Reports and Financial Statements

for the year ended 31 March 2018

Contents

Registered office

Home Group Limited
2 Gosforth Park Way
Gosforth Business Park
Newcastle upon Tyne
NE12 8ET

Co-operative and Community
Benefit Society No: 22981R

Regulator of Social Housing
Registered No: L3076

Chairman's report

I have pleasure in introducing the financial statements for the year to 31 March 2018, outlining our continued progress over the past year.

We are a social enterprise and charity with a turnover of over £360 million. We operate across the country and are one of the UK's largest providers of high quality housing and support services.

Last year we supported over 116,000 people across England, Scotland and Wales, who live in our 55,000 homes. This includes accommodation-based support for customers with mental and physical health issues. This year we have worked with over 26,000 vulnerable people in our supported housing, justice and health services.

To deliver this, we need to be robust and financially stable. In the year to 31 March 2018, we delivered strong financial results with a surplus before tax of £51.8 million (2017 : £48.4 million), a 7.0% increase on the previous year. This surplus is reinvested into improving our existing housing stock, building more homes and meeting the wide-ranging needs of our customers.

Our total rental income in the year to 31 March 2018 was £259.7 million (2017 : £260.0 million). From this, we invested £75.8 million in maintaining and improving our customers' homes and will continue to do so with our plans for the forthcoming year. We have continued to perform highly, maintaining our customer satisfaction target of 93%.

We generated £51.8 million from our ordinary activities in the financial year 2017/18 and this is all reinvested in our homes and communities. In addition to reinvesting our operating surplus, we also use grants, loans and the proceeds from the sale of properties to fund the development of new homes and improvements to our existing stock of homes.

We are one of the UK's biggest developing housing associations. Last year, we built 1,364 new homes for rent and ownership and our total development spend was £238 million. The government is committed to building more homes to help meet the housing need in the country and our ambitious plans will see us rapidly increase the number of homes we are building year on year, with a target of 10,000 new homes by 2021/22.

Our aim is to make sure these homes meet a wide range of needs, incomes and demographics. Our customer insight has shown us that 87% of our customers aspire to own their own home. We are making sure an increasing proportion of our developments are either for outright sale or shared ownership, providing high quality affordable places to call home. This has generated £35 million of income, a 100% increase on the previous year thanks to our growing development programme. Surplus generated by these developments is reinvested in the construction of new social housing stock.

Clearly, we cannot talk about last year without addressing the legacy of the Grenfell Tower tragedy. We are paying very close attention to the inquiry as it progresses and, as the findings continue to be released, we are ensuring that we evaluate and implement all the relevant recommendations so that we can continue to maintain the highest standards of fire safety, as well as making sure our customers feel empowered and informed about our approach.

Political changes over the last year have highlighted the importance this government places on housing, with its addition to a senior minister's brief as part of the Ministry of Housing, Communities and Local Government, as well as showing the priority given to the integration of housing and care with the newly-created Department of Health and Care.

We were delighted with the government's announcement on the detail behind new funding models for supported housing, giving us much-needed certainty to build services to support some of the most vulnerable people in society. Our work, together with the wider sector, saw the removal of the Local Housing Allowance cap for all supported and social housing, putting us on a sustainable long-term footing. We will continue to work with government to shape the design for the

Chairman's report (continued)

future funding of supported housing and are particularly keen to ensure that the models support the integration of health, housing and care.

There is great determination from both the sector and the government to look at the long term future of social housing. The National Housing Federation and the Chartered Institute of Housing are both considering where the social housing sector goes next, and both Labour and the government are publishing social housing green papers outlining the policies they feel will make a difference to the sector moving forward. The next year will be about engaging with these as a sector to work together to deliver the change we need to see.

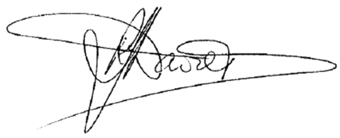
Our strategy remains ambitious and focused, demonstrating our commitment to building homes, independence and aspirations. One of our priorities remains to drive efficiency. Our performance to date is strong, with achieved efficiency savings of £10.8 million over this financial year which equates to 4.2% of our operating expenditure. We can and will continue to improve on this.

