to fruition. The gains made in overall customer satisfaction illustrate the positive impact of the People & Culture Agenda. Staff sickness is down from 9.8 in the previous year to an average of 7.5 days lost per employee. Although slightly above our internal target of 7 days, this compares favourably with the average days for the g15 of 8.7. In financial terms this represents a between years reduction in the cost of absence worth £104,525.

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Staff turnover ended the year on 18.7%, compared to a 2015/16 figure of 23.8%. This met the internal target of 20% and can be compared to the g15 benchmark of 22.8%. Reductions in staff turnover indicate that the workforce feel more invested in the organisation and its success, and that there are internal opportunities to develop. It also reduces expenditure associated with staff turnover, such as recruitment or the cost of temporary appointments to fill posts.

We can see the return on investment through the results in the 2016/17 Best Companies staff survey results. Significant gains were made compared to the previous year: 10% more staff completed the survey, with results showing improvements across all 8 categories of the survey, the most significant being a 13% improvement in confidence in our leadership. We will continue to build towards our ambition of achieving the Sunday Times Best 100 Companies to Work For standard in the future.

Mergers and acquisitions

Both the government and the HCA have made statements about housing association efficiency and the potential benefits of consolidation through mergers. Looking around the sector there has clearly been an increased momentum towards these aims, with several high profile mergers completed both within the g15 and more widely.

We have considered these statements and recognise the scale of policy change within our operating environment. Both underline the importance of making sure we can and do deliver our core purpose of building homes and providing services in an efficient and effective way. The changes we've been through over the last few years, particularly the consolidation of the Group structure, have been in response to these changes.

We continue to consider whether our size may adversely affect our competitiveness or limit the opportunities available to us, and whether merging may represent the best way for us to achieve greater value for money through economies of scale.

We have set out clear criteria for considering any merger opportunities within the Growth Strategy 2016-21. These include strong geographic, cultural and operational synergies. We did not sign up to the National Housing Federation's 'merger code' as we believed it to be too prescriptive. However we have developed an Information Memorandum which sets out our position and appetite for merger to the wider sector. We are also in the process of developing a set of criteria which will guide early decision making on whether to proceed with possible acquisitions of stock. This will be agreed and finalised during 2017/18 and should also support opportunities for inorganic growth.

The Network Homes Limited Board recognises its duty to consider what will best deliver our organisational objectives. It will consider any compelling offers which may fulfil our criteria, including from smaller housing associations looking for a partner to support their ambitions. We will develop proactive approaches to others only where we can identify clear, compelling and tangible benefits from any possible arrangement. But the Board does not believe there to be a pressing reason to push for an early merger.

We are already achieving strong finances and development performance, and much improved governance. We have been investing substantially in the business and have made a strong start in improving asset management and customer services.

At the time of this statement, the Group Board was not considering any merger approaches.

Value for money strategy

In May 2016 the Network Homes Limited Board adopted a new value for money strategy. This re-stresses the linkages between our strategic objectives, annual planning framework, performance measurement and excellent value for money. The strategy takes account of the 1% real terms cut in rents between now and 2020, and other operating challenges housing associations are facing.

It details a 'menu' of potential strategic and operational value for money assessments that we can undertake, depending on the relevance of each item year to year, and it introduces new processes to embed value for money assessment more systematically through our organisation. Finally, it identifies key value for money indicators for us to measure, linked to each of our four strategic objectives.

Adoption of the strategy has led to considerable change. The more structured reporting protocols, through one central point of coordination and VfM champions in each directorate, are improving consistency. We have a much better understanding of our costs, which gives the potential for ever more progress on efficiency. An internal communications campaign and alignment with the people and culture agenda is embedding a culture where everyone at Network Homes Limited is responsible for ensuring good value for money.

Progress is reviewed by the Executive Leadership Team on a quarterly basis and by the Network Homes Limited Board every six months.

Sector scorecard

A number of housing associations, led by Home Group, have developed a new 'sector scorecard' of value for money metrics which can be used to compare performance between providers. This will be piloted in 2017/18 and in future may become one of the principal methods of assessing value for money in social housing. Network Homes Limited has signed up to participate in the pilot.

The table on the following page shows our performance last year on these measures compared to the g15 benchmark for 2015/16 (the latest figures currently available).

Value for Money Statement for 2016/17

	Measure/ Indicator	Network Homes Limited 2016/17*	g15 benchmark 2015/16
	Business Health		
1	Operating Margin:		
	Overall	31%	32%
	Social Housing Lettings	26%	36%
2	EBITDA MRI (as a % of interest)	203%	190%
	Development		
3	Units Developed**	468	781
4	Units Developed as % of units owned	3%	2%
5	Gearing	49%	45%
	Outcomes Delivered		
6	Customer Satisfaction	85%	76%
7	£s invested for every £ generated from operations:		
	- in new housing supply	£1.19	£1.20
	- in communities	£0.57	n/a
	Effective Asset Management		
8	Return on capital employed	4.1%	4.5%
9	Occupancy	98.5%	n/a
10	Ratio of responsive repairs to planned maintenance spend	0.62	0.64
	Operating Efficiencies		
11	Headline social housing cost per unit:	£5,614	£4,690
	- management cost	£1,768	£1,278
	- service charge	£722	£613
	- maintenance cost	£802	£1,084
	- major repairs	£1,285	£855
	- other social housing cost	£1,037	£860
12	Rent collected	98%	98%
13	Overheads as a % of adjusted turnover	6%	11.7%

**The definitions used for the sector scorecard pilot differ from those used as standard within the sector to calculate similar VfM metrics in previous years, meaning that these measures are unlikely to be directly comparable to the g15 benchmark*

***For most developing associations in the g15, 2015/16 represented a peak year in development cycles, and this has had an impact on some of the comparisons above.*

Understanding the costs of providing our services

Last year's VfM Statement included our initial commentary and analysis in response to the publishing of the HCA's comparative cost per unit (CPU) analysis in June 2016. In 2016/17 we have refined the methods by which we scrutinise our costs and begun to see a return on a number of investments designed to improve the service. In areas of high relative cost we are undertaking a fundamental review of the service in order to ensure VfM.

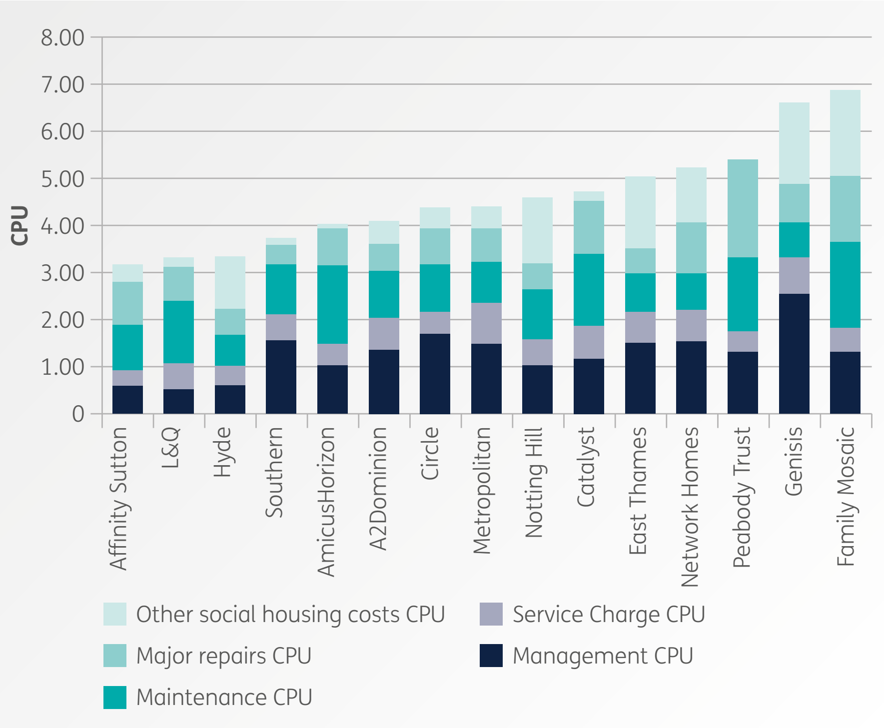
The chart on the opposite page shows how our 2015/16 CPU (the most recently available data) compares to our g15 peers. As can be seen, our headline CPU is the fourth most expensive within this group, at £5,240.

Taking on board the recommendations of the HCA for the usage of their analysis – that the results be used to identify a relevant peer group for comparison – we have identified a bespoke peer group based upon a 'similarity score', incorporating the factors identified through the HCA regression results. As displayed on the opposite page, we are the fifth most expensive landlord amongst this peer group. When splitting the headline CPU by cost group, the factors underlying our relative high cost are consistent amongst both peer groups.

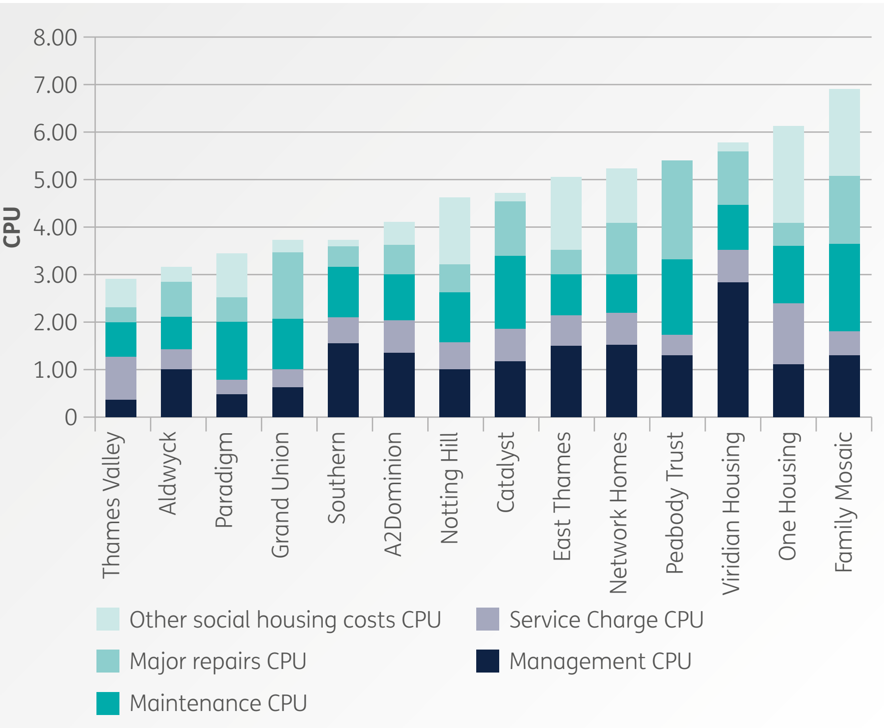
The 'Other social housing costs' group for Network Homes Limited is high relative to our peers. As discussed in last year's Statement, the majority of these costs are lease contract costs paid to landlords as part of our private sector leasing (PSL) portfolio. Our internal analysis suggests that if the lease contract costs of all the g15 organisations are removed from their respective CPU's, Network Homes Limited would have a CPU of £4,100 and would be at the median within this peer group.

Value for Money Statement for 2016/17

2015/16 CPU for g15 housing associations



2015/16 CPU for bespoke peer group



Through the provision of temporary accommodation, the PSL portfolio produces a social benefit and assists our local authority partners in meeting their statutory obligations. A review of the portfolio during 2016/17 reaffirmed our commitment to providing this specialist service, as it aligns with our strategic objectives and social purpose. Nevertheless, the review also produced a number of recommendations to make the service more cost-effective, which were approved by the Board. These included converting our homes to a more profitable leasing arrangement and increasing the management fees we charge.

Overall, our headline CPU increased between 2014/15 and 2015/16.
The primary source of this increase was a rise in maintenance costs, although this was from a low base as we had the third lowest maintenance costs amongst the g15. Roughly a quarter of the increased cost resulted from a reallocation of a proportion of management costs to maintenance in transitioning to the new FRS102 accounting standard. Moreover, increased investment has coincided with improved performance: 100% compliance in fire risk assessments was achieved over 2016/17, and satisfaction with recent repairs increased to over 80%. But Network Homes Limited knows it is important to have systems in place which align customer satisfaction with cost control. As such, we have recruited a commercial surveyor in Asset Management to manage the open-book accounting structure of the new repairs contract.

Benchmarking results from Housemark provided us with detailed information as to why our costs were relatively high in 2015/16. As detailed elsewhere in this Statement, we have initiated reviews into three business areas as a result: tenancy management, the customer services centre and corporate overheads. The outcomes of the reviews will be forthcoming over the course of 2017/18.

Value for Money Statement for 2016/17

Latest performance benchmarking

The tables below display our financial and customer service performance relative to the results of recent benchmarking and our 2015/16 performance.

While some of our financial metrics show a decline in performance between 2015/16 and 2016/17, as mentioned at the beginning of this Statement, 2015/16 was an outlier when looking over the longer term, especially in terms of income from sales. Performance this year remained higher than our 2014/15 figures for surplus on housing sales and interest cover including and excluding sales. Furthermore, we remain within our covenants when subjecting our business plan to rigorous stress-testing, underlining the overall financial strength of the organisation. The sustained performance in operating surplus before sales demonstrates the strong foundation on which our core business activities are based. In addition, the temporary accommodation portfolio has improved its operating margin significantly, after operating at a loss in 2015/16.

Our maintenance costs per home fell slightly, which should keep these costs low relative to our peers, but management costs per home increased over 2016/17. In part this is due to investment in improving customer service, but also costs associated with the process of amalgamation. Change can produce short term costs that are necessary to realise long term savings. For example, in 2016/17 we reduced the headcount in Customer Services by 11 people, but these savings may not be reflected in costs until 2018/19.

Financial perspective	2017	2016	change 2016-2017	g15 change 2015-16
Operating surplus before housing sales (£m)	39.2	37.4	5%	7%
Surplus on housing sales (£m)	37.6	92.1	-59%	55%
Interest payable (£m)	26.2	29.6	-11%	-5%
Operating margin on social housing lettings (%)	25.5	25.3	0%	1.1%
Maintenance cost per home (£)*	1,203	1,197	1%	0.3%
Management cost per home (£)*	1,700	1,461	16%	2.1%
Voids and bad debts (£m)**	3.8	2.3	65%	-0.3%
EBITDA MRI interest cover (excl. sales) (%)	104	105	-1%	-2.9%
EBITDA MRI interest cover (incl. sales) (%)	203	356	-43%	13.7%
Total debts per unit (£'000)	37.3	35.8	4%	1.4%

**Costs per unit differ slightly from those included in sector scorecard, as sector scorecard definition uses a different calculation.*

***The void and bad debts have increased by 65% to £3,797k in 2017 from £2,303k in 2016. This is mainly due to the bad debt provision increasing by £1,062k in 2017. The former tenant arrears provision has increased by £668k and the current tenant arrears provision has increased by £353k.*

Resident (customer) perspective	2017	2016	g15 benchmark	
			Upper quartile	Median
Overall customer satisfaction (%)	85.4	80.1	n/a	n/a
Resident satisfaction with repairs (%)	80.6	77.9	90.1	84
Current rent arrears (%)	3.7	3.6	3.6	3.9
Average re-let time (standard re-lets) (days)	32.8	31.4	25.8	33.6
Percentage of residents satisfied with quality of new home (new build only) (%)	n/a*	87.2	88%	87%

**Note: The number of completed surveys did not provide a sufficient sample size to calculate a 2016/17 average; this was due to the majority of completions occurring within the final months of the year. Performance will be monitored and reported on for next year.*

Governance Indicator	2017 (based on units in management)	2016 (based on units in management)
Chief executive remuneration per home (£)	10.5	10.2
Board Chair's remuneration per home (£)	1.1	1.1
Total Board members' remuneration per home (£)	6.4	6.4

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A significant increase in overall customer satisfaction was realised over 2016/17, reaching over 85% and exceeding our organisational target. The main driver behind our increased customer satisfaction was improved performance, including within the customer services centre. We have given ourselves an organisational target of 88% customer satisfaction in 2017/18, in order to continue our journey towards first class customer service.

Current rent arrears increased slightly compared to 2015/16, and as detailed elsewhere in this Statement, we are currently considering technological solutions to help us streamline our income collection processes. Regardless, our 2016/17 performance was better than the sector median, and our overall collection rate increased.

The average re-let time of void properties also increased slightly relative to last year; however, we remain within the top half of the g15 for performance. After an initial increase in re-let times over the first six months of the year, significant work was undertaken which resulted in a sustained improvement in performance over the latter half of the year.

Getting the best out of our assets

Network Homes Limited now owns and manages 19,975 homes. We are constantly considering ways to improve the management of these assets to ensure we can deliver the greatest number of new homes each year within our financial capacity and that our existing properties are well maintained and provide good homes for our customers.

Development performance

During 2016/17 we completed 468 homes. These included 308 for social or affordable rent and 94 for shared ownership. In total, we invested £112m in new homes.

These figures are lower than reported last year, but this simply reflects the phase in development cycle. Taking the last two years combined we have invested £159m in new development activity, and completed 1,393 homes. The efforts to maintain programmes and pipelines despite the 1% reduction in social rents have been successful. In 2016/17 we developed homes equivalent to 3% of existing owned stock, excluding demolitions. Although this is lower then achieved in previous years, as mentioned above it reflects phasing rather than any drop in performance. We exceeded targets for HCA/GLA programme starts on site (1,235 compared to a target of 821), and for HCA/GLA completions (359 compared to a target of 272).

Strong performance is translating into additional development. In 2015/16 we made a large surplus of £103m. Generating such a significant surplus has allowed us to provide an extra £20m of funds in the bid for the next GLA programme. This is pure cross subsidy and extra substantive investment in new homes for the communities Network Homes Limited works with.

In July 2016 we conducted comparative analysis between Network Homes Limited's scale of development and other g15 housing associations in London (our peer group). We also considered how our development performance stands up against those who participated in big mergers within the sector, such as L&Q and Clarion. Accounting for relative size, this found Network Homes Limited to be developing at around the same rate or better than most of our larger peers. This will be the case over the next few years, even against very large new merged associations, based on their published plans.

The development programme demonstrates the scale of our ambition in the diversity of housing options we offer, as well as the size of developments and number of homes.

During 2016/17 Network Homes Limited took its first steps into the Build to Rent market with 'The Big Blue', a 270 home scheme in Harrow currently in construction. This will provide good quality private sector homes discounted against the market rent. This Build to Rent scheme is the first to receive support from the London Housing Bank, with the GLA contributing significant loan funding – an innovative funding method the Group hopes to replicate on other projects.

At the end of 2016 we purchased 0.66 hectares of land for a landmark regeneration scheme at Merrick Road, Southall. The scheme will provide around 500 homes in the heart of the Southall Housing Zone and close to the new Crossrail station.