With a strong credit rating of A, a rating of G1:V1 from the Regulator of Social Housing, a healthy surplus available for reinvestment and a gearing ratio of 43.9% (using the Regulator of Social Housing's value for money metric definition), Home Group has the appetite, the capacity and the resources to continue growing, improving our services and building more homes.

Our year has seen some great achievements. We are delivering on our promises, our service standards continue to be rated as excellent by our customers and our finances are in good health. None of this would be possible without the hard work and continued dedication of our colleagues. I would like to take this opportunity to thank them all and recognise the huge contribution they make.

There is always more we can do. As always, we remain committed to focusing on where we can make improvements to our performance. We have set ourselves demanding targets for the coming year and whilst the external environment remains challenging, we are confident that our core principles of building more homes, creating independence and supporting our customers' aspirations have never been more relevant.

This year has been the last of my six years as Home Group chairman and the sector and indeed the wider environment has changed greatly in that time. Throughout this period, Home Group has continued to meet the needs of our customers and I hand over this role confident we will continue to deliver against our strategy.



R J Davies, LLB, FCMA

Home Group Chairman

Report of the Board and Strategic Report

Board

R J Davies, LLB, FCMA (Home Group Chairman, until 19 July 2018)

J Cridland, CBE, MA (Home Group Chairman, appointed 19 July 2018)

C E R Bassett, LLB (Hons)

R A Bradley, DL, BA (Hons), DipSocAd, MA, CQSW

N T Fee, BSc (Hons) (Senior Independent Member, until 20 July 2017)

K Gillespie, BSc (Hons), FRICS (appointed 8 June 2017)

M G Henderson, BSc (Hons)

J Hudson BSc (Hons), PhD, ACA

R M Jackson, BA (Hons)

M Macfarlane, MA, MBA, LLB (Home Scotland Chair, until 22 May 2018)

B Mehta, CBE, BA (Hons), MSc

L A Morphy, OBE, BSc (Econ), MSc

V F Peterkin, MA, FCIH (Home Scotland Chair, appointed 22 May 2018)

N W Salisbury, BA (Hons) (Senior Independent Member)

K Tinneny

Executive (key management personnel)

M G Henderson, BSc (Hons)
Chief Executive

R M Byrne, BA, MCIH
Executive Director – New Models of Care

R Du Rose
Executive Director – Operations

M Forrest, BA (Hons), PGCE, ACA
Executive Director – Business Development

B A Ham, BA (Hons), MPhil, FRGS
Executive Director – Development

J Hudson, BSc (Hons), PhD, ACA
Chief Financial Officer

Advisors

Bankers:
Barclays Bank plc
Barclays House
5 St. Ann's Street
Quayside
Newcastle upon Tyne
NE1 2BH

Independent Auditors:
KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Solicitors:
Devonshire Solicitors LLP
30 Finsbury Circus
London
EC2M 7DT

Objectives and strategy

Principal activities

The principal activities of Home Group are the provision of affordable rented accommodation, the design and development of integrated health and care services and the development of property for sale, including low cost home ownership schemes.

Group structure

Under Home Group's legal structure, Home Group Limited, an exempt charity registered with the Financial Conduct Authority (FCA) as a registered society and with the Regulator of Social Housing (RSH) as a Registered Provider, is the parent organisation in the Home Group. Following the launch of Home Group's strategy '*Building homes, independence and aspirations*' in 2016, the business has been organised into three distinct business units:

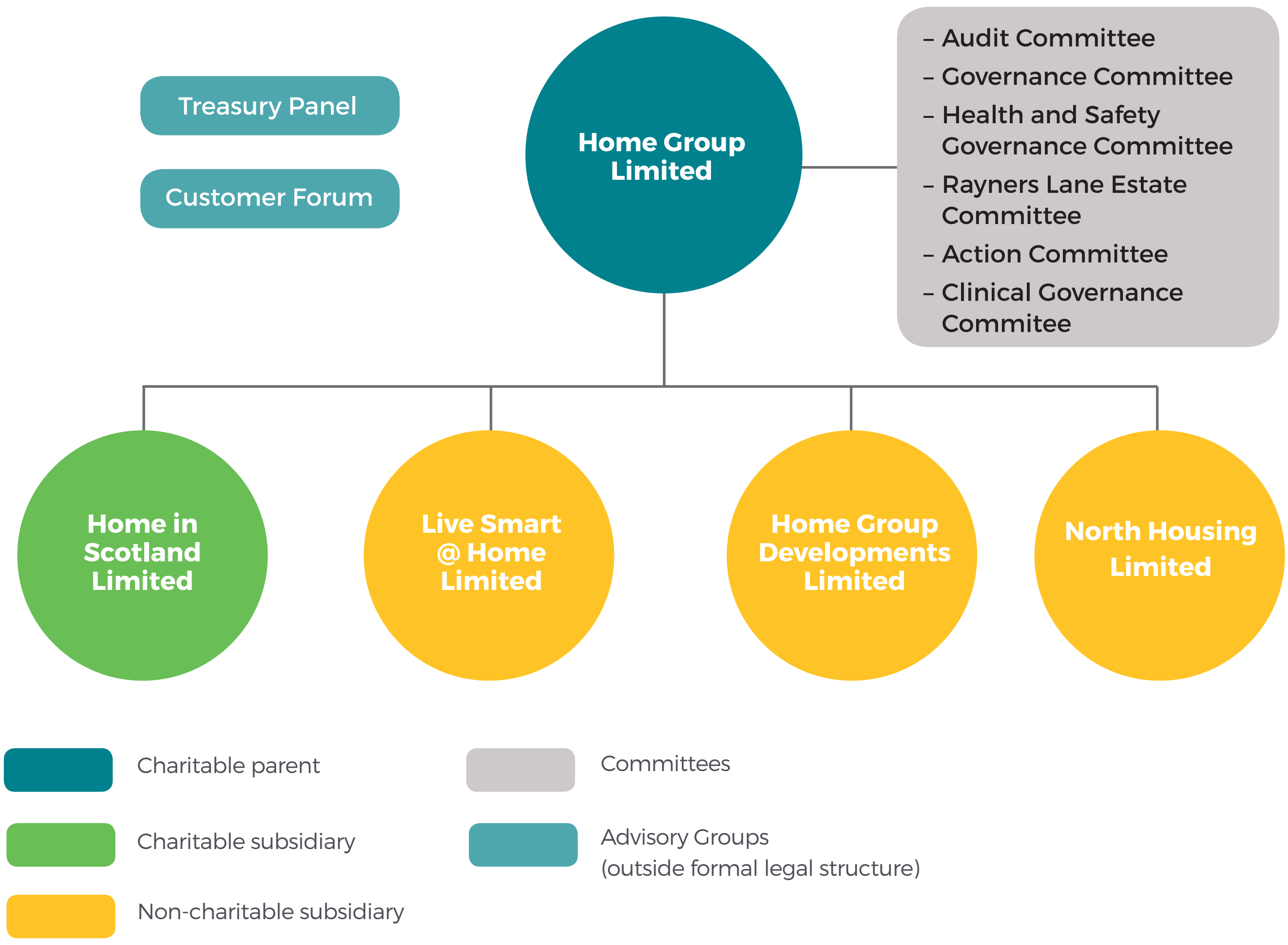
- Operations: the delivery of services to customers in rented, shared ownership (including leasehold) and supported markets.
- New models of care: the design and development of integrated health and care services.
- Development: building homes for outright sale, affordable housing and supported housing.

The delivery of these services is assisted by support services which provide asset management, risk and assurance, compliance, health and safety, communications, marketing, strategy, business development, finance, human resources, company secretary, information systems, legal services and procurement.

Home Group Limited has four trading subsidiaries:

- Home in Scotland Limited (Home Scotland), a charitable registered housing association registered with the Scottish Housing Regulator, undertaking Home Group's business in Scotland.
- Home Group Developments Limited (HGDL) is a private non-charitable company which undertakes market housing for sale and the new build construction of affordable housing for rent.
- North Housing Limited (NHL) is a private, non-charitable company which acts as a vehicle to facilitate joint venture activity across the Group. NHL is an equal partner with companies in the Galliford Try Group in five limited liability partnerships as detailed overleaf. The partnerships have been formed primarily to develop residential property for private sale.
- Live Smart @ Home Limited (Live Smart) is a private non-charitable company providing market and mid-market rented products.

Objectives and strategy (continued)



Home Group also has a 50% interest in Evolution Gateshead Developments LLP, a joint venture between HGDL and Galliford Try Construction Limited, and a 25% interest in Gateshead Regeneration LLP, a joint venture with Evolution Gateshead Developments LLP and Gateshead Council.

In addition, Home Group has a 50% interest in Evolution (Shinfield) LLP, Evolution Newhall LLP, Linden (Northstowe) LLP and Evolution (Saffron Walden) LLP, joint ventures between NHL and Galliford Try Homes Limited and a 50% interest in Evolution Morpeth LLP, an associate of NHL. Finally, Home Group has an interest in Ptarmigan Planning 4 Limited, a further associate of NHL. Ptarmigan Planning 4 Limited had three wholly owned subsidiaries at the balance sheet date, namely; Ptarmigan Birchington Limited, Ptarmigan Thatcham Limited, Ptarmigan Berinsfield Limited.

Strategic priorities developed by the Board are driven forward by the Executive team who are tasked with innovating and achieving more efficient and effective ways of delivery, in an era of significantly reduced grant funding.

Objectives and strategy (continued)

The table below summarises the registration details of Home Group Limited and its four wholly owned subsidiaries:

Organisation	Applicable model rules	Co-operative and Community Benefit Societies Act 2014 registration number	Regulator of Social Housing registration and registered number	Other registrations and registered number
Home Group Limited	National Housing Federation Model Rules 2015	22981R	Housing and Regeneration Act 2008 L3076	–
Home in Scotland Limited	Based on Scottish Federation of Housing Associations Charitable Model Rules (Scotland) 2013	1935 R(S)	–	The Scottish Housing Regulator - 90 Scottish Charity - SC005247
Live Smart @ Home Limited	–	–	–	Registrar of Companies - 3402204
Home Group Developments Limited	–	–	–	Registrar of Companies - 4664018
North Housing Limited	–	–	–	Registrar of Companies - 4052443

Within the main financial statements, the consolidated financial position is referred to as 'Group' and the parent entity financial position is referred to as 'Association'.

Objectives and strategy (continued)

Overview of Home Group and our strategy

Home Group, a social enterprise and a charity with a turnover in excess of £364 million, is one of the UK's largest providers of high quality housing and supported housing services and products. Founded in the North East by an Act of Parliament in the 1930s, for over 80 years Home Group has been working with its trusted partners and customers to make a real difference to the lives of individuals, families and communities across the UK.

Home Group's role is to provide general needs housing, alongside supported housing services targeted towards helping some of society's most vulnerable people:

- Home Group houses over 116,000 people and manages 55,000 properties including social, affordable and shared ownership housing properties, supported units, commercial properties and garage units.

- Some of our customers need more than just a home, and we support their specific needs. Through our care and support activity, we worked with over 26,000 vulnerable people last year in our supported housing, justice and health services.

- Customer satisfaction has been steadily improving and remains at a high level – from 91% customer satisfaction in 2012/13 to 93% in 2017/18, based on our latest customer satisfaction survey results.

- Home Group also develops homes for outright sale, many of which we are now marketing under our new Persona brand.

Objectives and strategy (continued)

In autumn 2016, Home Group launched its new strategy. Our mission is to build homes, independence and aspirations. Our new strategy has four clear goals to achieve by 2021/22:

Build 10,000 new homes

We are making a step change in house building, by pioneering in new markets and building more truly affordable homes with a range of ways for our customers to buy them. The homes we build are high quality and designed with our customers in mind. We will enter new markets, with different tenures (rented, leased, supported, and affordable). The surplus we make from selling houses will be used to build more homes for affordable rent, regenerate existing stock, and provide an integrated housing and health offer.

Market leaders in new models of care

We are adapting our model and shifting our place within the health and social care market. We will deliver care services that truly make a difference by focusing on the greatest long-term impact. We will be doing all we can to relieve pressure on the NHS, and we will focus on the needs of the individuals we serve, whether that is mental health, learning disabilities, or reablement.

90% of our customers regularly using their digital accounts

We want to make it as easy as possible to do business with us. Not only is digital a channel to deliver fantastic customer experience, but it is also cost effective. It provides us with more insight into our customers and how to meet their needs.

20% more efficient

We are re-engineering the way we work. This means we will work more efficiently, more productively and at a lower cost. We will focus on outcomes, and have the right resources in the right places to support our strategic priorities.