We have identified and acted upon development opportunities within our existing portfolio, to make sure we are maximising the potential financial sustainability of our stock. This 'demolish and rebuild' approach is being used at the Press House development; on a specialist older persons scheme at John Barker Court; in regeneration initiatives on the Stockwell Park Estate and the Ridgeway in Hertford; and with the current Wembley head office. Once a new office is complete, the existing site will be rebuilt as part of an office to residential conversion, capitalising on the existing land value and generating value by repurposing as housing to meet high demand.

As indicated, the Group Board believes maximising development within our resources is core to our business purpose, and we therefore 'sweat our assets' hard to ensure we are doing all we can to produce as many new homes as possible, without taking undue risks.

Repairs and maintenance

During 2016/17, the asset management team and our contractors completed 55,195 day-to-day repairs on our properties, and we continued with our substantial planned maintenance programme on specific schemes. In total we invested £40.3m in existing homes (£24.0m on revenue repairs; £16.2m on capitalised repairs). This was an increase on last year's expenditure. Of the £4.5m additional spending, £4.26m was on capitalised repairs as part of planned programmes, with expenditure on responsive repairs led by customer demand increasing by £259,000. We believe this balance in increased spending reflects the more proactive approach we are taking to managing our assets, investing in them for the future.

We know that the most important element of the services we deliver to our customers is the effectiveness of the repairs programme. During the last year we re-procured our responsive repairs contract, with Wates Living Space mobilised as the new contractor from 1 November 2016. With contract terms designed bespoke to Network Homes Limited, we are confident this will lead to an improved repairs service that adds value for money for the organisation. For example, the contractor is now charged for each missed appointment, and for void rent losses

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beyond the agreed dates, and for 100% of the cost of engaging a third party to carry out remedial works where performance is poor. The estimated annual saving on void repairs alone, compared to the previous contract, is £485,000. A major incentive for the contractor is the possibility of being awarded £5m in planned works contracts if their performance is good.

End of year figures for 2016/17 show repairs satisfaction at 80.6%, a small increase from last year's performance of 77%. The percentage of repairs completed within target time stands at 88.0% overall and 91.4% for emergency repairs. In 2015/16 we did manage to achieve 93% in this metric. While it is disappointing that performance has dropped slightly in the last year, it is not unusual when mobilising a new contract and formalising new ways of working. There have also been issues with specific framework contractors which have been addressed by early termination of two contracts. Overall performance is now improving and so we are confident that over time the service we offer our customers will improve further. We have set a repairs satisfaction target for this year of 85%.

Strategic asset management

As part of the development of Network Homes Limited's asset management strategy, Savills undertook a financial and sustainability analysis of our housing stock. This reported in May 2016 and showed that the vast majority of our homes have a strong financial performance. This initially showed that just two properties sat in an asset group with a negative net present value (NPV), while around 13% of the stock had NPVs where the 1% reduction in rents means we will need to monitor financial performance closely.

Nearly one year on, this exercise was refreshed and showed the number of properties with a negative NPV had grown to 742, just under 5% of all rented homes. The average NPV of Network Homes Limited's properties fell from £38,000 to £36,000. These trends can be explained in simple terms: the rent reduction has affected the financial performance of our stock. Overall, however, Savills reported that Network Homes Limited's benchmark NPVs are above the regional benchmarks for London and the South East.

In 2016 a strategic asset management working group was established to drive forward the ambitions in the asset management strategy. This meets quarterly and continues to develop our approach to active asset management.

We have examined stock in a number of non-core localities (those with fewer than 50 homes) to consider whether to retain the homes, or make disposals and use the potential proceeds from the assets in a different way. For the vast majority of these, while geographic outliers, the evidence has shown there to be strong reasons for retaining the homes. For some this is because they are performing well financially, for some this is because they are areas of strategic interest (such as the corridor between the stock in London and East Hertfordshire), and for some this is because certain circumstances mean there is little benefit to disposal. On a few homes, further options appraisals are being undertaken.

Sweating other sources of revenue

The working group has also overseen reviews of the garage portfolio and the commercial properties portfolio. The commercial properties review showed that the 45 active commercial interests are performing well, generating a £1m predicted surplus in 2017/18 at an operating margin of 68%. With a capital value of £18.6m this represents a rental yield of 6.7%. For the garages, their development potential has previously been assessed, and now many of those that are void will receive investment so they can be let. In addition, a rent policy will be put in place to ensure that as an organisation we are thinking commercially about opportunities to generate revenue. Through these reviews, we are sweating the assets that fall outside of the traditional core housing stock and haven't received as much focus in recent years.

Our head office in Wembley has also become a source of income, with areas not in use by Network Homes Limited being rented out to a number of tenants. In 2016/17 this office rent generated cashable gains of £191,379 showing that we are making best use of all our assets.

Investing in improved performance

During 2016/17 we chose to make substantial investments in our business to support our objective of achieving 90% customer satisfaction. We are investing strongly in asset management and repairs with the new contract deployment and different ways of working – such as those identified in our Hertford region as part of a lean service review. The business transformation programme is focusing on digital services and customer contact, IT systems, infrastructure and processes. Initiatives identified in the people and culture strategy are developing our people to ensure the quality of personal service to the customer is right. This is about ensuring we are operating as a modern, dynamic business, delivering services in the way and to the quality our customers will expect from us.

These substantial invest to save initiatives are indicative of our commitment to the 90% satisfaction target. And while that is a stretching ambition, we are well on the way to achieving it. In 2016/17 our overall satisfaction score was 85.4%, ahead of the 82% target and representing a 5% gain on the 2015/16 result of 80.1%.

Ultimately these investments will lead to a need for fewer staff in certain parts of the business and reduced non-pay costs. However, in the short term they will have an impact on our overall returns and costs. Over the next few years, with the improved understanding we have of our costs through comparative benchmarking and detailed research, we will look to bring these costs back down.

Return on capital employed

The tables on the following page show our return on capital employed and the turnover, surpluses and margins achieved within the different types of home we own and manage.

Last year the operating margin for social lettings stood at 25.3%. This has slightly improved to 25.5%. In other areas margins have fallen, but as general rented form the majority of our homes, overall the margin has held, with a small increase from 27.2% to 28.1%.

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	Operating surplus		Capital deployed		ROCE		Variance
	2017	2016	2017 NBV	2016 NBV	2017	2016	
	£'000	£'000	£'000	£'000	By NBV	By NBV	By NBV
Network Homes Limited	50,609	66,755	1,709,867	1,631,103	2.96%	4.09%	-1.13%
Group	69,454	122,054	1,697,090	1,617,331	4.09%	7.55%	-3.45%

2016/17 Social housing letting	General rented £'000	Sheltered housing £'000	Shared ownership £'000	Hostels £'000	Short stay/ temporary £'000	Key workers £'000	Total £'000
Turnover	86,496	13,843	12,013	5,093	20,266	8,786	146,497
Operating surplus	24,266	5,022	4,530	750	265	2,473	37,306
Operating margin	28.1%	36.3%	37.7%	14.7%	1.3%	28.1%	25.5%
Operating margin (2015/16)	27.2%	43.1%	43.2%	32.3%	-7.2%	34.4%	25.3%

Value for money gains made and expected

Network Homes Limited recognises the need to make cashable savings, especially where investment is not realising its expected return. The gains detailed in this statement show how the economies of scale associated with being a single organisation are already saving money, for example through procurement. However, we also believe that VfM entails a broader commitment to meeting our purpose as a developing landlord which provides good homes and first class customer service.

In addition to identifying savings, meeting this purpose involves investment in business transformation and activities which produce social value through the building of sustainable communities. Consequently, the gains below are each aligned to one of our strategic objectives and demonstrate both cashable and non-cashable value. An update is also provided for items which were identified as anticipated gains in last year's statement.

One of the benefits of cashable savings is that they allow us to remove resources from areas no longer producing value and redeploy the money saved to improve the service elsewhere. For example, we have made significant IT savings across 2016/17 through the decommissioning of legacy systems and reducing the need for consultants on key projects, which has allowed us to invest further in our transformation programme. As a consequence not all of our cashable savings will be reflected in a reduction in the aggregate spend. The important factor is that where resource is redeployed, the investment is more effectively helping us to meet our strategic objectives.

Value for Money Statement for 2016/17

Maximising growth within our resources

The acute housing need in London and the South East drives Network Homes Limited's ambitious growth plans, and VfM supports our social purpose by ensuring resources within development are geared towards increasing capacity. As detailed elsewhere, the diversity of our portfolio is resulting in increased capacity through our cross-subsidy model. Moreover, the Development Directorate sought salary and efficiency savings in 2016/17 in order to ensure investment results in better value for customers.

Looking back at last year's Statement, we realised over £1m in income generated from the ground rent sale at 243 Ealing Road. We identified £278,000 of pay and non-pay savings in the Development Directorate, which will be realised in the medium term through changes to the number of full time employees. It should, however, be noted that during 2016/17 there was some overspend linked to the use of temporary staff and payment of bonuses.

Add-on deals from our relationships in the Build to Rent market with Quintain and Stanhope were not realised during the financial year, although they are something we will continue to pursue. We are now on site at Press House in Wembley, where we are using modern methods of construction (MMC) and will assess its impact on cost.

Looking ahead

We will strengthen growth activity through our Strategic Partner status with the GLA. Doing so will unlock additional funds and increase the number of deliverable homes in the pipeline linked to the 2016-21 programme, as well as adding value by improving our reputation as a leading developer.

We will create three additional technical posts within the existing establishment budget, adding value by enabling the Development Department to bring more technical activity in house.

Action	Value for money gain	Cashable/non-cashable
Capping of consultancy fees at Aytoun Place, realising a saving relative to previous forecast	£99,800	Cashable
New removals contractor close to £500 cheaper per move than the previous provider	£12,000	Cashable. Ongoing saving for contract life
Total scheme cost of the Edgware FC site came in 3.31% below approval	£152,412	Cashable
Received a Gold Award from our survey company in 2016. Over 90% of general rented customers said they would recommend Network Homes Limited	Added value	Non-cashable
Negotiation of Employer's Agents fees down from framework rates across two schemes, to realise savings from summer 2017	£21,658	Cashable. One-off saving
Numerous awards won improving our reputation as a developer and corporate brand, including: • Housing Association of the year at What House? Awards 2016 • Overall winner, best design and best small development at National Housing Awards 2016 • Best regeneration project and best affordable development at Evening Standard New Homes Awards 2016 • Best regeneration scheme at Housing Excellence Awards 2016	Added value	Non-cashable

Value for Money Statement for 2016/17

First class customer service

Significant procurement exercises have been undertaken to help improve a range of services, while providing clear mechanisms to ensure the service remains cost-effective. A new framework of planned maintenance contractors has been procured, through which work will be awarded either via a mini-competition or by simply instructing the most economically advantageous supplier. Similarly, a framework of small-works contractors has been procured to provide value for money for more intensive repairs cases, and a fire protection remedial works contractor appointed to ensure swift resolution for any issues picked up in fire risk assessments.

As welfare reform continues to impact a number of our customers, we have sought to safeguard our income stream by identifying and resourcing key events during the Universal Credit (UC) roll-out. We are also exploring IT options which will help us streamline the process of income collection.

Looking back at the previous statement, £101,720 worth of pay and non-pay savings have been realised within Asset Management. In Customer Services, the 2015/16 Statement reported targeted savings of £600,000 across 2016/17 and 2017/18; this target has been revised upwards to £702,000. The savings identified include a number of the procurement savings highlighted elsewhere in this Statement, as well as £420,000 across consultancy, engagement and staff budgets which we expect to be realised over the next couple of years.

Corporate social responsibility

Unless specified otherwise, social value figures are quantified via the HACT Social Value Calculator approved methodology:

- Our welfare benefit advisors supported residents to gain an additional £1.2m of income in the form of benefit payments they were entitled to
- 34 residents supported into employment
- Partnership with Sustain to install loft and cavity insulation to more than 1,400 homes. 1,367 received loft insulation, saving residents on average £117 per year on fuel bills. 66 received cavity wall insulation saving on average £102 per year. Total savings to residents of £167,000 per year
- Measurement of the Sustain partnership project found savings of 12,882 tonnes of CO_2 across 66 homes to date
- £282,672 in social value produced through the 2015/16 '360 project' (impact surveys were received during 2016/17), with a ratio of £3.57 social value for every £1 spent. Quantification of the social value of the 2016/17 '360 project' will occur in 2017/18
- Provision of young persons' street dance workshops in our Hertford region, producing £13,636 of social value
- Regular choir and bingo sessions co-ordinated by the London region older persons' service, realising £146,454 of social value
- Over 100 staff members volunteered as Network Homes Limited was selected as a Comic Relief call centre for the third year running, with 576 calls taken and £23,443 collected in donations
- Social value requirements are now included in all large-scale contracts.

Looking ahead

Project Aftercare began at the end of the financial year, which aims to improve the customer experience during the handover year in new build properties. Over the course of the project we will be working with customers, staff and contractors in order to identify ways of reducing defects and increasing customer satisfaction.

Network Homes Limited will support St Mungo's as charity of the year for 2017/18, with fundraising activity including a London to Paris bike ride. We expect to raise over of £60,000. Tackling homelessness is an important part of Network Homes Limited's social mission and connects to both corporate social responsibility and the 'giving something back' agenda.

Action	Value for money gain	Cashable/non-cashable
Cleaning and grounds maintenance to achieve £100,000 per annum saving (as anticipated in last year's Statement)	£100,000	Cashable Ongoing until summer 2018
Gas and electrical contracts procured for communal areas and office space, savings realised due to economies of scale associated with procuring as a single organisation	£100,000	Cashable, one-off
Procured a pest control contract for our wholly owned subsidiary, SW9	£50,000	Cashable, per annum for three years
100% compliance on fire risk assessments achieved	Added value	Non-cashable

Value for Money Statement for 2016/17

Increasing financial strength

The increased focus on VfM in 2016/17 was demonstrated by the appointment of VfM champions and co-ordinators in each directorate, and quarterly reporting to the Executive Leadership Team (ELT) on progress against the VfM Strategy, as well as six monthly to the Board.

We will build on this in 2017/18 by examining the connections between VfM savings and directorate actual expenditure. Each Executive Director will also give a stronger focus to monthly management accounting and exploring variance between actual and expected spending.

Looking ahead

We have targeted savings of an additional £80,000 in the organisational insurance programme over 2017/18.

Transfer of assets from Network Living Limited to Network Homes Investments Limited will produce an ongoing saving of £4,000 per year by reducing the number of subsidiaries and audit fees.

Action	Value for money benefit	Cashable/non-cashable
New income generated from letting of vacant space in our Wembley office	£212,687 of income over a two-year period	Cashable, ongoing until October 2018
Service charge savings negotiated with the managing agent of Wembley office space	£52,000	Cashable, one-off
Procurement of revised company insurance policy, which started in April 2017	£231,000	Cashable, one-off
Removal of Head of Assurance role	£75,000	Cashable, one-off
Secured new funding facility with GLA London Housing Bank, creating a saving of £2.8m over full eight year term compared to commercial bank loan	£354,000 per annum saved for eight years	Cashable, ongoing until 2025
Secured new funding facility with MUFG for two years and BAE Pension Fund for the next 30 years, creating savings compared to average borrowing costs. Creates a total saving on interest and other fees of £4.3m	£275,000 per annum for first two years, then £127,000 for next two years	Cashable, ongoing until 2049

Building a great organisation

A stakeholders' perception survey undertaken over February and March 2017 demonstrated the improved reputation of Network Homes Limited since establishing our new brand. Two-thirds of respondents felt our profile had increased over the past 12 months, 82% would recommend us as a development partner and 73% would recommend us as a housing service provider.

We continued to embed the 'One Network' organisational culture through the People & Culture Agenda. This has included the roll out of Mary Gober training and regular 'Sizzle Sessions' to establish a culture of engagement and customer service. A training programme for line and senior managers was rolled out and a talent retention programme introduced to retain and develop 'high-fliers'.

We have established a new Strategy & Research Team to provide research and market intelligence to support improved evidence-based decision making internally and to improve our horizon scanning capabilities and influence externally. The team is also integrally involved in developing and co-ordinating key organisational strategies.

This is enabling us to instil ways of working which should create better cost-effectiveness and value for money. The team has already been used on a wide variety of projects, including welfare reform, rents policy, sales and staircasing analysis, analysis of organisational costs and performance, supporting development bids, the development of a new customer services strategy and much more.

An in-house Legal Services Team has also been established, providing support and legal advice across both development and housing management. Our overall spend on external legal services increased between 2015/16 and 2016/17, however our estimates suggest this increase would have been around £20,000 greater had the in-house team not been in place. We will continue to explore opportunities for the in-house team to replace the need for external legal support.

Looking ahead

We have identified car mileage expenses as an area of potential saving, driven in part by travel between offices. In response we are piloting video conferencing software in a number of meeting rooms in order to reduce spend, the effectiveness of which will be assessed over 2017/18.

From September 2017 we will be decommissioning our old customer relationship management (CRM) system and the associated support contract, saving £19,500.

Further letting of vacant office space is expected to generate £150,000 of income and savings (business rates and service charges) from July 2017 to November 2019.

Value for Money Statement for 2016/17

Action	Value for money benefit	Cashable/non-cashable
Reduction in sickness absence to 7.5%, below the g15 average	Reduction in absence equivalent to £104,525 saving in staff time (based upon average salary)	Non-cashable, one-off gain between financial years
Savings in legal and consultancy fees within our People & Culture Directorate	£50,000	Cashable, one-off
Decommissioning of legacy IT systems and reduced need for third party consultancy on key projects	£148,000	Cashable
Savings in pay and non-pay costs across corporate services	£396,000	Cashable, one-off
In-house legal services team established	Estimated saving of £20,000 based upon their current works in progress (minus salary costs)	Cashable
In addition to Board meetings, BoardPad now used for all SW9 Board, Executive Leadership Team and various committee meetings	Unquantified	Non-cashable

Statement of Group corporate governance

Statement of Group corporate governance

The Network Homes Limited Board is ultimately responsible for the corporate governance of all subsidiaries within the corporate Group. The relationship between Group members is governed by the Association's governing instruments and by an Intra Group Agreement.

The governance of the Group is summarised in the following paragraphs.

Amalgamation

On 29 April 2016, Network Housing Group Limited (the parent company) amalgamated with its four registered providers (Network Stadium Housing Association Limited, London Strategic Housing Limited, Community Trust Housing and Riversmead Housing Association Limited) to become Network Homes Limited.

Prior to amalgamation, Network Housing Group had a multiplicity of governing and scrutiny bodies with a number of overlaps. Amalgamation allowed the consolidation of resources to provide for better governance and exercising of functions.

Network Homes Limited is a charitable Registered Society (no. RS007326) under the Co-operative and Community Benefit Societies Act 2014, a registered provider of social housing (Registered Provider no. 4825), a member of the National Housing Federation, regulated by the Housing and Communities Agency.