We will be measuring progress against all four of these goals to ensure they are fully embedded and driving everything we do.

Objectives and strategy (continued)

Delivering against our strategy

Our strategy sets out our commitment to our mission. This is undertaken in a way that maximises value for money. Our core strategy also represents our value for money strategy.

During 2017, we tested the strategy one year into its delivery. This process resulted in us identifying a need to place greater emphasis on delivering the aspirations element of our mission. As a result we have undertaken some research into our customers' aspirations, and are working with them to help identify opportunities to help them realise their goals.

It is useful to understand progress to date in the context of the four strategic goals.

Build 10,000 new homes

In 2017/18, Home Group invested £238 million in development, which includes construction in progress, securing sites for future delivery of homes, and completing 1,364 new homes, with 590 for outright sale or affordable home ownership and 774 for rent.

We are placing a much greater emphasis on developing new products such as Persona – our new outright sales brand – to increase our development output, as well as innovative partnerships and joint ventures. We have also developed an exciting flexible rent product and are identifying sites and working with local authorities and investors to progress.

Market leaders in new models of care

We are transitioning our care and support offer to be longer term, property-based and building on existing strengths. As part of this, we are strengthening our clinical and therapeutic skills base to further specialise. Much of this involves working with NHS providers and local authorities to provide solutions to customers with mental health needs, learning disabilities or reablement services.

Over the past year, we have made significant progress in defining a series of products, for example around the transforming care agenda. We have worked closely with stakeholders to develop solutions to issues and managing the transition process to new models of care.

90% of our customers regularly using their digital accounts

Extensive activity has taken place over the last year to develop a consistent, high quality customer experience. This experience will involve high quality digital solutions, and a strong digital customer offer. We recognise that this is a long term journey. Significant work is underway to develop new systems, including My Home Account.

Objectives and strategy (continued)

To become 20% more efficient

There is a growing expectation that housing associations must become more commercial in their operation and efficient in their delivery. We have achieved 4.2% (£10.8 million) efficiency savings in 2017/18 against a target of 4.0% (£10.0 million). In 2017/18, our surplus was £50.5 million.

Over the past two years, we led a group of housing associations in the development of the sector scorecard performance benchmarking. During 2017/18, we were part of a sector scorecard pilot, coordinated by the National Housing Federation and HouseMark. This has enabled us to benchmark performance in a number of areas and identify areas for improvement.

Financial strength and a strong emphasis on value for money is vital to enable us to deliver more. We continue to be rated G1:V1. With an A credit rating, a growing surplus, and a gearing ratio of 43.9%, Home Group has strong capacity for further growth. Stress testing, risk management and cash flow management guide Board level decision making and operational delivery.

Brilliant people

Home Group places a strong emphasis on developing brilliant colleagues. We have four organisational values which are very well embedded in the organisation. The values are:

- Caring
- Accountable
- Energised
- Commercial

Home Group's Great Place to Work score has increased to 73% in February 2018, exceeding our target of 70%. This has placed us as 27th in the UK best large workplace rankings. Great Place to Work is our key measure of colleague satisfaction.

As part of our new strategy, Home Group is delivering a Brilliant People programme. Brilliant colleagues are at the heart of our organisation, delivering every day for customers, and helping us to build a reputation that we can all be proud of. Through the actions of our colleagues exhibiting brilliant behaviours, and by working collaboratively, we believe we can achieve our strategy of building homes, independence and aspirations.

Business model

A summary of achievements in the year for each of our business units is set out below.

Operations

The last year saw the continued integration of the former customer service and care and support business units into a single Operations function structured around the three core product groups of; rented general needs housing; supported housing and support services; and home ownership/leasehold.

It continues to be a challenging operational environment, with political and legislative influences and the internal drive to improve customer satisfaction and gain operational efficiencies.

To improve customer satisfaction related to repairs, new maintenance supplier partnerships have been developed in a number of regions, alongside a refinement in the contractual approach to managing repairs. Simpler to administer, the new approach allows the dedicated maintenance team and the suppliers to focus more on service delivery than contract administration. Improved data flow means efforts are now focused on analysis and insight-driven process improvements and efficiencies. Evolution of the maintenance approach will continue through 2018/19 to deliver value for money alongside exceptional service.