As the parent company, Network Homes Limited has overall control of the business of the Association and its members. It will assist and support all subsidiaries in achieving compliance with regulatory requirements The Board's responsibilities are set out in detail in the Board's Terms of References.

On 31 March 2016, SW9 Community Housing became a subsidiary of Network Housing Group (now Network Homes Limited) and since that date has taken over property management services that were previously provided by Community Trust Housing Limited. SW9 is a charitable company limited by guarantee (number 09574528).

This relationship is governed by an Intra-Group Agreement, Management Agreement and Options Review Agreement between the two entities as well as the Articles of Association of SW9 Community Housing which further set out the mutual obligations.

Governance review

The governance arrangements for the Group underwent an independent governance review. That was conducted by Central Consulting. This review concluded the arrangements were compliant with the chosen NHF Code of Governance 2015.

Risk management

Risk management procedures and considerations are embedded in the culture of Network Homes Limited with staff taking responsibility for identifying and assessing the risks faced by the Group and by having in place a risk management framework to manage these risks.

The following committees have been established by the Board to consider specific aspects of the Group's affairs, providing recommendations and support to the Group's and the subsidiaries' Boards.

The Chairs of the committees report back to the Board after each committee meeting at the following Board meeting. The committees and their main roles and responsibilities are set out in written terms of reference and summarised below.

Audit and Risk Committee ("ARC")

- reviews audit and risk management activities across the Group and delivers an annual assessment of the quality of the internal control environment and the effectiveness of risk and audit systems to Group Board
- provides assurance to subsidiary Boards on all matters covered by the compliance framework
- keeps under review the effectiveness of the Group's internal controls and risk management systems
- monitors risk management activity across the Group to ensure consistent and effective usage of internal systems, and identify trends and aggregate risks
- monitors the Group's financial performance against its business plan and budget targets
- reviews the long term financial model, tests scenarios including risk stress testing and recommends financial targets to the Group Board
- monitors the impact of the external environment on Group's financial status
- considers and reports on financial implications of other significant risks and exposures being undertaken by the Group
- acts on behalf of the Group in reviewing and approving changes to financial delegations.

Investment Committee ("IC")

- recommends the Group's investment strategy to the Group Board and subsidiary Boards
- monitors the performance and delivery of the development programme, including post implementation review, and other new business activity against the investment strategy and agreed targets
- scrutinises proposed investments before submission to subsidiary or Group Boards for decision
- monitors the Group's resource capacity and capability to deliver the programmes.

People, Governance & Culture Committee

- has responsibility for overseeing the Group's remuneration policies for paid staff and for non-executive members of the Group Board and the subsidiary Boards. It has particular responsibility for keeping under review the terms and conditions of employment of the Group Chief Executive and other members of the Group Executive Leadership Team (ELT)
- is responsible for overseeing the recruitment of new independent Board members for the Group Board and making recommendations on appointments to the Group Board and Group committees.

Each corporate Group member is responsible for producing a risk map for its own business. The central service Directors produce risk maps for their functions. The corporate risk map, which contains strategic level risks is produced and reviewed by the Executive Leadership Team and is informed by information from directorate risk registers.

Statement of Group corporate governance

There are three officer led risk panels. The Risk Panel, which comprises the Chief Executive, other executive members and the Senior Internal Audit Manager, reviews the corporate risk map and the operational/functional risk maps for consistency and completeness. The Risk Panel is responsible for ensuring that actions identified in the risk maps are followed through. The Scheme Risk Appraisal Panel reviews risks associated with development schemes. The Health and Safety Panel reviews and considers risks, issues, control and management of the Group's health and safety arrangements.

Statement of compliance

The Group confirms that the Report of the Board has been prepared in accordance with the principles set out in paragraphs 4.6 and 4.7 of the 2014 SORP for registered social landlords. The Board confirms that the Group has assessed its compliance with the Governance and Financial Viability Standard at least once during the year and they certify that the Group is in compliance with the Governance and Financial Viability Standard.

Internal controls assurance statement

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

The system of internal control is designed to manage risk and provide reasonable and not absolute assurance that key business objectives and expected outcomes will be achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information, the safeguarding of Network's assets and interests and compliance with relevant legislation, law and regulations. The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk.

Statement of Group corporate governance

Significant risks 2016/17

The Group has identified a list of strategic level risks, of which the following six have been identified as having the highest priority:

Risk	Responsible Officer	Mitigating Action	Progress made in the Financial Year
Cash flow and business liquidity affected by refinancing of debt, development expenditure and delay in sales receipts because of property market crash.	Executive Director of Development and Executive Director of Finance & Governance	• Monthly cash flows for whole business produced and reviewed by Executive including stress tests. • Monthly sales monitoring: Anticipated v Target. • Market awareness provided by Valuers' three month valuations. • 'Plan B' strategies for high risk sites devised.	• Improved visibility of developments when approved and then when spend committed. • Have introduced Monthly Sales Report, which provides more accurate and reliable information on sales. • Have made use of housing surveys, e.g. from Savills.
Health and safety failure causes **death or harm to residents,** results in serious detriment, regulatory and statutory non-compliance causing negative operational and reputation impact. (Consumer Standard)	Executive Directors of Asset Management and Customer Services	• Centralised Asset Management Directorate. • Annual gas safety servicing programme. • CO_2 detectors checked and fitted across stock as part of gas safety check. • New development handover processes implemented to ensure gas equipment is added to servicing schedules before properties are occupied. • All FRAs are complete. • Lift contractor completes monthly servicing and annual inspections. Zurich complete 6 monthly inspections as our insurers. • Programme of 5-year electrical dwelling and communal testing. • Electrical tests take place at each void. • Risk based asbestos analysis of whole stock completed. • Water safety testing and inspection programme in place. • Cleaning and ground contracts, including playgrounds. • Roof top amenity spaces, closed where necessary.	• Contractual 3 month notice issued to PH Jones on 3rd March 2017. • Innovation Apex has been implemented for PH Jones contract. Implementation continuing for Oakray & T Brown contracts. Implementation has commenced for asbestos compliance. • Four contractors have been commissioned to complete FRA remedial works by April 2017. • Water safety contract mobilised. • Tree contract awarded. • Estate Inspection mobile solution rolled out. • Target for estate inspections revised. 100% of estates to be inspected each month.
Breach of loan covenant impacts ability to draw down existing debt and/or raise new finance.	Executive Director of Finance & Governance	• Post amalgamation loans matrix in place. • Prepared by lawyers, this lists various clauses from the loan documents where consent may be required. • Schedule of information requirements is maintained. • Covenants are forecast against the business plans and dashboard in place to monitor headroom in covenants. • Information is provided to banks in a timely manner. • Stress testing of covenants	• Covenant renegotiations taking impact of FRS102 into account. • Proposals for covenants with banks and drafting of revised wording and credit approval target for 2017.

Statement of Group corporate governance

Risk	Responsible Officer	Mitigating Action	Progress made in the Financial Year
Inability to attract and retain people of sufficient calibre to deliver the organisation's objectives.	Executive Director of People & Culture	• The People & Culture agenda that contains: (i) Investment in leadership (ii) Cultural Engagement (iii) Employer brand • Qualified and professional HR team and HR business partner model. • Existing HR policies have been revised and currently being rolled out. • Market testing of salaries and benefits. • Cultural Engagement Programme. • ELT Roadshows. • Staff Survey.	• People & Culture Agenda in place and fully communicated • Harmonisation of terms and conditions fully delivered. • Review of policies completed. • Major cultural engagement programmes implemented to date include HTBB, Gober, H&M, and now launching HARTBeat. • Rockstar Leadership & Management Development Programme underway. • Regular ELT Roadshows scheduled • Recruitment Referral Scheme introduced. • Improved R&S policy in final stages of review. • Cultural champions working effectively across the organisation. • Sickness management improved. • HR Metrics developed and reported monthly.
Poor data integrity, use of systems, information management and KPIs impacts on operational and strategic planning and achievement of key ambitions thereby increasing the risk of service failures and diversion of valuable resources to remedial actions.	Executive Director of Strategy & Infrastructure	• Data Quality team including 2 WTE officers. • Understanding Our Customers project. • Scrutiny by review by Data Quality team and functional managers. • Handover procedure. • Development Control Manual. • Exception and anomaly reporting.	• Review and recommendations report. • Implement actions. • Implement recommendations from report by Jan 2017.
Changes in the post Referendum **economic and political environment** results in new properties not being affordable and uncertain potential long-term impact of welfare reform.	Executive Director of Strategy & Infrastructure	• Stress testing with multiple scenarios. • Rents within the market are monitored regularly at a local authority level. Many Network rents are determined by the grant programme conditions set by GLA/ HCA. Choices made re whether to bid for grant. • Rents are set within the existing Affordable Rents Policy. • Changes in political and economic policy continually monitored through Strategy & External Affairs team.	• Research and analysis undertaken and discussion of options at ELT level. Sub-group of ELT with support from Strategy & External Affairs established to take forward. • Board discussion on rental affordability options in November 2016. • Final Board paper on Affordable Rent Policy to March 2017 meeting. • Network Homes Limited taking part in informal CLG and NHF consultations on rent regime after 2020.

Statement of Group corporate governance

Assurance framework
The assurance framework processes adopted by the Board are modelled on the “Three Lines of Defence Model” endorsed by the Institute of Internal Auditors and the Financial Services Authority. The assurance framework is designed to provide sufficient, continuous and reliable assurance on organisational stewardship and the management of the major risks to organisational success and delivery of improved value for money.

Key elements of the control framework include:

Risk assessment
In meeting its responsibilities, the Board has adopted a risk-based approach to internal control, which is embedded within the normal management and governance process. By embedded we mean that the controls are recorded as being integral to the day-to-day procedures of the organisation.

Executive responsibility has been clearly defined for the identification, evaluation and control of significant risks. The Executive Leadership Team (acting as the Risk Panel) and Board carry out evaluations of the risks which impact on the Group’s ability to meet key business objectives. Risk assessments are generally carried out at two key stages in the year and are aligned to the business planning process. Business risk assessments are also carried out throughout the Group at departmental levels, for projects and for new business opportunities.

This process is co-ordinated through a regular reporting framework by the Group Risk Panel. The Executive Leadership Team considers reports on significant risks facing the Group and the Chief Executive is responsible for reporting to the Board any significant changes affecting key risks or the breakdown of internal control. The Group’s most significant risks are further analysed and quantified, reported to the Board and reviewed by the Risk Panel.

Monitoring
As part of the risk management process, managers carry out control evaluation relating to key risks and record if key controls are in place and working effectively, or require improvement. Actions arising from identified control weaknesses are documented in the risk assessment. Management reporting on control provides hierarchical assurance to successive levels of management and to the Board. A process for corrective action to be taken in relation to any material control issues arising from independent internal and external audit reports is in place. The Audit and Risk Committee (ARC) reviews the work of the internal and external auditors and annual reports from auditors are received by the Board.

The Internal Audit function carries out risk-based internal audits across the Group. The ARC approves the audit plan and receives an annual report and Assurance Statement on internal control effectiveness. The Board receives a copy of this report in support of the ARC Annual Report to the Board. The internal control framework and the risk management process are subject to review by Internal Audit, which is responsible for providing independent assurance to the Board and the ARC.

Control environment and activities
The Board retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues. The Board has adopted the National Housing Federation’s Code of Governance 2015. This sets out the Group’s policies with regards to the quality, integrity and ethics of its employees.

The governance framework is supported by a framework of policies and procedures with which employees must comply. Standing Orders and Contract Standing Orders cover issues such as delegated authority, segregation of duties and procurement. Other Group policies also cover health and safety, data and asset protection and fraud detection and prevention. During the year the ARC approved the Group’s new counter fraud, bribery and corruption policy and a counter fraud work plan.

The Group complied with the Code of Governance.

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

Guidance has been produced on responsibility at Board level for audit, risk and control issues across the Group.

The Group’s Board has received the Chief Executive’s annual assurance statements on the effectiveness of internal controls; has conducted its annual review of the effectiveness of the system of internal control and has identified a framework for continuously improving the risk management process.

Group member Boards have reviewed their main sources of assurance in an annual assurance mapping exercise, or as appropriate to satisfy themselves of adequate assurance reporting.

Continuous Improvement Objectives

The corporate strategic objectives are:

- Deliver first class customer service
- Increase financial strength
- Maximise growth within our resources
- Build a great organisation.

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

The Board has reviewed the effectiveness of the systems of internal control, including the sources of assurance agreed by the Board and confirm that they are appropriate for that purpose.

Statement of Group corporate governance

The Board is satisfied that there is sufficient evidence to confirm that adequate systems of internal control existed and operated throughout the year and up to date of the signing of these financial statements those systems were directed at the management of the significant risks facing the Group. No weaknesses were identified which would have resulted in material misstatement or loss that would have required disclosure in the financial statements.

Statement of Board's responsibilities

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

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Registered Provider of Social Housing and of the surplus or deficit 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, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Registered Provider will continue in business.

The Board is responsible for keeping proper accounting records that are sufficient to show and explain the Registered Provider's transactions and disclose with reasonable accuracy at any time the financial position of the Registered Provider and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and Regulations thereunder the Housing and Regeneration Act 2008 and the Accounting Direction for Social Housing in England from April 2015. It is also responsible for safeguarding the assets of the Registered Provider and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for ensuring the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and its subsidiaries included in the consolidation, together with disclosure of the principal risks and uncertainties they face.

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

Disclosure of information to auditors

The Directors who held office at the date of approval of this Report of the Board confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Independent Auditors

The current auditors, PricewaterhouseCoopers LLP, have served a five year term in office. In May 2017 a procurement exercise was undertaken to retender the statutory audit service. A new contract has been awarded to BDO UK LLP. BDO will be appointed at the Network Homes Limited Board meeting on 25 July 2017.

The Report of the Board was authorised for issue by the Board on 25 July 2017:

Bernadette Conroy,
Chair

....

Peter Stredder,
Board member

P J Stredder
....

Independent Auditors' report

Independent Auditors’ report

to the members of Network Homes Limited for the year ended 31 March 2017

Report on the financial statements

Our opinion
In our opinion, Network Homes Limited’s financial statements (the “financial statements”):

- give a true and fair view of the state of the group’s and of the registered provider’s affairs as at 31 March 2017 and of the group’s and the registered provider’s surplus and cash flows for the year then ended; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing from April 2015.

What we have audited
The financial statements comprise:

- the group and association statement of financial position as at 31 March 2017;
- the group and association statement of comprehensive income for the year then ended;
- the group and association statement of changes in reserves for the year then ended;
- the group and association cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the board has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Other matters on which we are required to report by exception

Adequacy of accounting records, system of internal control and information and explanations received

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

- a satisfactory system of control over transactions has not been maintained; or
- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the registered provider; or
- the registered provider financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Board
As explained more fully in the Statement of Board’s Responsibilities set out on page 36, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the registered provider’s members as a body in accordance with Section 87(2) and Section 98(7) of the Co-operative and Community Benefit Societies Act 2014 and the Housing and Regeneration Act 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group’s and the registered provider’s circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the board; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the board’s judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Guy Flynn

Guy Flynn (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors
London

Date:

27 July 2017

(a) The maintenance and integrity of the Network Homes Limited’s website is the responsibility of the board; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Comprehensive Income for the year ended 31 March 2017

	Note	Group		Association	
		2017 £'000	2016 £'000	2017 £'000	2016 £'000
Turnover	3	223,484	311,012	179,165	230,719
Cost of sales	3	(38,460)	(75,056)	(19,670)	(28,077)
Operating costs	3	(115,570)	(113,902)	(108,886)	(135,887)
Operating surplus	**3**	**69,454**	**122,054**	**50,609**	**66,755**
Profit on sale of fixed assets	7	7,325	7,465	7,325	7,465
Gift aid receivable		-	-	21,604	56,540
Revaluation surplus on investment properties	15	1,347	2,594	(460)	2,594
Interest receivable and other income	8	422	477	415	2,363
Restructuring of financial instruments	8	8,720	62,335	8,720	62,335
Interest and financing costs	9	(26,218)	(29,616)	(28,245)	(30,883)
Fair value movement	9	-	(9,979)	-	(9,979)
Surplus on ordinary activities before taxation		**61,050**	**155,330**	**59,968**	**157,190**
Tax charge on surplus on ordinary activities	11	(9,228)	(7)	-	-
Surplus for the year		**51,822**	**155,323**	**59,968**	**157,190**
Actuarial (loss)/gain on defined benefit pension scheme	37	(658)	1,317	(658)	1,317
Total comprehensive income for the year		**51,164**	**156,640**	**59,310**	**158,507**

All activities are classed as continuing.
Notes on pages 43 to 88 forms part of the financial statements.

Statement of Changes in Reserves for the year ended 31 March 2017

	Group £'000	Association £'000
At 1 April 2015	**119,942**	**131,856**
Surplus for the year	155,323	157,190
Actuarial gain on defined benefit pension scheme	1,317	1,317
At 31 March 2016	**276,582**	**290,363**
Surplus for the year	51,822	59,968
Actuarial loss on defined benefit pension scheme	(658)	(658)
At 31 March 2017	**327,746**	**349,673**

The Association have a share capital of £11 (2016: £9). The movement in share capital is disclosed in note 32.
Notes on pages 43 to 88 forms part of the financial statements.

Statement of Financial Position at 31 March 2017
Co-operative and Community Benefit Societies No. RS007326

	Note	Group		Association	
		2017 £'000	2016 £'000	2017 £'000	2016 £'000
Fixed assets					
Intangible assets					
Computer software	13	1,542	1,603	1,542	1,603
Tangible fixed assets					
Housing properties at cost less depreciation and impairment	12	1,540,248	1,417,026	1,524,146	1,405,779
Other fixed assets	13	24,746	23,298	24,745	23,297
Investment properties	15	29,274	29,387	25,537	28,582
Total tangible fixed assets		1,594,268	1,469,711	1,574,428	1,457,658
Investments (shares)	17	-	-	65,000	45,000
Investments (financial)	16	6,487	6,539	6,487	6,539
Shared equity loans	18	6,624	6,821	6,624	6,821
Debtors: amounts falling due after more than one year	19	1,069	5,233	984	5,233
Total fixed assets		**1,609,990**	**1,489,907**	**1,655,065**	**1,522,854**
Current assets					
Stock	20	39,330	87,108	14,142	51,253
Debtors: amounts falling due within one year	21	25,904	27,299	47,453	79,760
Cash and cash equivalents	22	76,752	65,106	68,527	59,559
		141,986	179,513	130,122	190,572
Less: creditors amounts falling due within one year	23	(63,545)	(52,089)	(74,743)	(82,324)
Net current assets		78,441	127,424	55,379	108,248
Total assets less current liabilities		**1,688,431**	**1,617,331**	**1,710,444**	**1,631,102**
Creditors: amounts falling due after more than one year	24	(1,348,889)	(1,325,793)	(1,348,975)	(1,325,783)
Provisions for liabilities and charges	25	(11,012)	(14,544)	(11,012)	(14,544)
Pension liability	37	(784)	(412)	(784)	(412)
Total net assets		**327,746**	**276,582**	**349,673**	**290,363**
Capital and reserves					
Non-equity share capital	32	-	-	-	-
Revenue reserve		327,746	276,582	349,673	290,363
Total reserves		**327,746**	**276,582**	**349,673**	**290,363**

Notes on pages 43 to 88 form part of the financial statements.
These financial statements on pages 38 to 88 were authorised for issue by the Board on 25 July 2017.

Bernadette Conroy, Chair

Peter Stredder, Board member P J Stredder

Tabitha Kassem, Company Secretary

The Directors have the power to amend the financial statements after this date.

Cash Flow statement for the year ended 31 March 2017

	Note	Group		Association	
		2017 £'000	2016 £'000	2017 £'000	2016 £'000
Net cash inflow from operating activities	36	98,887	126,074	69,211	111,398
Cash flow from investing activities					
Purchase of tangible fixed assets – housing properties		(114,725)	(34,461)	(109,778)	(35,172)
Purchase of tangible fixed assets – other fixed assets		(550)	(1,987)	(550)	(2,709)
Proceeds from disposal of tangible fixed assets		17,066	14,001	17,066	14,001
Grants received		8,128	4,573	8,128	4,573
Purchase of investments		(2,434)	(3,766)	(1,309)	(1,172)
Shared equity investments		197	(3,902)	197	(3,902)
Interest received		422	477	415	2,363
Investment in shares		-	-	(20,000)	-
Gift aid received		-	-	56,544	11,642
Net cash used in investing activities		**(91,896)**	**(25,065)**	**(49,287)**	**(10,376)**
Cash flow from financing activities					
Interest paid		(30,141)	(32,750)	(32,176)	(35,096)
New borrowings		68,860	69,650	68,650	69,651
Repayment of borrowings		(34,655)	(109,141)	(47,335)	(109,141)
Net cash received from financing activities		**4,064**	**(72,241)**	**(10,861)**	**(74,586)**
Net increase in cash and cash equivalents		**11,055**	**28,768**	**9,063**	**26,436**
Cash and cash equivalents at the beginning of the year		65,011	36,243	59,464	33,028
Cash and cash equivalents at 31 March		**76,066**	**65,011**	**68,527**	**59,464**
Cash and cash equivalents consist of:					
Cash at bank and in hand		76,752	65,106	68,527	59,559
Bank overdraft		(686)	(95)	-	(95)
Cash and cash equivalents		**76,066**	**65,011**	**68,527**	**59,464**

Notes on pages 43 to 88 forms part of the financial statements.

Notes to the Financial Statements
for the year ended 31 March 2017

Notes to the Financial Statements
for the year ended 31 March 2017

1. Accounting policies

The Group is incorporated in England and is registered under the Co-operative and Community Benefit Societies Act 2014 and registered with the Homes and Community Agency (HCA) as a provider. The Group meets the criteria for being a public benefit entity under FRS 102 section 34. The Group's registered address is Olympic Office Centre, 8 Fulton Road, Wembley, Middlesex HA9 0NU, United Kingdom.

The following policies have been applied consistently from one financial year to another and in dealing with items which are considered to be material in relation to the financial statements of the Group.

Basis of preparation and statement of compliance

The financial statements have been prepared under the historical cost convention as modified for the revaluation of financial investments, investment in properties and financial liabilities measured at fair value through profit or loss, and in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Statement of Recommended Practice for social housing providers (Housing SORP 2014) and comply with the Accounting Direction for Private Registered Providers of Social Housing from April 2015 (the Accounting Direction 2015).

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The Group and Association's presentation currency is Great British Pounds. Amounts are presented in thousands unless otherwise stated.

The Group's Board has a reasonable expectation that the Association will continue in operational existence for the foreseeable future. These financial statements are prepared on a going concern basis.

Exemptions for qualifying entities under FRS 102

The Association has elected to apply the following reduced disclosures, which are permitted in accordance with FRS 102:

- Exemption to not disclose a separate cash flow statement in accordance with FRS 102 1.12(b) as the Association is a qualifying entity and the parent Network Homes Limited produces a consolidated cash flow statement.
- Exemption from making disclosures in relation to financial instruments in accordance with FRS 102 1.12(c) as the Association is a qualifying entity and the parent Network Homes Limited produces a consolidated statement.

Basis of consolidation

On 29 April 2016, Network Housing Group Limited (the parent company) amalgamated with its four registered providers (Network Stadium Housing Association Limited, London Strategic Housing Limited, Riversmead Housing Association Limited and Community Trust Housing) to become Network Homes Limited. Prior to amalgamation, Network Housing Group had a multiplicity of governing and scrutiny bodies with a number of overlaps. Amalgamation allowed the consolidation of resources to provide for better governance and exercising of functions. The amalgamation met the requirements for a group reconstruction to apply merger accounting in accordance with Section 19 of FRS102.

As the parent company, Network Homes Limited has overall control of the business of the Association and its members. It will assist and support all subsidiaries in achieving compliance with regulatory requirements. The Board's responsibilities are set out in detail in the Board's Terms of Reference. On 31 March 2016, SW9 Community Housing became a subsidiary of Network Housing Group (now Network Homes Limited) and since that date has taken over property management services that were previously provided by Community Trust Housing Limited. SW9 is a charitable company limited by guarantee (number 09574528).

This relationship is governed by an Intra-Group Agreement, Management Agreement and Options Review Agreement between the two entities as well as the Articles of Association of SW9 Community Housing which further set out the mutual obligations.

The Group consolidated financial statements include the financial statements of the Association and all of its subsidiary undertakings. A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Any subsidiary undertakings acquired or sold during the year are included up to, or from, the date of change of control.

All intra Group transactions, balances, income and expenses are eliminated on consolidation.

Turnover

Turnover represents rental and service charge income receivable, income from the management of properties, income from the sale of shared ownership first tranche properties and properties built for outright sale, revenue grants receivable from local authorities and the Homes and Communities Agency, amortisation of deferred capital grants, management fees and other income. Turnover excludes value added tax where applicable.

Taxation

The Association has charitable status and is therefore not subject to corporation tax on its charitable activities. Any non-charitable trading activities are carried out in the subsidiaries and they pay gift aid out of their profits to the Association (their parent company). Further details are provided in the gift aid accounting policy below. The Group may be liable to corporation tax based on any taxable profit for the year taking into account differences between certain items for taxation and accounting purposes. Current tax charges are inclusive of any penalties and fines and are based on best estimates.

Notes to the Financial Statements
for the year ended 31 March 2017

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for services rendered. All income is recognised on a receivable basis as per specific criteria described below:

a. Rents receivable

All rents are recognised on a receivable basis. Rental income from properties owned by the Association is recognised on an accruals basis (net of void losses) as it falls due.

b. Property sales and profit on sale of fixed assets

Income from property sales such as outright sales, shared ownership staircasing (sale of subsequent tranches), right to buy and first tranche sales is recognised at the point of the legal completion of the sale.

Receipts from the sale of the first tranche of shared ownership properties and proceeds from the sale of properties developed for the open market are recognised on legal completion within turnover.

The staircasing of shared ownership properties and the sale of housing properties (right to buy and right to acquire) is recorded net of carrying value as a gain or loss on disposal and is disclosed as 'Profit on sale of fixed assets' on the Statement of Comprehensive Income. This does not form part of the turnover.

c. Amortised government grants

Revenue grants are recognised when the conditions for receipt of agreed grant funding have been met. Income from capital grants is recognised on a systematic basis over the useful economic life of the asset (usually the properties' fabric) for which it was received.

d. Gift aid receivable

Gift-aid from the Association's wholly owned subsidiaries is recognised at year-end on receivable basis and is disclosed on the Statement of Comprehensive Income. Gift aid is eliminated on consolidation in the Group. Once the gift aid is declared, it is not reversible. The Boards of the wholly owned subsidiaries have agreed to pay the gift aid.

e. Service charges receivable

Service charge income is recognised on an accruals basis as it falls due. The Association operates both fixed and variable service charges on a scheme-by-scheme basis in full consultation with residents. The service charges on all schemes are set on the basis of budgeted spend.

Where variable service charges are used the budget will include an allowance for the surplus or deficit from prior years, with a surplus being returned to residents in the form of a reduced charge for the year and a deficit being recovered via a higher service charge or by alternative methods if the contract allows.

f. Management fees

Management fees receivable (excluding VAT) for services provided to entities outside the Group are recorded when they fall due. They are based on the properties owned by Network Homes Limited and managed by agencies (note 43).

Fees are charged to the subsidiaries for management and support services provided by the parent company and are apportioned as per the Group and individual subsidiary Board. Intra group fees receivable in the Association from the wholly owned subsidiaries are eliminated on consolidation.

g. Supporting people contracts

Support service income for provision of extra care for residents with specific needs is recognised on an accruals basis as the services are provided.

h. Commercial activities

Income from the letting of commercial properties including rent and other income like electricity, mobile aerials insurance is recognised as it falls due on an accruals basis.

Interest payable and similar charges

Interest on borrowings is charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method, if the loan is a basic financial liability, to ensure that the amount charged is at a constant rate on the carrying amount.

Costs of issuing debt are recognised as a reduction in the associated financial instrument. Directly attributable costs of obtaining undrawn facilities are amortised over the life of the facility. Both costs are amortised over the life of loan facility using the effective interest rate method.

Interest is capitalised on borrowings to finance developments to the extent that it accrues in respect of the period of development if it represents either:

- interest on borrowings specifically financing the development programme after deduction of social housing grant (SHG) received in advance; or
- interest on borrowings of the Group as a whole after deduction of interest on SHG received in advance to the extent that it can be deemed to be financing the development programme.

Profit on the sale of fixed assets

Profit on the sale of fixed assets primarily arises from the disposal of housing properties.

Profit is recognised on the date of the legal completion of the sale. The profit or loss recognised in the Statement of Comprehensive Income is calculated by deducting from the sale proceeds the properties fixed asset carrying amount, any deferred grant amortisation and the incidental costs of sale.

Housing properties

Housing properties are principally properties available for rent and shared ownership properties. Housing properties constructed or acquired in the open market are stated at cost less accumulated depreciation.

The cost of housing properties includes their purchase price, costs of improvement, capitalised interest and directly attributable development overheads.

Direct overheads involved with administering of development activities are capitalised to the extent that they are directly attributable to the development process and in bringing the properties into their intended use. Interest is capitalised up to the date of practical completion of a property.

Notes to the Financial Statements
for the year ended 31 March 2017

Any properties acquired in the year are recognised at the cost of acquisition and disclosed separately in the housing note 12.

Housing properties under construction are reclassified as completed housing properties on practical completion.

Works to existing properties which replace a component that has been identified separately for depreciation purposes, along with those works that result in enhancing the economic benefits of the properties, are capitalised as improvements. Where a component is replaced the cost and related depreciation are eliminated from the housing properties. Economic benefits are enhanced if work performed results in an increase in rental income, a reduction in future maintenance costs or a significant extension to the useful economic life of a property. Shared ownership properties are split between current and non-current assets based on the anticipated proportion to be a first tranche sale with the first tranche proportion recognised as a current asset.

Properties sold as uncompleted or completed are disclosed separately as disposals on the housing note 12 and not depreciated.

Depreciation of housing properties

Freehold land and housing properties under construction are stated at cost and are not depreciated. Proportion of shared ownership properties expected to be sold in the first tranche is held as stock.

Housing properties are split into their major components. Each component is depreciated on a straight line basis over its estimated useful economic life to its estimated residual value. Useful economic lives for major component categories are as follows:

Component Category	Life (Years)
Fabric	100
Windows and doors	25
Kitchens	25
Bathrooms	25
Boilers	20
Mechanical electrical	30
Service contractors	20

Service contractors comprise capital costs relating to lifts, CCTV, warden call systems and other similar communal capital costs. Housing properties held on long leases are depreciated 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 of other fixed assets

Depreciation is charged on a straight line basis over the expected useful economic lives of other tangible fixed assets to write off the cost less estimated residual values. The useful economic lives for other tangible fixed assets are as follows:

Asset	Life (Years)
Computer hardware and software	3 to 5
Office fixtures and furniture	10
Office equipment	10
Office property	50

Impairment of housing properties and other fixed assets

Tangible fixed assets (mainly housing properties) are assessed for indicators of impairment at each reporting date. Where indicators are identified a detailed assessment is then undertaken to determine the assets or cash generating units (CGU) recoverable amount.

The recoverable amount will be the higher of fair value less costs to sell, or Existing Use Value for Social Housing (EUV-SH), or Value in Use (in respect of assets held for their service potential) (VIU-SP). As allowed by Housing SORP 2014 the Group uses depreciated replacement cost as a reasonable estimate of VIU-SP. If an impairment loss exceeds the accumulated gains in the reserves in respect of that asset or CGU, the excess will be recognised in the Statement of Comprehensive Income. The Group defines CGUs as schemes except where its schemes are not sufficiently large enough in size or where it is geographically sensible to group schemes into larger CGUs.

Investment properties

Investment properties consist of commercial properties and other properties not held for social benefit or for use in the business. Completed investment properties are measured at cost on initial recognition and subsequently at fair value at the reporting date, with changes in fair value recognised in the Statement of Comprehensive Income.

Investment properties under construction are measured in the statement of financial position using the purchase price, construction costs to date, directly attributable development overheads and capitalised interest. Any additional new properties are measured at acquisition cost.

Fair value is determined annually, and is derived from current market rents and investment property yields for comparable properties, adjusted if necessary for any difference in the nature, location or condition of the specific asset. Any impairment is recognised in the Statement of Comprehensive Income in the year when the impairment occurs. Investment properties are not depreciated.

Intangible assets

Intangible assets consist of software that is either acquired externally or is developed internally. Software is measured at cost less accumulated amortisation and impairment losses.

Software is recognised as an intangible asset when the following criteria are met:

- it is feasible that the software will be available for use to the Association and the software will generate probable future economic benefits such as improving efficiencies or reducing costs
- adequate financial and other resources are available to complete the development and implementation of the software
- the software is identifiable and we have an intention to implement and use it
- the costs attributable to the software during its development can be reliably measured.

Amortisation is charged using the straight-line method to allocate the cost of software over the estimated useful economic life. Software costs are amortised over a three to five year useful economic life.

Notes to the Financial Statements
for the year ended 31 March 2017

Stock
Stock represents both completed properties and properties under construction:

- for outright sale; and
- the proportion of shared ownership properties that are anticipated to be sold as a first tranche.

Stock is valued at the lower of cost and net realisable value. Cost includes acquisition and development costs together with capitalised interest. Net realisable value is based on the estimated selling price less selling costs.

Financial assets
Basic financial assets, including tenant debtors and other receivables, cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the Statement of Comprehensive Income.

Shared equity loans
Under the shared equity scheme, the Association lends the acquirer of one of its property's 20% of the purchase price as an interest free loan for up to five years. The acquirer may repay the loan at any time, but after five years the acquirer will be required to pay an interest rate as instructed by the Homes and Communities Agency.

The Association receives a grant from the Homes and Communities Agency to part finance the shared equity loan scheme. The grant is repayable to the extent that the loan is repaid in excess of the 10% purchase price. The loans are considered to be Public Benefit Entity Concessionary Loans (as defined by FRS 102 Paragraph PBE34.88) and are consequently measured at the amount advanced, less any provisions for impairment.

Financial liabilities
Basic financial instruments, including trade and other payables, bank loans and loans from fellow Group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the instrument is measured at the present value of the future payments discounted at a market rate of interest. These instruments are subsequently carried at amortised cost, using the effective interest rate method.

Non-basic financial instruments including loans that contain terms giving the lender the unilateral option to change the terms of the loan (for example from a pre-determined fixed rate to a variable rate or to a different fixed rate chosen by the lender), are initially recognised at their fair value (normally their transaction price), and are subsequently re-measured at each reporting date at their fair value.

Fair values are determined in line with paragraph 11.27 of FRS 102 using exit prices quoted by the counterparty as the best estimate of fair value where available. Where the terms of a financial liability are renegotiated with substantially different terms, the original financial liability is derecognised and a new financial liability is recognised. The difference between the carrying amount of the financial liability derecognised and the consideration paid (including any non cash assets transferred or liabilities assumed) for the new financial liability is recognised in the Statement of Comprehensive Income.

Social housing grant (SHG) and other capital grants
SHG is receivable from the Homes and Communities Agency and other grants are receivable from local authorities.

SHG and other capital grants (grant) are accounted for using the accrual model. Grant is recognised as deferred income in the Statement of Financial Position, and released to the Statement of Comprehensive Income on a systematic basis over the useful economic life of the asset for which it was received, usually a housing property's fabric.

Upon the sale of a grant-funded property, any attributable grant becomes recyclable and is transferred to a recycled capital grant fund (RCGF) or disposal proceeds fund (DPF) for right to acquire units until it is reinvested in a replacement property. The related grant amortisation is charged to the Statement of Comprehensive Income and is disclosed as part of the contingent liabilities until the property it funds is disposed of or ceases to be used for social housing purposes. The only exemption to this is the £10m grant received from the local authority for properties in Lambeth. This grant is not repayable and there is no need to recycle any part of it.

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The unwinding of the provisions discount due to the passage of time is recognised as a finance cost.

The Group provides for rent arrears based on the ageing of the debt as well as the type of debtor (current and former). The level of provisioning was based on the collection rates for each ageing group and on cash collected over a 12 month period.

Operating leases
Rentals payable under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Employee benefits – short term benefits
Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

Notes to the Financial Statements
for the year ended 31 March 2017

Employee benefits – long term benefits

The Association operates both defined benefit schemes and defined contribution schemes.

(a) Defined benefit schemes

The Group operated a defined benefit plan for employees in the past. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the Statement of Financial Position in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the plan assets at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. Annually the Association engages independent actuaries, Hymans and Robertson LLP to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Group's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 're-measurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

(a) the increase in pension benefit liability arising from employee service during the period; and

(b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as 'finance expense'.

(b) Defined contribution scheme

Contributions are recognised as an expense in the Statement of Comprehensive Income when due.

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Association and SW9 Community Housing pay fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the statement of financial position. The assets of the plan are held separately from the Association in independently administered funds.

(c) Multi-employer pension scheme

The Group is a member of a multi-employer Social Housing Pension Scheme (SHPS). The Pension Trust which administers this scheme has not been able to provide sufficient information to enable it to be accounted as a defined benefit plan, therefore this has been accounted as a defined contribution plan.