The core element of welfare reform legislation, Universal Credit, continues its rollout on a national basis and the organisation continues to monitor changes in risk and expectations through a dedicated project team. Understanding of the impact and key drivers continues alongside ongoing mitigation activity to enhance support to customers through the transition from legacy benefits as well as aiming to minimise the impact of the changes on Home Group.

During the past year the customer service centre maintained its high customer satisfaction score of 94% from last year, finishing the year right on target. The centre has implemented a new telephony platform which now integrates telephone calls, emails and website contact, thus reducing inefficiencies and supporting the digital strategy.

Great success was achieved in maintaining a ServiceMark Accreditation with the Institute of Customer Service. This standard recognised the customer service centre's achievements in customer service, and its commitment to upholding those standards to ensure a first class customer experience.

Home Group's supported housing and support services, including our older people's services and bail accommodation, are provided throughout England. Our supported housing business has continued to be affected by service commissioners' funding cuts and reviews of provision. We have focused our tendering and development work on mental health, learning disability and reablement, in line with our strategic objectives. This has included decommissioning of services which fall outside this strategy as they come to the end of contracts. Furthermore, we have continued to reshape and develop existing services that are in strategy. We are working closely with commissioners to this end and have actively managed our portfolio of contracts through pursuing new business opportunities around health commissioning. We are working with commissioners and other providers to ensure vulnerable people are able to receive the right support through collaborative working and re-tendering of services.

During the year we continued to deliver our bail accommodation service until June as a result of further contract extensions which offered stability for customers and colleagues before the service transferred to a new provider.

Development

Home Group continues to have an active development and regeneration programme which forms a key part of Home Group's strategy.

Home Group is a development partner with Homes England (HE), the Greater London Authority (GLA) and the Scottish government. In delivering its 2017/18 development programme across England and Scotland, Home Group has delivered 1,364 new homes for general needs and affordable rent, supported housing, shared ownership and outright sale. Social housing grants provided by HE, GLA and the Scottish government were utilised in much of this provision and in delivering these new homes, Home Group has achieved these funding agencies' development quality and control standards.

As part of Home Group's future development strategy, it is aiming to provide new homes in communities where customers have a choice of affordable housing products. Home Group recognises that single tenure estates of affordable rented homes can

Business model (continued)

prove difficult to sustain, so Home Group's developments will aim to offer a mix of tenures informed by insight into the current and future housing market needs. Home Group will continue to provide approximately 900 new homes under the HE and GLA 2016-21 Programme as well as additional schemes under Scottish grant funding regimes over the next few years. Overall the Group is targeting the development of 10,000 homes over the term of the strategy, with approximately 5,000 rental homes supplemented by 3,700 outright sales homes and 1,300 shared ownership homes to enable a sustainable long term development programme. Some of these outright sales homes will be delivered through partnerships with established and experienced developers.

HGDL will continue to develop homes for outright sale, affordable rent and shared ownership, with a large number of projects in the pipeline. The first set of schemes within the Gateshead BIG project have been completed with planning secured on the next phase. The project is being undertaken via a joint venture company, Evolution Gateshead Developments LLP, with our private sector partner, Galliford Try, which in turn is party to a further joint venture, Gateshead Regeneration LLP with Gateshead Council.

HGDL continues to invest in a number of joint venture Limited Liability Partnerships with Galliford Try in which NHL is a member. During the year, HGDL contracted to invest in a further company which is a joint venture of Galliford Try and NHL. This new venture in Radwinter Road in Saffron Walden will deliver 120 homes for private sale and 84 affordable homes for Home Group. It is anticipated that HGDL will undertake further development for sale, partly through area regeneration schemes in partnership with private sector developers in future.

As noted above, NHL is the member of a number of Limited Liability Partnerships which are expected to deliver returns in future years. The partnerships have been formed with Galliford Try to develop new build housing.

Financial review

In overall terms the Group is reporting a surplus for the year of £50.5 million; an increase of £3.1 million (6.5%) on the previous year.

Turnover in the year ended 31 March 2018 was £364.7 million; an increase of £12.0 million (3.4%) on the previous year. This reflects the significant increase in development activity, with turnover from shared ownership and outright sales doubling to £35.0 million.