The pension plan is in deficit and the Association has agreed to participate in a deficit funding arrangement and has recognised a liability for this obligation. The amount recognised is the net present value of the contributions payable under the agreement that relates to the deficit. This amount is expensed in the Statement of Comprehensive Income. The unwinding of the discount is recognised as a finance cost.

Value added tax (VAT)

The Group is partially exempt in relation to VAT and accordingly is able to recover from HM Revenue and Customs part of the VAT incurred on expenditure. At the year end VAT recoverable or payable is included in the Statement of Financial Position. Irrecoverable VAT is accounted for in the Statement of Comprehensive Income within the relevant expense line.

Where the Group has entered into VAT shelter arrangement (usually to assist with the regeneration of local authority housing stock), the financial statements reflect the underlying substance of the transaction on a gross basis. The receivable from the local authority is shown in current and non-current debtors, and the Group's legally binding obligation to the local authority under the refurbishment contract is shown in provisions for liabilities and charges.

Gift Aid

Gift Aid payments are treated as distributions of reserves by the paying entity and as income from an investment in a subsidiary by the receiving entity. Gift aid from the Association's wholly owned subsidiary is recognised at year-end on receivable basis and is disclosed in the Statement of Comprehensive Income. Gift aid across the Group is eliminated on consolidation, however the aid payments by the subsidiaries are disclosed separately in their individual financial statements.

Related parties

The Group discloses transactions with related parties which are not wholly owned with the same group. The Group does not disclose transactions with members of the same group that are wholly owned as allowed by FRS 102 paragraph 33.1A. Intra-group transactions required to be disclosed by The Accounting Direction 2015 are provided in note 40.

Notes to the Financial Statements

for the year ended 31 March 2017

2. Critical accounting judgements and estimation uncertainty

The preparation of financial statements in conformity with FRS 102 requires management to exercise its judgement in the process of applying the Association's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Critical judgements in applying the Group's accounting policies

The following are the significant management judgements made in applying the accounting policies of the Group that have the most significant effect on the financial statements:

(i) Capitalisation of property development costs (note 12)

Distinguishing the point at which a project is more likely than not to continue, allowing capitalisation of development costs requires judgement. After capitalisation management monitors the project and considers whether events indicate that an impairment review is required.

(ii) Determining whether an impairment review is required (note 12)

Indicators of impairment are applied in determining whether there is impairment in respect of an asset or group of assets owned by the Association. Indicators include: changes in government policy, a reduction in the market value of properties where the occupant has the right to acquire, a reduction in the demand for a property, obsolescence of a property or contamination of a site. Impairment is tested at CGU level which is at scheme level.

Impairment is assessed by comparing the carrying value of the asset against its recoverable amount. The recoverable amount is the higher of value in use or fair value as represented by EUV-SH or VIU-SP. The Group uses Depreciated Replacement Cost (DRC) as a proxy of VIU-SP for recoverable amount.

(iii) Determining whether a debt instrument satisfies the requirement to be treated as basic (note 26)

Judgement is required to determine whether a debt instrument satisfies the requirements in FRS 102 Paragraph 11.10 to be treated as basic. They are not index linked excluding RPI and the lender cannot unilaterally amend interest rates. Debt instruments are utilised to provide long term funding for the Group's operations and not for speculative trading. Facilities with two-way break clauses are judged to be basic.

b. Key accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

(i) Useful economic lives of tangible fixed assets (note 12)

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The Group invests in major repairs as part of asset management and this has the effect of extending or maintaining the economic useful. The Group also undertake an impairment assessment when there is an impairment trigger. Where there is evidence of impairment, carrying amounts are adjusted to the recoverable amount instead of adjusting the economic lives.

(ii) Investment properties (note 15)

Management reviews the valuation of investment properties at each reporting date, based on either formal valuation reports or an update to those reports based on market conditions and other changes to assumptions. Uncertainties in these estimates relate to the discount rate, cost of property maintenance and future cash flows. The investment property valuation was £29,499k (2016: £29,387k).

(iii) Impairment of debtors (note 21)

The Group makes an estimate of the recoverable value of tenant and other debtors. When assessing impairment of tenant and other debtors, management considers factors including the ageing profile of debtors and historical experience.

(iv) Provisions (note 25)

Provisions in the year are made for dilapidations, lease termination and stock transfer, which requires management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the dilapidations obligations require management's judgement. The total provisions at 31 March 2017 were £11,012k (2016: £14,544k).

(v) Stock (note 20)

Net realisable value is based on the estimated selling price less selling costs. Estimated selling prices were provided by external valuers Lamberts Chartered Surveyors and Savills.

(vi) Impairment (note 12)

In estimating DRC the Group assumed that the current build cost is between £2,443 and £3,105 per square metre depending on the property type. The estimates are based on the average cost of developing new properties. This cost per square metre was then multiplied by the square metres of each CGU and then depreciated by the life to date of the relevant CGU.

The DRC calculated is compared against the carrying cost less unamortised grants of the CGU. Where DRC is lower then the carrying amount is reduced to the DRC by charging an impairment loss to the Statement of Comprehensive income.

As a result of the impairment review 17 (2016: 280) units were impaired by £542k (2016: £2,656k).

All assets are reviewed for indicators of impairment at each reporting date in accordance with FRS102 27.7. Detailed assessments of impairment will be carried out only if there is an indication that impairment has occurred in respect of an asset or class of assets.

Notes to the Financial Statements
for the year ended 31 March 2017

If there is no such indication, it may be assumed that there is no impairment. Any assets which elicit indicators of impairment will be reviewed at each reporting date. However the main recurring areas of review in respect of impairment are as follows:

- Mixed tenure development schemes (part rented and part shared ownership);
- Shared ownership schemes (newly-developed units);
- Properties intended for demolition;
- Work in progress; and
- Units with high void rates.

(vii) Recoverability of the cost of properties developed for outright sale and/or land held for sale (notes 12 and 20)
Properties developed for outright sales or the first tranche component of shared ownership properties are held at the lower of cost of developing the unit or at the estimate of fair value less cost to sell. Fair value less cost to sell is only used when the Association cannot fully recover through sales the cost of developing the units or when there is impairment of the property. The difference between the costs of the development and the estimated fair value less cost to sell are accounted as part of the cost of sales.

The estimated fair value is made with reference to the market prices the Association will generate from the property and the costs to sell are the estimated transaction costs of completing the sale.

(viii) Defined benefit pension scheme and the measurement of the SHPS liability (note 37)
The Association participates in a SHPS pension scheme which is a multi employer pension scheme. The Pension Trust, the regulator of this pension scheme is unable to identify how much of the multi employer pension deficit relates to the Association. However, the Association has agreed to a deficit reduction plan with the Pension Trust. The deficit reduction plan has been recognised in the statement of financial position and has been discounted using the discount rates equivalent to an "AA" rated corporate bond.

The obligations under a defined benefit pension scheme and the measurement of the SHPS liability is agreed future payments have been recognised at their present value using the market yields on high quality bonds. The discount rate used was 1.33% (2016: 2.06%), as per the Pension Trust.

(ix) Allocation of costs for mixed tenure developments (notes 12 and 20)
The Association develops mixed scheme properties and receives invoices for development costs that are not split for each property tenure such as shared ownership, outright sales or affordable rents in the mixed scheme. As a result the Association makes estimates based on floor area or unit numbers as advised by the Board in advance of scheme development. The Board also makes decisions in advance regarding the split of costs between mixed tenure and shared ownership units within mixed tenure schemes

(x) Market interest rates for financing transactions (note 26)
On calculating the net present value of the new restructured loans the Group had to estimate what the market interest rate would be for these loans, as fixed rate loans with maturities in excess of 40 years are not readily available. The Group estimated that the rate would be 3.85%, being a combination of the rate on an equivalent maturity instrument and an estimate of the Group's margin over that rate.

3. Turnover, operating costs and operating surplus

Group	Turnover £'000	Cost of sales £'000	Operating costs £'000	2017 Operating surplus / (deficit) £'000	Turnover £'000	Cost of sales £'000	Operating costs £'000	2016 Operating surplus / (deficit) £'000
Social housing lettings (Note 4)	**146,497**	**-**	**(109,191)**	**37,306**	**137,969**	**-**	**(103,089)**	**34,880**
Other social housing activities								
Supporting people contract income	236	-	(236)	-	119	-	(184)	(65)
Housing management administration	-	-	(987)	(987)	812	-	(2,530)	(1,718)
Community development	-	-	(714)	(714)	4	-	(339)	(335)
Sale of first tranche properties	31,711	(18,682)	(769)	12,260	59,675	(28,077)	(2,534)	29,064
Other	1,415	-	-	1,415	1,806	-	(3)	1,803
Other social housing activities	**33,362**	**(18,682)**	**(2,706)**	**11,974**	**62,416**	**(28,077)**	**(5,590)**	**28,749**
Total social housing activities	**179,859**	**(18,682)**	**(111,897)**	**49,280**	**200,385**	**(28,077)**	**(108,679)**	**63,629**
Non-social housing activity								
Student accommodation	1,734	-	(121)	1,613	1,706	-	(401)	1,305
Outright sale of properties	39,165	(19,778)	(1,404)	17,983	105,837	(46,979)	(3,267)	55,591
Garage rent	486	-	(51)	435	485	-	(33)	452
Commercial activities	1,626	-	(567)	1,059	1,500	-	(551)	949
Other	614	-	(1,530)	(916)	1,099	-	(971)	128
Total non-social housing activity	**43,625**	**(19,778)**	**(3,673)**	**20,174**	**110,627**	**(46,979)**	**(5,223)**	**58,425**
Total	**223,484**	**(38,460)**	**(115,570)**	**69,454**	**311,012**	**(75,056)**	**(113,902)**	**122,054**

Association	Turnover £'000	Cost of sales £'000	Operating costs £'000	2017 Operating surplus / (deficit) £'000	Turnover £'000	Cost of sales £'000	Operating costs £'000	2016 Operating surplus / (deficit) £'000
Social housing lettings (Note 4)	**138,851**	**-**	**(101,782)**	**37,069**	**137,969**	**-**	**(103,426)**	**34,543**
Other social housing activities								
Supporting people contract income	236	-	(236)	-	119	-	(184)	(65)
Housing management administration	3,155	-	(4,140)	(985)	28,771	-	(28,585)	186
Community development	-	-	(663)	(663)	4	-	(339)	(335)
Sale of first tranche properties	31,711	(18,682)	(1,400)	11,629	59,675	(28,077)	(2,534)	29,064
Other	2,016	-	-	2,016	1,807	-	(3)	1,804
Other social housing activities	**37,118**	**(18,682)**	**(6,439)**	**11,997**	**90,376**	**(28,077)**	**(31,645)**	**30,654**
Total social housing activities	**175,969**	**(18,682)**	**(108,221)**	**49,066**	**228,345**	**(28,077)**	**(135,071)**	**65,197**
Non-social housing activity								
Outright sale of properties	971	(988)	(2)	(19)	-	-	-	-
Garage rent	486	-	(51)	435	485	-	(33)	452
Commercial activities	1,626	-	(567)	1,059	1,501	-	(551)	950
Other	113	-	(45)	68	388	-	(232)	156
Total non-social housing activity	**3,196**	**(988)**	**(665)**	**1,543**	**2,374**	**-**	**(816)**	**1,558**
Total	**179,165**	**(19,670)**	**(108,886)**	**50,609**	**230,719**	**(28,077)**	**(135,887)**	**66,755**

4. Income and expenditure from social housing lettings

Group 2017	General rented £'000	Sheltered £'000	Leasehold and Shared ownership £'000	Supported housing £'000	Short stay £'000	Intermediate £'000	Total 2017 £'000
Income from lettings							
Rent receivable	75,578	9,275	6,662	4,593	19,694	8,331	124,133
Charges for supporting services	-	53	-	-	-	-	53
Service charges receivable	3,244	3,834	5,012	160	30	420	12,700
Amortised government grants	7,674	681	339	340	542	35	9,611
Other income	-	-	-	-	-	-	-
	86,496	**13,843**	**12,013**	**5,093**	**20,266**	**8,786**	**146,497**
Expenditure on letting activities							
Management	27,614	761	1,195	1,214	743	2,434	33,961
Service charge costs	6,626	2,662	3,879	200	205	363	13,935
Support costs	-	8	-	-	-	-	8
Routine maintenance	12,235	1,324	317	320	639	646	15,481
Major repairs expenditure	2,880	2,137	693	1,242	(145)	1,751	8,558
Property lease charges	8	-	3	631	17,119	454	18,215
Depreciation of housing properties	12,795	1,880	1,053	683	1,218	607	18,236
Impairment of housing properties	(275)	-	-	-	-	-	(275)
Rent (write backs)/losses from bad debts	347	49	343	53	222	58	1,072
	62,230	**8,821**	**7,483**	**4,343**	**20,001**	**6,313**	**109,191**
Operating surplus on lettings	**24,266**	**5,022**	**4,530**	**750**	**265**	**2,473**	**37,306**
Void losses	**(905)**	**(268)**	**39**	**(20)**	**(592)**	**(979)**	**(2,725)**

Notes to the Financial Statements
for the year ended 31 March 2017

Group 2016	General rented £'000	Sheltered £'000	Leasehold and Shared ownership £'000	Supported housing £'000	Short stay £'000	Intermediate £'000	Total 2016 £'000
Income from lettings							
Rent receivable	74,120	9,049	5,495	4,770	20,076	9,018	122,528
Charges for supporting services	-	132	-	54	-	-	186
Service charges receivable	3,410	2,760	2,926	129	206	127	9,558
Amortised government grants	4,588	531	178	247	41	36	5,621
Other income	-	65	-	-	11	-	76
	82,118	**12,537**	**8,599**	**5,200**	**20,334**	**9,181**	**137,969**
Expenditure on letting activities							
Management	22,293	922	385	1,105	2,217	2,110	29,032
Service charge costs	5,338	2,517	2,946	112	436	1,649	12,998
Support costs	-	104	-	48	-	-	152
Routine maintenance	11,345	1,231	414	545	686	856	15,077
Major repairs expenditure	7,361	615	348	385	(546)	540	8,703
Property lease charges	-	-	127	714	18,165	457	19,463
Depreciation of housing properties	10,415	1,809	802	649	723	600	14,998
Impairment of housing properties	2,575	-	-	-	-	81	2,656
Rent (write backs)/losses from bad debts	417	(66)	(142)	(38)	112	(273)	10
	59,744	**7,132**	**4,880**	**3,520**	**21,793**	**6,020**	**103,089**
Operating surplus / (deficit) on lettings	**22,374**	**5,405**	**3,719**	**1,680**	**(1,459)**	**3,161**	**34,880**
Void losses	**(660)**	**(141)**	**(13)**	**(25)**	**(537)**	**(917)**	**(2,293)**

Notes to the Financial Statements
for the year ended 31 March 2017

4. Income and expenditure from social housing lettings – continued

Association 2017	General rented £'000	Sheltered £'000	Leasehold and Shared ownership £'000	Supported housing £'000	Short stay £'000	Intermediate £'000	Total 2017 £'000
Income from lettings							
Rent receivable	70,705	8,908	6,396	4,593	19,694	8,331	118,627
Charges for supporting services	-	53	-	-	-	-	53
Service charges receivable	2,201	3,578	4,171	160	30	420	10,560
Amortised government grants	7,674	681	339	340	542	35	9,611
Other income	-	-	-	-	-	-	-
	80,580	**13,220**	**10,906**	**5,093**	**20,266**	**8,786**	**138,851**
Expenditure on letting activities							
Management	23,346	636	1,162	1,214	743	2,434	29,535
Service charge costs	5,215	2,549	3,407	200	205	363	11,939
Support costs	-	8	-	-	-	-	8
Routine maintenance	11,639	1,287	286	320	639	646	14,817
Major repairs expenditure	2,600	2,131	654	1,242	(145)	1,751	8,233
Property lease charges	8	-	3	631	17,119	454	18,215
Depreciation of housing properties	12,795	1,880	1,053	683	1,218	607	18,236
Impairment of housing properties	(275)	-	-	-	-	-	(275)
Rent (write backs)/losses from bad debts	349	49	343	53	222	58	1,074
	55,677	**8,540**	**6,908**	**4,343**	**20,001**	**6,313**	**101,782**
Operating surplus on lettings	**24,903**	**4,680**	**3,998**	**750**	**265**	**2,473**	**37,069**
Void losses	**(775)**	**(239)**	**20**	**(20)**	**(592)**	**(979)**	**(2,585)**

Notes to the Financial Statements
for the year ended 31 March 2017

Association 2016	General rented £'000	Sheltered £'000	Leasehold and Shared ownership £'000	Supported housing £'000	Short stay £'000	Intermediate £'000	Total 2016 £'000
Income from lettings							
Rent receivable	74,120	9,049	5,495	4,770	20,076	9,018	122,528
Charges for supporting services	-	132	-	54	-	-	186
Service charges receivable	3,410	2,760	2,926	129	206	127	9,558
Amortised government grants	4,588	531	178	247	41	36	5,621
Other income	-	65	-	-	11	-	76
	82,118	**12,537**	**8,599**	**5,200**	**20,334**	**9,181**	**137,969**
Expenditure on letting activities							
Management	22,630	922	385	1,105	2,217	2,110	29,369
Service charge costs	5,338	2,517	2,946	112	436	1,649	12,998
Support costs	-	104	-	48	-	-	152
Routine maintenance	11,345	1,231	414	545	686	856	15,077
Major repairs expenditure	7,361	615	348	385	(546)	540	8,703
Property lease charges	-	-	127	714	18,165	457	19,463
Depreciation of housing properties	10,415	1,809	802	649	723	600	14,998
Impairment of housing properties	2,575	-	-	-	-	81	2,656
Rent (write backs)/losses from bad debts	417	(66)	(142)	(38)	112	(273)	10
	60,081	**7,132**	**4,880**	**3,520**	**21,793**	**6,020**	**103,426**
Operating surplus / (deficit) on lettings	**22,037**	**5,405**	**3,719**	**1,680**	**(1,459)**	**3,161**	**34,543**
Void losses	**(660)**	**(141)**	**(13)**	**(25)**	**(537)**	**(917)**	**(2,293)**

5. Employee information

The monthly average number of persons employed during the year, including the Executive Officers, is based on an assumption that a full time equivalent employee (FTE) works 35 hours and includes employees on both permanent and fixed term contracts:

	Group		Association	
	2017 FTE	2016 FTE	2017 FTE	2016 FTE
Office-based staff	467	413	443	413
Scheme-based staff	23	25	22	25
	490	**438**	**465**	**438**

Staff costs for the above employees were:

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Wages and salaries	19,462	17,663	18,507	17,663
Social security costs	2,095	1,808	1,993	1,808
Pension costs	1,573	4,851	1,553	4,851
Total	**23,130**	**24,322**	**22,053**	**24,322**

The pension costs include two one-off expenses in respect of staff previously employed by Community Trust Housing (CTH). The final settlement was agreed by the pension fund administrated by Lambeth at £1,089k. During the year, the Association made a payment in amount of £299k to SHPS in respect of withdrawal from the scheme (provision was made in 2016). There is no further pension liability towards CTH staff who were previously employed by CTH and transferred over to SW9 on 31 March 2016.

The Association participates in SHPS defined contributions scheme and costs paid in the year were £641k.

The number of staff (including the Chief Executive Officer) receiving remuneration in excess of £60,000 per annum at 31 March 2017 is as follows:

	Group		Association	
	2017 FTE	2016 FTE	2017 FTE	2016 FTE
£60,000 - £69,999	15	15	15	15
£70,000 - £79,999	8	8	8	8
£80,000 - £89,999	4	4	4	4
£90,000 - £99,999	6	5	6	5
£100,000 - £109,999	3	1	2	1
£110,000 - £119,999	1	1	1	1
£120,000 - £129,999	1	1	1	1
£130,000 - £139,999	2	-	2	-
£150,000 - £159,999	1	-	1	-
£160,000 - £169,999	1	1	1	1
£170,000 - £179,999	-	1	-	1
£180,000 - £189,999	1	-	1	-
£190,000 - £199,999	1	-	1	-
£200,000 - £209,999	-	1	-	1
£210,000 - £219,999	1	-	1	-
£220,000 - £229,999	-	1	-	1
	45	**39**	**44**	**39**

6. Directors' emoluments

The Directors are defined as members of the Board and the Executive Officers. Board members and Executive Officers emoluments 2016/17

		Appointed (A) / Resigned (R)	Basic salary / fees	Expenses	Total remuneration	Bonus / other payments	Pension contributions	Benefits in kind (BUPA)	Total emoluments
Non-Executive Officers			£	£	£	£	£	£	£
Andrew Watson	Chair	R 28/07/2016	7,356	-	7,356	-	-	-	7,356
Bernadette Conroy	Chair	A 28/07/2016	15,173	-	15,173	-	-	-	15,173
Trevor Morley	Deputy Chair		14,625	109	14,734	-	-	-	14,734
Charmian Boyd	Committee Chair/Board member		10,535	-	10,535	-	-	-	10,535
Alan Head	Committee Chair/Board member		7,875	-	7,875	-	-	-	7,875
Nick Sharman	Committee Chair/Board member		9,702	-	9,702	-	-	-	9,702
Peter Stredder	Committee Chair/Board member		10,500	299	10,799	-	-	-	10,799
Anne Turner	Committee Chair/Board member		11,746	2,029	13,775	-	-	-	13,775
Chris Kane	Board Member		8,000	-	8,000	-	-	-	8,000
Alan Hall	Board Member		8,551	221	8,772	-	-	-	8,772
Valerie Vaughan-Dick	Board Member		8,448	105	8,553	-	-	-	8,553
Peter Fiddeman	Board Member		9,069	1,128	10,197	-	-	-	10,197
Jon Gooding	Board Member	A 24/01/2017	1,992	-	1,992	-	-	-	1,992
			123,572	**3,891**	**127,463**	**-**	**-**	**-**	**127,463**
Executive Officers									
Helen Evans			178,346	815	179,161	16,200	13,090	1,968	210,419
Barry Nethercott			186,242	5,115	191,357	-	8,080	-	199,437
Vicky Savage			156,866	399	157,265	14,150	11,434	1,419	184,268
Gerry Doherty			122,939	513	123,452	11,450	2,312	1,425	138,639
Fiona Deal			132,934	532	133,466	6,038	9,757	1,389	150,650
Jon Dawson			113,944	2,071	116,015	8,280	8,363	1,503	134,161
Darren Levy			149,722	47	149,769	4,760	10,989	1,356	166,874
			1,040,993	**9,492**	**1,050,485**	**60,878**	**64,025**	**9,060**	**1,184,448**
			1,164,565	**13,383**	**1,177,948**	**60,878**	**64,025**	**9,060**	**1,311,911**

6. Directors' emoluments – continued

The Directors are defined as members of the Board and the Executive Officers. Board members and Executive Officers emoluments 2015/16

		Appointed (A) / Resigned (R)	Basic salary / fees	Expenses	Bonus / other payments	Pension contributions	Benefits in kind (BUPA)	Total emoluments
Non-Executive Officers			£	£	£	£	£	£
Andrew Watson	Chair		22,500	-	-	-	-	22,500
Trevor Morley	Deputy Chair		13,500	536	-	-	-	14,036
Charmian Boyd	Committee Chair/ Board member		10,500	-	-	-	-	10,500
Alan Head	Committee Chair/ Board member		10,500	-	-	-	-	10,500
Nick Sharman	Committee Chair/ Board member		10,500	-	-	-	-	10,500
Peter Stredder	Committee Chair/ Board member		10,500	171	-	-	-	10,671
Anne Turner	Committee Chair/ Board member		10,500	3,557	-	-	-	14,057
Chris Kane	Board Member		8,000	-	-	-	-	8,000
Alan Hall	Board Member		8,000	680	-	-	-	8,680
Valerie Vaughan-Dick	Board Member		8,000	636	-	-	-	8,636
Peter Fiddeman	Board Member	A 30/06/2015	8,000	195	-	-	-	8,195
			120,500	**5,775**	**-**	**-**	**-**	**126,275**
Executive Officers								
Helen Evans			170,911	1,281	16,200	12,544	2,046	202,982
Barry Nethercott			221,102	-	-	-	-	221,102
Vicky Savage			145,743	4,601	13,770	11,168	1,477	176,759
Gerry Doherty			114,678	7	10,455	2,190	775	128,105
Fiona Deal		A 01/10/2015	65,809	-	-	4,830	758	71,397
Jon Dawson			103,455	-	9,410	7,904	1,543	122,312
Darren Levy		A 01/10/2015	74,120	1,377	-	5,440	741	81,678
Trudi Kleanthous		R 30/10/2015	154,882	-	8,232	5,123	-	168,237
			1,050,700	**7,266**	**58,067**	**49,199**	**7,340**	**1,172,572**
			1,171,200	**13,041**	**58,067**	**49,199**	**7,340**	**1,298,847**

Notes to the Financial Statements
for the year ended 31 March 2017

6. Directors' emoluments – continued

	2017 £'000	2016 £'000
Aggregate emoluments payable to Executive Directors	1,120	1,123
Aggregate emoluments payable to non-executive Directors	128	126
	1,248	**1,249**
Pension contributions payable to Executive Directors	**64**	**49**
Total emoluments	**1,312**	**1,298**
Emoluments paid to the highest paid Director, excluding pension contributions	**197**	**221**

The Chief Executive is an ordinary member of the Social Housing Pension Scheme on the same basis as that available to all staff. Pension contributions paid into a defined contribution scheme on behalf of the Chief Executive were £13,090 (2016: £12,544). The Association did not make any contribution to any individual pension arrangement on her behalf. The notice period for termination of her contract is six months.

No pension contributions were made on behalf of any non-executive Director.

Ratio of highest to lowest earners

The ratio of the highest earner in the Group compared to the average earner (annualised salary) is as follows:

	2017	2016
Ratio of highest to average earner	5.1 : 1	5.8 : 1

Chief Executive, Chairman's and Board members' remuneration as a £ per owned unit basis:

	2017 (based on total no of units)	2016 (based on total no of units)
Chief Executive remuneration per home (£)	10.5	10.2
Board Chair's remuneration per home (£)	1.1	1.1
Total Board members' remuneration per home (£)	6.4	6.4

6. Directors' emoluments – continued

Other directorships

Board members had the following external directorships, not including directorships of subsidiaries or associates of Network Homes Limited.

Board Member	Organisation	Position
Trevor Morley	Cerberus Innovations Limited	Director
	Direction Homes Investments Limited	Director
	Direction Law LLP	Director
	Cherry Management Ltd	Director
	Wearr CIC	Director
Valerie Vaughan-Dick	V&A UK Ltd	Director
	RCGP Conferences Ltd	Director
	RCGP Enterprises Ltd	Director
Alan Hall	Director of Communities, Epping Forest District Council	Director
	Board Member, ARCH	
Alan Head	None	
Peter Fiddeman	None	
Andrew Watson	Who Moved My Cheese Ltd	Director
	FISH Asset Management Ltd	Director
Anne Turner	ASRA Housing Group Ltd	Director
Peter Stredder	None	
Chris Kane	Chris Kane Associates Ltd	Director
	Smart Value Ltd	Director
	NHS Property Services Ltd	Director
Charmian Boyd	Seamless Relocation Ltd	Director
Nick Sharman	None	
Helen Evans	None	
Jon Gooding	Dolphin Square Charitable Foundation	Secretary to the Trustees and Chief Executive
	Dolphin Living Ltd	Board Member
	Westminster Community Homes	Board Member
Bernadette Conroy	NED/Lay Member, Barnet CCG	Director
	Chair of Buildings and Estates, Cambridge University	Director
Darren Levy	DL Interim and Consultancy Services Ltd	Director
	57 Vere Road (Residential management) Limited	Director, Housing Officer
Barry Nethercott	TEAM ONYX Limited	Secretary, Director

7. Profit on sale of fixed assets

	Group and Association	
	2017 £'000	2016 £'000
Sales proceeds	17,066	16,089
Cost of sales transferred from fixed assets	(6,743)	(7,908)
Incidental sale expenses	(2,998)	(716)
	7,325	**7,465**

8. Interest receivable and other income

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Interest receivable on deposits	295	195	282	726
Interest receivable on investments	127	234	127	234
Interest receivable on loans to Group undertakings	-	-	6	1,355
Amortisation of financial asset premium	-	48	-	48
Total interest income on financial assets not measured at fair value through profit or loss	**422**	**477**	**415**	**2,363**
Restructuring of financial instruments	**8,720**	**62,335**	**8,720**	**62,335**

In July 2016, the Group reached the agreement with the lender to amend the interest rates and that had an impact on the fair value of the loans. This has resulted in a reduction of financing costs in amount of £8.7m in total.

9. Interest and financing costs

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Housing loans	29,571	32,485	31,599	33,736
Less: interest capitalised	(4,691)	(4,023)	(4,691)	(4,023)
Unwinding of SHPS discount rate	245	111	245	111
Loan cost amortisation	479	349	479	349
Other finance costs	559	588	558	604
Sinking fund depreciation	51	51	51	51
Local Government Pension scheme interest	4	55	4	55
Total interest expense on financial liabilities nor measured at fair value through profit or loss	**26,218**	**29,616**	**28,245**	**30,883**
Fair value element of restructured loan	-	9,979	-	9,979
Interest capitalisation rate	**4.42%**	**4.15%**	**4.42%**	**4.15%**

Notes to the Financial Statements
for the year ended 31 March 2017

10. Surplus on ordinary activities before taxation

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
The surplus on ordinary activities before taxation is stated after charging:				
Depreciation	19,242	16,948	19,138	16,846
Software amortised costs	493	386	493	386
Impairment of housing properties	(275)	2,656	(275)	2,656
Amortised government grant	9,611	5,621	9,611	5,621
Auditors' remuneration (including expenses, excluding VAT):				
Fees for the audit of the financial statements – current year	128	118	87	87
Fees for the audit of the Association's financial statements – prior year	66	-	66	-
Fees in respect of other non-audit services	154	229	154	203
Operating lease payments	18,215	20,087	18,215	20,087

11. Tax on surplus on ordinary activities

(a) Analysis of charge in year	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
UK corporation tax on surplus for the year	2	7	-	-
Prior year corporation tax	9,226	-	-	-
Current tax charge	9,228	7	-	-
Total tax charge	**9,228**	**7**	**-**	**-**

The Association is exempt from tax on its charitable activities under tax law.

The tax assessed for the year is the same as the standard rate of corporation tax in the UK (20%) (2016: 20%).

(b) Factors affecting tax charge for the year	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Surplus on ordinary activities before taxation	61,050	155,330	59,968	157,190
Surplus on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2016: 20%)	12,210	31,066	11,994	31,438
Prior year corporation tax	9,226	-	-	-
Effects of: Non-taxable charitable activities	(12,208)	(31,059)	(7,674)	(20,129)
Gift Aid	-	-	(4,320)	(11,309)
Total tax charge	**9,228**	**7**	**-**	**-**

A tax charge of £9,228k was recognised in the year (2016: £7k). The £9,226k relates to a potential tax liability in NTSL relating to 2015/16 and is management's best estimate of the amounts due including interest and penalties. The Group is in discussions with HMRC about this potential liability with a view to not crystallise tax payments relating to this amount. The Association has charitable status and is not subject to corporation tax on its charitable activities.

Notes to the Financial Statements
for the year ended 31 March 2017

12. Housing properties

Group	Under Development		Completed (available for letting)		
	General rented £'000	Shared ownership £'000	General rented £'000	Shared ownership £'000	Total £'000
Cost					
At 1 April 2016	72,859	20,650	1,351,644	105,694	1,550,847
Additions	90,836	24,095	16,071	169	131,171
Transfer to stock	-	(10,555)	-	-	(10,555)
Transfer to/from current assets	-	36,128	413	(772)	35,769
Transfer to investment properties	175	-	(1,016)	-	(841)
Transfer on completion	(57,333)	(34,236)	53,298	38,271	-
Disposals	-	(3,904)	(2,349)	(7,902)	(14,155)
Components replaced	-	-	(1,021)	(9)	(1,030)
Reclassification*	-	-	(746)	(920)	(1,666)
At 31 March 2017	**106,537**	**32,178**	**1,416,294**	**134,531**	**1,689,540**
Accumulated depreciation					
At 1 April 2016	-	-	120,601	3,282	123,883
Charge for the year	-	-	16,740	1,278	18,018
Disposals	-	-	(89)	(186)	(275)
Write offs	-	-	7	-	7
Components replaced	-	-	(360)	-	(360)
Reclassification*	-	-	1,171	2,449	3,620
At 31 March 2017	**-**	**-**	**138,070**	**6,823**	**144,893**
Impairment					
At 1 April 2016	-	-	9,942	-	9,942
Charge for year	-	-	542	-	542
Impairment reversal	-	-	(5,392)	-	(5,392)
Disposals	-	-	(693)	-	(693)
At 31 March 2017	**-**	**-**	**4,399**	**-**	**4,399**
Net book value					
At 31 March 2017	**106,537**	**32,178**	**1,273,825**	**127,708**	**1,540,248**
At 31 March 2016	**72,860**	**20,650**	**1,221,107**	**102,409**	**1,417,026**

Total expenditure on existing properties in the year was £40,279k (2016: £35,759k). This comprises £16,240k (2016: £11,979k) which was capitalised and £24,039k (2016: £23,780k) which was treated as revenue expenditure and charged to the Statement of Comprehensive Income.

Additions to housing properties during the year included capitalised interest of £4,691k (2016: £4,023k). The capitalisation rate used was 4.42% (2016: 4.15 %). At 31 March 2017 the EUV-SH for the units charged was £802,800k (2016: £888,500k) and the number of units charged was 9,618 (2016: 10,879).

*Relates to re-classification of prior year balances and reversal of prior year impairment.

12. Housing properties – continued

Association	Under Development		Completed (available for letting)		
	General rented £'000	Shared ownership £'000	General rented £'000	Shared ownership £'000	Total £'000
Cost					
At 1 April 2016	75,080	20,650	1,334,875	105,694	1,536,299
Additions	90,834	24,095	16,071	169	131,169
Transfer to stock	(4,954)	25,573	413	(772)	20,260
Transfer on completion	(57,333)	(34,236)	53,298	38,271	-
Transfer to investment properties	175	-	(1,016)	-	(841)
Disposals	-	(3,904)	(2,349)	(7,902)	(14,155)
Components replaced	-	-	(1,021)	(9)	(1,030)
Reclassification*	-	-	(746)	(920)	(1,666)
At 31 March 2017	**103,802**	**32,178**	**1,399,525**	**134,531**	**1,670,036**
Accumulated depreciation					
At 1 April 2016	-	-	117,489	3,096	120,585
Charge for the year	-	-	16,636	1,278	17,914
Disposals	-	-	(89)	(186)	(275)
Write offs	-	-	7	-	7
Components replaced	-	-	(360)	-	(360)
Reclassification*	-	-	1,171	2,449	3,620
At 31 March 2017	**-**	**-**	**134,854**	**6,637**	**141,491**
Impairment					
At 1 April 2016	-	-	9,942	-	9,942
Charge for year	-	-	542	-	542
Disposals	-	-	(5,392)	-	(5,392)
Impairment reversal	-	-	(693)	-	(693)
At 31 March 2017	**-**	**-**	**4,399**	**-**	**4,399**
Net book value					
At 31 March 2017	**103,802**	**32,178**	**1,260,272**	**127,894**	**1,524,146**
At 31 March 2016	**75,080**	**20,650**	**1,207,454**	**102,595**	**1,405,779**

Total expenditure on existing properties in the year was £40,279k (2016: £35,759k). This comprises £16,240k (2016: £11,979k) which was capitalised and £24,039k (2016: £23,780k) which was treated as revenue expenditure and charged to the Statement of Comprehensive Income.

Additions to housing properties during the year included capitalised interest of £4,691k (2016: £4,023k). The capitalisation rate used was 4.42% (2016: 4.15%). At 31 March 2017 the EUV-SH for the units charged was £802,800k (2016: £888,500k) and the number of units charged was 9,618 (2016: 10,879).

*Relates to re-classification of prior year balances and reversal of prior year impairment.

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13. Intangible assets and other fixed assets

Group	Computer software £'000	Computer hardware £'000	Freehold and leasehold office property £'000	Office fixtures and fittings £'000	Total £'000
Cost					
At 1 April 2016	2,562	4,765	32,760	3,219	43,306
Additions	541	1	3,293	8	3,843
Write off	(110)	-	-	-	(110)
At 31 March 2017	**2,993**	**4,766**	**36,053**	**3,227**	**47,039**
Accumulated depreciation and amortisation					
At 1 April 2016	960	4,187	11,357	1,902	18,406
Amortisation for the year	541	-	-	-	541
Depreciation charge for the year	-	273	419	1,162	1,854
Write back	(50)	-	-	-	(50)
At 31 March 2017	**1,451**	**4,460**	**11,776**	**3,064**	**20,751**
At 31 March 2017	**1,542**	**306**	**24,277**	**163**	**26,288**
At 31 March 2016	**1,603**	**577**	**21,449**	**1,272**	**24,901**

Association	Computer Software £'000	Computer hardware £'000	Freehold and leasehold office property £'000	Office fixtures and fittings £'000	Total £'000
Cost					
At 1 April 2016	2,562	1,292	32,737	2,637	39,228
Additions	541	1	3,293	8	3,843
Write off	(110)	-	-	-	(110)
At 31 March 2017	**2,993**	**1,293**	**36,030**	**2,645**	**42,961**
Accumulated depreciation and amortisation					
At 1 April 2016	960	714	11,335	1,320	14,329
Amortisation for the year	541	-	-	-	541
Depreciation charge for the year	-	273	419	1,162	1,854
Write back	(50)	-	-	-	(50)
At 31 March 2017	**1,451**	**987**	**11,754**	**2,482**	**16,674**
At 31 March 2017	**1,542**	**306**	**24,276**	**163**	**26,287**
At 31 March 2016	**1,603**	**577**	**21,448**	**1,272**	**24,900**

14. Freehold and leasehold properties

The cost of housing properties and office property comprises:

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Housing properties				
Freehold	1,416,259	1,446,928	1,399,525	1,334,875
Long leasehold	134,566	103,919	134,531	105,694
	1,550,825	**1,550,847**	**1,534,056**	**1,440,569**
Office properties				
Freehold	11,492	32,710	11,469	32,737
Short lease	24,561	50	24,561	-
	36,053	**32,760**	**36,030**	**32,737**
Total	**1,586,878**	**1,583,557**	**1,570,086**	**1,473,306**

15. Investment properties

	Group £'000	Association £'000
At 1 April 2016	**29,387**	**28,582**
Additions	2,434	1,309
Disposals	(427)	(427)
Transfer to WIP	(175)	(175)
Transfer to other fixed assets	(3,292)	(3,292)
Revaluation surplus	1,347	(460)
At 31 March 2017	**29,274**	**25,537**

Completed investment properties

The valuation report was prepared by Lamberts Chartered Surveyors Limited in accordance with the RICS Valuation Professional Standards incorporating the International Valuation Standards (January 2014 edition) and the requirements contained therein for valuations undertaken for inclusion in the financial statements. The valuation of completed investment properties were arrived at by either: applying the capital values realised net of stamp duty and 1.5% for purchasing costs such as legal and agency costs achieved from specific comparable properties in a similar location; or by using the investment method approach where an appropriate capitalisation rate is applied to the income streams generated by the individual investment property.

Where properties were valued using an appropriate capitalisation rate to the income streams the following assumptions were applied – Capitalisation rates: 7.25% to 10%; Inflation rate: 1%.

The other factors affecting the valuations include the duration of the secure income stream, location and the covenant strength of the occupier.

Investment properties under construction

Investment properties under construction are valued by cost at stage of completion. These costs are included in the values in the above reconciliation.

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16. Investments (financial)

	Group and Association £'000
At 1 April 2016	6,539
Amortisation of cost	(52)
At 31 March 2017	**6,487**

The above investment in gilts is held to provide collateral as required by a debt instruments covenant conditions; the investment is therefore restricted and not available for general use. The investment has a nominal value of £5,200,000, and the original cost of the investment is being amortised to this nominal value in 2042 (when the investment matures) using the effective interest rate method.

17. Investment in Group entities

The Association has interests in the following Group entities:

Name of entity	Notes	Country of incorporation	Nature of business	Interest
Network Living Limited	1	UK	Property Investment and Management	100% ordinary shares (1 share)
Network New Build Limited	1	UK	Property Development	100% ordinary shares – (1 share)
Network Homes Investments Limited	1	UK	Investment company	100% ordinary shares – (65,000,001 shares) (2016: 45,000,001 shares)
Network Homes Investments (Stockwell) Limited	1	UK	Property Development	100% ordinary shares – (1 share)
Network Treasury Services Limited	1	UK	Treasury vehicle	100% ordinary shares – (1 share)
Riversmead Housing Development Limited	1	UK	Dormant	100% ordinary shares – (1 share)
Pimlico Village Developments Limited	1	UK	Property development	100% ordinary shares – (2 shares)
Pimlico Village Developments (Number Two) Limited	1	UK	Dormant	100% ordinary shares – (2 shares)
Student First Limited	2	UK	Student Accommodation	100% ordinary shares – (6 shares)
Network Homes 2016 Limited	1	UK	Dormant	100% ordinary shares - (1,000 shares)
Network Living Management Services Ltd.	1	UK	Dormant	100% ordinary shares – (1 share)
SW9 Community Housing	1 and 3	UK	Management of properties in Lambeth	Interest in property management
Unconsolidated entities:				
Churchill Gardens Amenity Limited	1	UK	Property Management	Interest in property management
Tay Road Amenity Limited	1	UK	Property Management	Interest in property management

Notes
1. Companies incorporated under the Companies Act 2006.
2. Bodies incorporated under the Co-operative and Community Benefit Societies Act 2014.
3. Entities incorporated under Charity Act 2011.

Notes to the Financial Statements
for the year ended 31 March 2017

18. Shared equity loans

	Group and Association	
	2017 £'000	2016 £'000
At 1 April	6,821	2,919
Loans issued during the year	742	4,234
Redeemed during the year	(939)	(332)
At 31 March	**6,624**	**6,821**

Shared equity loans meet the criteria for concessionary loans and are therefore measured in accordance with FRS102 PBE34.90 to PBE34.92.

19. Debtors: amounts falling due after more than one year

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Stock transfer	**1,069**	**5,233**	**984**	**5,233**

Stock transfer balances relate to a works programme being undertaken on the Stockwell Park and Robsart estates in the London Borough of Lambeth. The movement in the provision for the works is detailed in note 25.

20. Stocks

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Completed schemes:				
Shared ownership properties	1,170	3,338	1,170	3,338
Assets held for sale	23,425	193	1,476	193
	24,595	**3,531**	**2,646**	**3,531**
Under construction:				
Shared ownership first tranche	11,496	47,598	11,496	47,722
Open market sales	3,239	35,979	-	-
Total	**39,330**	**87,108**	**14,142**	**51,253**

There was no impairment on stock recognised during the year (2016: £nil).
None of the stock is pledged as collateral against borrowing by the Group (2016: £nil).

Notes to the Financial Statements
for the year ended 31 March 2017

21. Debtors: amounts falling due within one year

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Rent and service charges	14,406	12,670	14,399	12,585
Less: provision for bad and doubtful debts	(5,408)	(4,488)	(5,408)	(4,488)
	8,998	**8,182**	**8,991**	**8,097**
Other debtors	6,329	2,674	5,416	2,448
Less: provision for bad and doubtful debts	(294)	(255)	(294)	(255)
Trade debtors	2,076	2,938	2,038	1,224
Amount owed from Group undertakings	-	-	21,711	57,342
Stock transfer	6,062	4,455	6,062	4,455
Prepayments and accrued income	2,733	9,305	3,529	6,449
	25,904	**27,299**	**47,453**	**79,760**

22. Cash and cash equivalents

		Group		Association	
	Note	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Cash at bank and in hand		73,451	60,903	65,226	55,356
Cash held for client accounts	23	3,301	4,203	3,301	4,203
		76,752	**65,106**	**68,527**	**59,559**

All the cash other than cash held for client accounts and GLA funding is available for general use. Cash held for client accounts is restricted as they are tenant monies. The GLA funding of £21m is for the purchase of the build to rent development scheme at Atrium Point. It can be drawn down at time of purchase which is estimated to be after September 2017.

23. Creditors: amounts falling due within one year

		Group		Association	
	Note	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Client accounts					
Service charge and client funds		3,442	4,210	3,442	4,210
Client bank accounts		(141)	(7)	(141)	(7)
Total client account creditors		**3,301**	**4,203**	**3,301**	**4,203**
Other creditors					
Bank overdraft		686	95	-	94
Housing loans	26	5,151	4,942	5,065	4,942
Trade creditors		2,759	1,207	847	531
Rent and service charges received in advance		7,426	6,168	7,426	6,083
Owed to Group undertakings		-	-	35,831	45,590
Other grants repayable		-	21	-	21
Other creditors including taxation and social security		1,201	2,187	1,151	2,078
SHPS Accrual	37	1,601	1,080	1,601	1,080
Accruals		41,420	32,186	19,521	17,702
		63,545	**52,089**	**74,743**	**82,324**

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24. Creditors: amounts falling due after more than one year

		Group		Association	
	Note	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Housing loans*	26	756,724	731,450	756,810	731,450
Social housing grant received in advance		573	573	573	573
Social housing grant repayable		-	960	-	950
Recycled capital grant fund	27	12,830	12,380	12,830	12,380
Disposal proceeds fund	28	484	171	484	171
Social housing grant	29	513,264	510,687	513,264	510,687
Other capital grants	30	51,855	56,400	51,855	56,400
Shared equity grants	31	2,963	1,531	2,963	1,531
SHPS accrual	37	10,196	11,641	10,196	11,641
		1,348,889	**1,325,793**	**1,348,975**	**1,325,783**

* Housing loans are carried either at their fair values when they are classified as other loans or at amortised cost using the effective interest method when they are classified as basic loans. The nominal carrying values of housing loans are £740,188k (2016: £706,430k). It also includes restructured loan of £13,525k (2016: £22,246k) and the THFC financing surplus of £3,097k (2016: £2,774k).

The housing loans in the Association includes loan of £425,522k (2016: £410,547k) from Network Treasury Services Limited.

25. Provisions for liabilities and charges

Group and Association	SHPS Cessation £'000	Lease termination repairs £'000	Stock Transfer £'000	Total £'000
As at 1 April 2016	311	4,545	9,688	14,544
Additions in the year	-	226	-	226
Released in the year	(311)	(804)	(2,643)	(3,758)
At 31 March 2017	**-**	**3,967**	**7,045**	**11,012**

	2017 £'000	2016 £'000
Amount payable within one year	5,767	7,241
Amount payable after one year	5,245	7,303
	11,012	**14,544**

Cessation costs in relation to Community Trust Housing

The last active member of SHPS retired on 31 March 2016 and that triggered cessation event. Provision made in 2016 was based on an estimated amount provided by The Pension Trust. During the year, the payment was made in full. Network Homes Limited has no future liability in respect of past service deficit.

Lease termination repairs

The provisions for termination repairs relate to future costs that will be incurred to return social housing properties to a suitable condition. These costs are payable at the conclusion of the properties' lease, with the last lease ending in 2037. The principal uncertainty is the level of dilapidation work required to be performed at the end of the lease.

Stock transfer

The provision relates to the cost of a works programme to be undertaken by the Community Trust Housing (now Network Homes Limited) on the Stockwell Park and Robsart estates in the London Borough of Lambeth. The amount stated represents the Association's obligation to the London Borough of Lambeth to undertake works under the refurbishment contract.

Notes to the Financial Statements
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26. Housing loans

				Group 2017 £'000	Group 2016 £'000
Financial liabilities measured at amortised cost					
Fixed Rate Debt Instruments	**Rate**	**Maturity**	**Repayment**		
Bilateral bank loan	3.05% to 5.20%	June 2038 to May 2068	On maturity	288,619	258,814
Bilateral bank loan	1.60% to 5.47%	June 2020 to May 2048	Instalment	259,603	316,667
				548,222	**575,481**
Variable Rate Debt Instrument	**Margin over LIBOR**	**Maturity**	**Repayment**		
Bilateral bank loan	0.60% to 2.50%	June 2038 to May 2068	On maturity	97,827	95,750
Bilateral bank loan	0.18% to 1.00%	June 2020 to May 2048	Instalment	103,162	66,169
				200,989	**161,919**
Financial liabilities				**749,211**	**737,400**
Unamortised loan issue costs				(861)	(1,008)
Restructured loan				13,525	-
Total financial liabilities measured at amortised cost (notes 23 & 24)				**761,875**	**736,392**
Less: THFC financing surplus				(3,097)	(2,774)
Less: Restructured loan				(13,525)	(22,246)
Total loan repayable (as per repayment profile below)				**745,253**	**711,372**

Repayment profile of financial instruments	Group Payable by instalment £'000	Payable on maturity £'000	2017 Total £'000
Less than one year	8,091	-	8,091
Between one and five years	53,537	54,500	108,037
In more than five years	339,526	289,599	629,125
Total	**401,154**	**344,099**	**745,253**

	Payable by instalment £'000	Payable on maturity £'000	2016 Total £'000
Less than one year	4,915	-	4,915
Between one and five years	49,466	64,223	113,689
In more than five years	351,974	240,794	592,768
Total	**406,355**	**305,017**	**711,372**

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27. Recycled capital grant fund

The movement on the recycled capital grant fund is shown below:

Group and Association Funds pertaining to activities within areas covered by:		HCA £'000	GLA £'000	Other £'000	Total £'000
As at 1 April 2016		825	10,310	1,245	12,380
Inputs to DPF (source of funds):	Funds recycled	93	4,017	130	4,240
	Interest accrued	-	7	-	7
Use/allocation of funds:	New build	(500)	(3,275)	-	(3,775)
Repayment of grant to GLA		-	(22)	-	(22)
At 31 March 2017		**418**	**11,037**	**1,375**	**12,830**
Amounts 3 years or older where repayment may be required		**-**	**-**	**-**	**-**

28. Disposal Proceeds Fund

The movement on the Disposal Proceeds Fund is shown below:

Funds pertaining to activities within areas covered by:		Group and Association GLA £'000
As at 1 April 2016		171
Inputs to DPF (source of funds):	Funds recycled	313
At 31 March 2017		**484**
Amounts 3 years or older where repayment may be required		**-**

29. Social housing grant

Group and Association	Under development		Completed (available for letting)		
	General rented £'000	Shared ownership £'000	General rented £'000	Shared ownership £'000	Total £'000
At 1 April 2016	5,229	8,933	469,733	26,792	510,687
Received	8,659	2,514	-	-	11,173
Amortisation for year	-	-	(4,915)	(382)	(5,297)
Disposal	-	-	-	(2,542)	(2,542)
Transfer on completion	(5,971)	(3,796)	10,250	3,796	4,279
Repayable at disposal – RCGF	-	-	(5,675)	-	(5,675)
Transfer from RCGF	-	(1,783)	-	-	(1,783)
Reclassification	6,481	(2,710)	7	-	3,778
Reallocation	(945)	(390)	(21)	-	(1,356)
At 31 March 2017	**13,453**	**2,768**	**469,379**	**27,664**	**513,264**

30. Other capital grants

Group and Association	Under development		Completed (available for letting)		
	General rented £'000	Shared ownership £'000	General rented £'000	Shared ownership £'000	Total £'000
At 1 April 2016	-	-	54,216	2,184	56,400
Amortisation for year	-	-	(3,690)	(15)	(3,705)
Repayable at disposal	-	-	-	(120)	(120)
Reclassification	-	-	(720)	-	(720)
At 31 March 2017	**-**	**-**	**49,806**	**2,049**	**51,855**

Other grants are grants from local authorities.

31. Shared equity grants

Group and Association	2017 £'000	2016 £'000
At 1 April	1,531	1,261
Grants received during the year	1,862	384
Recycled during the year	(430)	(114)
At 31 March	**2,963**	**1,531**

Shared equity grants are received to partially fund the shared equity loan scheme. The grants are not amortised and are recyclable or become payable when the shared equity loans they funded are redeemed.

32. Non-equity share capital

	Association	
	2017 £	2016 £
Ordinary shares of £1 each, issued and fully paid:		
At 1 April	9	10
Issued during the year	2	-
Surrendered during the year	-	(1)
At 31 March	**11**	**9**

The shares provide members with the right to vote at general meetings, but do not provide any rights to dividends, redemptions of capital or distributions on a winding up. Shares in issue are not capable of being repaid or transferred. Where a shareholder ceases to be a member, that person's share is cancelled and the amount paid up thereon becomes the property of the Association. Therefore all shareholdings relate to non-equity interests.

33. Legislative provisions

The Group and Association are registered under the Co-operative and Community Benefit Societies Act 2014, and are required by statute to prepare consolidated financial statements as the Association is the ultimate parent entity in the Group. The Association is registered with the Housing and Communities Agency (HCA) as a social provider.

Notes to the Financial Statements
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34. Capital commitments

	Group and Association	
	2017 £'000	2016 £'000
Expenditure contracted for but not provided for in the financial statements	**283,694**	**265,091**

Capital commitments are in relation to the development programme that Board approved. Capital commitments will be financed through a combination of retained reserves, long-term committed loan facilities from banks and other lending institutions, social housing grant awarded by the Homes and Communities Agency and proceeds from the sale of outright sale and non-core properties.

Below is how the Group expects to finance capital commitment through:

	Group and Association	
	2017 £'000	2016 £'000
Social Housing Grants	17,387	3,877
Surpluses and borrowings	266,307	261,214
Total	**283,694**	**265,091**

35. Operating leases

The total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Amount payable in:				
Not later than one year	16,472	16,481	16,434	16,464
Later than one year and not later than five years; and	21,983	24,859	21,983	24,859
Later than five years	30,417	32,264	30,417	32,264
Total	**68,872**	**73,604**	**68,834**	**73,587**

The amount of lease payments recognised as an expense in the year was £18,516k (2016: £19,541k). Certain properties are available to purchase via Right to Buy by the existing tenant. The Group's social housing properties are held under operating leases and are tenanted under cancellable operating lease conditions. Typical tenant break clauses exist requiring a notice period of a month.

Rents fluctuate in accordance with the Rent Standard and are affected by the Welfare Reform and Work Act 2016. Shared ownership properties may be purchased (staircased) by their leaseholder at any time at the pro-rata market rate. Ongoing lease payments will be adjusted according to the share of ownership retained by the Group. Certain properties are available to purchase via Right to Buy by the existing tenant.

36. Notes to the cash flow statement

	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Surplus for the financial year	51,822	155,323	59,968	157,190
Profit on sale of fixed assets	(7,325)	(7,465)	(7,325)	(7,465)
Revaluation surplus on investment properties	(1,347)	(2,594)	460	(2,594)
Interest receivable and other income	(422)	(477)	(415)	(2,363)
Interest payable and similar charges	26,218	29,616	28,245	30,883
Restructuring of financial instruments	(8,720)	(62,335)	(8,720)	(62,335)
Fair value element of LOBO	-	9,979	-	9,979
Taxation	9,228	7	-	-
Gift Aid receivable	-	-	(21,604)	(56,540)
Operating surplus	**69,454**	**122,054**	**50,609**	**66,755**
Depreciation charges	20,420	16,650	20,316	16,546
Amortised government grants	(9,001)	(6,158)	(9,001)	(6,158)
Impairment of assets	542	2,656	542	2,656
Loss on disposal of assets	670	3,054	670	460
Working capital movements				
Decrease/(increase) in stock	47,778	(9,567)	37,111	(18,405)
Decrease in debtors	8,582	3,250	4,656	34,755
(Decrease)/increase in creditors	(14,176)	(5,865)	(10,310)	14,789
Reclassification/non-cash item	(25,382)	-	(25,382)	-
Net cash inflow from operating activities	**98,887**	**126,074**	**69,211**	**111,398**

Group Analysis of changes in net debt	1 April 2016 £'000	Cash flow £'000	31 March 2017 £'000
Cash and cash equivalents	62,775	11,646	74,421
Sinking fund	2,331	-	2,331
Bank overdraft	(95)	(591)	(686)
	65,011	**11,055**	**76,066**
Debt due within one year	(4,942)	(209)	(5,151)
Debt due after more than one year	(706,430)	(33,672)	(740,102)
THFC debt	(2,774)	(323)	(3,097)
	(649,135)	**(23,149)**	**(672,284)**

Association Analysis of changes in net debt	1 April 2016 £'000	Cash flow £'000	31 March 2017 £'000
Cash and cash equivalents	57,228	8,968	66,196
Sinking fund	2,331	-	2,331
Bank overdraft	(95)	95	-
	59,464	**9,063**	**68,527**
Debt due within one year	(4,942)	(123)	(5,065)
Debt due after more than one year	(706,430)	(33,758)	(740,188)
THFC debt	(2,774)	(323)	(3,097)
	(654,682)	**(25,141)**	**(679,823)**

Notes to the Financial Statements
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37. Pension schemes

During the year, the Group participated in four pension schemes: three defined benefit schemes providing benefits based on final pensionable pay (two local government pension schemes and the multi-employer Social Housing Pension Schemes SHPS) and a fourth scheme providing benefits based on contributions made (a defined contribution scheme). The two local government pension schemes are accounted for as defined benefit schemes whilst SHPS defined benefit scheme is accounted for as a defined contribution scheme because it is not possible to identify the Group's share of underlying assets and liabilities on a consistent and reasonable basis.

The amount recognised in the Statement of Comprehensive Income is as follows:

Charged in operating profit		2017 £'000	2016 £'000
Defined benefit schemes: service costs	note 37a	565	20
Defined benefit scheme - accounted for as a defined contribution scheme: contribution paid	note 37b	1,498	1,093
Defined contribution scheme: contributions paid	note 37c	661	511
		2,724	**1,624**
Interest and finance costs			
Defined benefit schemes	note 37a	4	55
Defined benefit scheme - accounted for as a defined contribution scheme	note 37b	245	177
		249	**232**

(a) Defined benefit schemes

The Group took part in two local government pension schemes. The London Borough of Lambeth Pension Scheme (the Lambeth Scheme) provided a cessation report in respect of staff transferred over from Community Trust Housing (CTH) to SW9 Limited on 31 March 2016. The amount £1,089k was paid in full and Network Homes Limited has no further liability in respect of past service deficit. Credits on Statement of Comprehensive Income are part of closure of balance sheet account codes, hence the net amount of £565k was the cost that went through accounts. Amounts shown on tables below for Lambeth are only for comparison.

There were no costs paid this year to the Hertfordshire Local Government Pension Scheme (the Hertfordshire Scheme) administered by Hertfordshire County Council.

The schemes are contracted out of the Second State Pension.

	Hertfordshire Scheme		Lambeth Scheme	
	2017	2016	2017	2016
Members of the schemes employed by the Group	-	-	-	-

A full actuarial valuation of the schemes was performed at 31 March 2017 by a qualified independent actuary, Hymans Robertson, using the projected unit credit method. The principal financial assumptions used by the actuary were:

	Hertfordshire Scheme	
	2017 %	2016 %
Expected rate of price increase	1.2	1.2
Expected rate of salary increase	2.5	3.7
Expected rate of pension increases	2.4	2.2
Discount rate	2.6	3.5

Hertfordshire Scheme	Assets £'000	Liabilities £'000	Total £'000
At 1 April 2016	11,708	(11,830)	(122)
Benefits paid	(282)	282	-
Interest income/(expense)	405	(409)	(4)
Actuarial (loss)/gain	111	(769)	(658)
31 March 2017	**11,942**	**(12,726)**	**(784)**

Total cost recognised as an expense:	Hertfordshire Scheme		Lambeth Scheme (for comparatives)	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Service cost	-	-	-	20
Cessation cost	-	-	565	-
Net interest cost	4	38	-	17
	4	**38**	**565**	**37**

The fair value of the plan assets were:	Hertfordshire Scheme		Lambeth Scheme (for comparatives)	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Equity instruments	7,762	7,376	-	1,239
Bonds	2,986	3,044	-	599
Property	836	937	-	186
Cash	358	351	-	41
	11,942	**11,708**	**-**	**2,065**

The return on the plan assets were:	Hertfordshire Scheme		Lambeth Scheme (for comparatives)	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Interest income	405	374	-	65
Actual return on plan assets less interest income	111	(197)	-	140
	516	**177**	**-**	**205**

(b) Defined benefit scheme – accounted for as a defined contribution scheme

The Association participates in the Social Housing Pension Scheme (the Scheme). The Scheme is funded and is contracted-out of the State Pension scheme. It is not possible, in the normal course of events, to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the scheme is a multi-employer scheme where the scheme assets are co-mingled for investment purposes, and benefits are paid from total scheme assets. Accordingly, due to the nature of the Scheme, the Scheme has been accounted for as a defined contribution plan.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK. The Scheme is classified as a "last-man standing arrangement". Therefore, the Association is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the Scheme deficit following withdrawal from the Scheme. Participating employers are legally required to meet their share of the Scheme deficit on an annuity purchase basis on withdrawal from the Scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed additional contributions will be paid to the Scheme. The agreed future payments have been recognised at their present value using the market yields on high quality bonds. The discount rate used was 1.33% (2016: 2.06%, 2015: 1.92%, 2014: 3.02%).

37. Pension schemes – continued

	Group and Association	
	2017 £'000	2016 £'000
At 1 April 2016	12,721	9,770
Deficit contributions paid	(1,498)	(1,093)
Charged to staff costs:		
Impact of change in discount rate	340	(79)
Unwinding of the discount factor (charged to interest payable)	245	177
Re-measurement to contribution	(11)	3,946
At 31 March 2017	**11,797**	**12,721**
Analysed as follows:		
Amount due within one year	1,601	1,080
Amount due after one year	10,196	11,641
	11,797	**12,721**

During the year ended 31 March 2017 Network Homes Limited made additional payment to the scheme in amount of £1,498k in respect of contribution towards past service deficit.

Based on the financial position of the Scheme as at 30 September 2014, the Pensions Trust has notified the parent of the estimated £11,196k employer debt on withdrawal from the SHPS. No crystallising event has occurred and no provision has been recognised, nor has any contingent liability been disclosed arising from this arrangement.

(c) Defined contribution scheme

The amount recognised as an expense was:	Group		Association	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Contributions	661	511	641	511
	661	**511**	**641**	**511**

The Association paid contributions to The Pension Trust for its staff at the rates of 4% to 8% and members paid contribution between 4% and 10% based on their pensionable salaries.

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38. Contingent liabilities

As at 31 March 2017, the Group had the following contingent liabilities:

i. A performance bond of £40,000 with Welwyn Hatfield District Council, to support a Section 106 of the Town & Country Planning Act 1990 Agreement. This relates to work Network Stadium Housing Association is required to complete on land at Ludwick Way, Peartree Farm, Welwyn Garden City

ii. A performance bond of £35,000 in favour of London Borough of Barnet, for the management of temporary housing

iii. A performance bond of £240,850 in favour of Bedfordshire County Council, to support a Section 38 Highways Act 1980 Agreement on the development at Stratton Park, Biggleswade and

iv. Cross collateralisation and cross guarantees are in place for £410m of loans borrowed by Network Treasury Services Limited, the Group's Treasury vehicle, as at 31 March 2017. The loans are secured against property assets held by these Group entities. These loans are included within housing loans in note 26.

The above performance bonds i, ii and iii are payable by the Network Homes Limited should the contracted work described not be completed in accordance with the terms of the respective bond.

Bonds previously in the name of Community Trust Housing were:

i. TUPE bond of £165,100 to protect the terms and conditions of transferring staff from London Borough of Lambeth: Network Homes Limited has no further liability towards this bond and the work is undertaken in order to cancel the bond

ii. A performance bond of £248,146 relating to provisions within a Section 106

iii. A performance bond of £50,000 relating to provisions within a Section 106

iv. A performance bond of £50,000 relating to provisions within a Section 172

39. Government assistance

The Group receives financial assistance from government sources such as the HCA and local authorities. These government grants are accounted for as deferred income in the statement of financial position and are amortised annually to the Statement of Comprehensive Income based on the life of the building component, which is 100 years. The amount amortised represent a contingent liability to the entity and will be recognised as a liability when the properties funded by the relevant government grant are disposed off or when the property ceases to be used for social housing purposes.

Below is the analysis of the assistance from government sources in the form of government grants:

	Group and Association	
	2017 £'000	2016 £'000
Government funding received (Note 29,30 & 31)	568,082	580,681
Grants amortised to date (Contingent liabilities)	**67,764**	**58,153**

40. Related parties

As permitted by FRS 102 Paragraph 33.1A, the Association has not presented details of related party transactions with other companies that are wholly owned within the Group. The rents of the tenant Board members are on normal commercial terms and they are not able to use their position to any advantage.

Following amalgamation, all Gift Aid payments from non-regulated entities are receivable by the Association.

Total receipts from non-regulated Group members	Details	2017 £'000	2016 £'000
Network Living Limited	Giftaid	284	25
Network Homes Investments Limited	Giftaid	10,922	28,118
Pimlico Village Developments Limited	Giftaid	62	13
Network New Build Limited	Giftaid	272	303
Network Treasury Services Limited	Giftaid	11	4
Network Homes Investments (Stockwell) Limited	Giftaid	10,065	28,077
SW9 Community Housing	Management fees	2,614	-
		24,230	**56,540**

Total payments from non-regulated Group members	Details	2017 £'000	2016 £'000
Network Homes Investments Limited	Interest paid on loans	1	-
Network Homes Investments Limited	Office rent	10	-
Network Treasury Services Limited	Interest paid on loans	59	220
Network Homes Investments (Stockwell) Limited	Design & Build	-	1,097
Student First	Loans	-	669
Network New Build Limited	Design & Build	61,680	54,694
Pimlico Village Developments	Electricity & insurance	60	60
Network Living Limited	Office rent and Loans	29	61
		61,839	**56,801**

Gift Aid from the subsidiaries is recognised at year-end on receivable basis and is calculated based on the profit for the year end. Design and build fees are calculated as a percentage of scheme build cost recharged to Network Homes Limited. Electricity and insurance cost is recharged based on the agreement between Pimlico Village Developments and the Association.

Student First Ltd pays interest on loan from Network Homes Investments Limited. The interest is at market rate. Network Living received office rent from the Association for Riversmead House in Hertfordshire. On 1 January 2017, Network Living transferred its assets to Network Homes Investments Limited and the rent is now payable to Network Homes Investments Limited. Network Treasury Services Limited receives interest on loan to the Association.

41. Housing stock

The number of units of accommodation in management at the end of the year was as follows:

	2017			2016		
Social housing rental stock	Owned	Managed	Total	Owned	Managed	Total
General needs (exclusive of PSL)	7,858	1,075	8,933	8,501	685	9,186
General needs (PSL only)	714	404	1,118	1,214	-	1,214
Affordable	1,998	3	2,001	1,584	2	1,586
Total general needs and affordable	10,570	1,482	12,052	11,299	687	11,986
Sheltered (older persons)	1,392	26	1,418	1,458	-	1,458
Shared ownership	1,775	49	1,824	1,675	70	1,745
Leasehold	1,631	400	2,031	1,967	78	2,045
Supported housing	63	452	515	521	-	521
Intermediate rents (key workers)	1,438	-	1,438	1,321	310	1,631
Total	**16,869**	**2,409**	**19,278**	**18,241**	**1,145**	**19,386**
Non-social housing stock						
Leasehold	347	157	504	47	411	458
Intermediate rents (key workers)	188	-	188	-	-	-
Market rented	-	5	5	16	5	21
Total	**535**	**162**	**697**	**63**	**416**	**479**
Total	**17,404**	**2,571**	**19,975**	**18,304**	**1,561**	**19,865**
Properties owned but managed by others externally						
General needs (exclusive of PSL)	240	-	240	251	-	251
Leasehold	-	-	-	16	-	16
Supported housing	429	-	429	423	-	423
Market rented	5	-	5	-	-	-
Sub total	**674**	**-**	**674**	**690**	**-**	**690**

Table above is prepared as per Statistical Data Return (SDR) definitions. For the purposes of this data collection, a provider is the owner of a property when it owns the freehold title or where a lease is granted by the freeholder (the leasehold for that property). The 'owner' is the landlord. The landlord has legal responsibility for the tenancy or issuing a licence and charging of rent or licence fee for occupants of the property. Landlords may (and usually do) directly manage the properties they own or they may have an agreement with another organisation for the management of lettings and rent collection. The form of any management agreement may vary, however the landlord retains overall control of the property and all occupiers of its properties are tenants of that provider.

The lease can be of any duration, as the length of lease that the landlord holds does not determine whether it is social housing or not. Stock held on shorter leases will have been counted as stock that is managed for others.

42. Accommodation managed by agents

The Group owns property managed by other bodies, as follows:

Property	2017	2016
Alamo Housing Co-operative	80	81
Apna Ghar	10	10
Ashford Place	6	6
Bahay Kubo	12	11
Brent Community Housing Ltd	6	6
Brent MIND	30	30
Centrepoint	30	30
Certitude	4	4
Creative Support	7	7
Directly-Managed	-	1
Equality Housing (Barnet MENCAP)	12	12
Equinox	13	13
Harrow Churches Housing Association	6	6
Harrow Council	7	7
Hestia Housing & Support	6	7
HFT	5	5
Home from Home	4	4
Karin Housing Association	34	35
Look Ahead Care and Support	128	98
MACE Housing Co-operative Ltd	55	71
Refugee Support Housing	-	1
Riverside ECHG	-	52
Savills	5	-
Spitalfields Housing Association	3	3
SSAFA	28	28
St Mark's Housing Co-operative	7	7
St Mungo's Broadway	30	30
Tamil Community Housing Association	21	39
Unit 11 Housing Co-operative Ltd	29	29
Wandsworth and Westminster MIND	44	42
Watford Community Trust Housing	37	-
Westminster Housing Co-operative	7	7
Westminster Society	8	8
Total units managed by agents	**674**	**690**

43. Financial instruments and financial management

	2017 £'000	2016 £'000
Financial assets measured at amortised cost		
Investment - financial	6,487	6,539
Shared Equity Loans	6,624	6,821
Rents receivables	8,998	7,842
Trade debtors	2,076	7,886
Stock transfer	6,062	4,455
Other receivables	9,930	31,456
Cash and cash equivalents	76,752	65,106
Total financial assets	**116,929**	**130,105**
Financial liabilities measured at fair value through profit or loss		
Fair value of LOBOs	-	-
Financial liabilities measured amortised cost		
Housing loans less than one year	5,151	4,915
Housing loans more than one year	756,724	731,477
Bank overdraft	686	95
Trade creditors	2,759	1,207
Rent and service charges received in advance	7,426	6,168
Accruals	41,420	37,837
Social Housing Grant repayable	-	1,523
Disposal proceeds fund	484	171
Recycled capital grant fund	12,830	12,380
Other creditors	2,802	7,403
	830,282	**803,176**
Total financial liabilities	**830,282**	**803,176**

Notes to the Financial Statements
for the year ended 31 March 2017

Financial Management

The main risks arising from the Group's financial instruments are as follows:

- liquidity risk
- interest rate risk
- counter party risk
- customer credit exposure.

Liquidity risk

The purpose of managing liquidity risk is to ensure that the Group meets its financial obligations when they fall due. The Group meets its financial obligations through cash flows from operating activities such as our underlying cash from rental income streams and property sales, grants from government sources and through long term borrowing from lenders. Each year the Group's Board approves the treasury management strategy and updates the treasury policy for the Group. This policy addresses funding and liquidity risk, covenant compliance and investment policy. In addition, the Group Board receives reports on treasury activities.

Treasury services are provided to the Group by the Association.

Each year the Group's Board approves the treasury management strategy and updates to the treasury policy for the Group. This policy addresses funding and liquidity risk, covenant compliance and investment policy. In addition, the Group Board receives reports on treasury activities.

Treasury management activities are monitored by the Board of NTSL which meets at least four times per year.

The Group borrows at both fixed and floating interest rates, with the treasury policy requiring a minimum of 50% of drawn debt to be on fixed interest rates or hedged.

The Group's debt is a mixture of fixed and floating rate loans. As at 31 March 2017, 80% (2016: 75%) of the Group's debt was at fixed rates and 20% (2016: 25%) at floating rates.

The Group's' treasury team monitors covenant compliance for the Group on a regular basis and is required to report on covenant compliance to the Group's lenders and the borrowers on a quarterly basis. At 31 March 2017 the Group complied with its loan covenants. Business plans demonstrate that it will continue to do so in the future. The borrowings summary and repayment schedule is at the nominal value.

Interest rate risk

The Group borrows from lenders using long term loans whose tenure depends on the 30 year business planning cycle and the Board's assessment of the macro economic environment; for instance, the Board's view of the future direction of interest rate, assessment of demand and assessment of the political and legal environment. To mitigate interest risk the Group ensures it has the right balance between fixed and variable loans in its loan portfolio.

Counter party risk

The Group's treasury policy sets minimum credit ratings for counter parties on investments and borrowings to reduce counter party risk.

The short term counterparty ratings for investments must be at least an A1/P1 or F1. There are limits of £10m for approved investment institutions with the exception of the Group's main clearing bank where the £10m limit can be exceeded for short periods or £20m for AAA rated Money Market Fund's (MMF's).

The treasury policy is reviewed annually.

The Group has a procurement policy in place and manages counter party risk by carefully selecting suppliers and development partners. This risk is mitigated by strong on-going relationships with contractors and suppliers.

Customer credit exposure

The Group is exposed to the possibility of tenants not paying their rents. To mitigate this risk, the Group monitors arrears on a weekly basis and engages with tenants. Income management teams follow up any late payments promptly and have strong on-going customer relationships with our tenants.

Notes to the Financial Statements
for the year ended 31 March 2017

44. Events after the end of reporting period

Grenfell Tower tragedy

Following the tragedy of the Grenfell Tower fire, a full public inquiry has been ordered. There have also been a number of requests for information from various bodies, including the Department for Communities and Local Government (DCLG). As part of these enquiries, the Group has had cladding of some of its buildings sent to the British Research Establishment (BRE) for testing.

At the time of signing these financial statements, BRE testing confirmed that four of the Group's buildings failed the BRE tests. The London Fire Brigade carried out a full fire safety inspection of the four buildings following these test results and has confirmed that appropriate fire safety measures are in place to manage the risk of fire in the buildings inspected and that residents do not need to vacate.

Due to the uncertainty and timing of the ongoing activities, it is not yet possible to estimate the financial impact of this across the Group's housing property portfolio.


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