Despite the increase in turnover, operating surplus only marginally increased by £0.4 million (0.5%) to £87.5 million. Operating surplus from social housing lettings decreased by £1.0 million as a result of a further year of the social housing rent reduction in England, and this was compounded by a decrease of £1.2 million in surplus generated by support services as activity undertaken in this area reduces in line with our strategy. Although these decreases were offset by increased surplus from property sales, this resulted in a slight deterioration of operating margin from 24.7% to 24.0%.

Group borrowings increased by £70.1 million in the year, as the Group continues to invest in new homes and existing properties. During the year, the Group invested £126.5 million in new affordable homes, and a further £30.0 million in joint ventures and associates with private developers to deliver affordable housing and housing for private sale in future periods. Despite the increase in borrowings, gearing (using the Regulator of Social Housing's value for money metric definition) remains low at 43.9% (2017: 42.4%) and the Group has significant capacity to continue to invest in future periods.

Analysis of results by trading business unit

	Operations		Development	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Income	**317,301**	325,834	**36,214**	17,796
Cost of sales	**(19)**	(12)	**(27,454)**	(10,240)
Operating expense	**(210,370)**	(219,713)	**(8,873)**	(7,929)
Profits from joint ventures and associates	**-**	-	**5,601**	1,859
Operating surplus including profits from joint ventures and associates	**106,912**	106,109	**5,488**	1,486

The results reported above are an extract from Note 35 to the financial statements which provides operating segmental analysis in line with International Financial Reporting Standard 8.

The decrease in turnover within the Operations business unit is driven by a £14.1 million decrease in turnover from supported housing as we transition to longer term, property-based services in line with our strategy and business plan. This was partially offset by an increase of £5.6 million in our core rental and leasehold business, with the net addition of 652 new general needs homes mitigating the impact of the 1% rent cut.

Operating surplus from Operations remained at a similar level to the previous year. The lower contract base and efficiency initiatives have resulted in costs falling proportionately more than income, preserving the overall level of surplus. New business with an in-year value of £7.3 million reflecting our strategic direction was won during the year.

The increase in size of the Development business unit reflects the scaling up of development activity to help meet our strategic goal of building 10,000 new homes over five years. In the first year of the strategy, we delivered 1,364 new homes directly and through our joint ventures, of which 732 were for affordable rent. Sales activity also increased, with 174 shared ownership and 59 outright sales completing during 2017/18. Although the Development business unit made a marginal loss on operating activities, this reflects the costs associated with the development of new social housing properties, the income from which is reflected within Operations. After recognising our share of profits in joint ventures and associates, the Development business made a profit of £5.5 million. Through our joint ventures and associates we were able to sell 205 homes in the year.

Group highlights – five year summary

	2018	2017	2016	2015 (restated)	2014 (restated)
Consolidated Statement of Comprehensive Income (£000)					
Income from social housing lettings	**276,954**	274,171	268,803	257,483	250,202
Charges for support services	**38,966**	49,351	52,958	54,367	45,742
Income from property developed for sale	**35,044**	17,477	14,148	14,491	14,635
Other income	**13,739**	11,699	14,930	13,983	15,990
Total turnover	**364,703**	352,698	350,839	340,324	326,569
Operating surplus excluding property sales	**72,889**	76,317	77,349	68,967	58,019
Operating surplus from property developed for sale	**7,025**	6,992	4,419	4,937	4,069
Operating surplus from sale of social / non-social housing properties	**7,597**	3,774	2,981	3,237	2,690
Total operating surplus	**87,511**	87,083	84,749	77,141	64,778
Net finance costs	**(41,266)**	(40,504)	(40,657)	(37,696)	(34,039)
Surplus for the year	**50,520**	47,409	44,226	38,608	30,388
Consolidated Statement of Financial Position (£000)					
Housing properties, other fixed assets and intangible assets	**2,221,676**	2,137,516	2,062,422	1,992,674	1,943,299
Investments	**69,168**	52,486	43,343	35,496	29,276
Homebuy loan	**682**	682	682	682	682
Total fixed assets	**2,291,526**	2,190,684	2,106,447	2,028,852	1,973,257
Net current assets / (liabilities)	**23,003**	28,526	(12,050)	(28,085)	(8,732)
Loans over one year	**(943,159)**	(898,759)	(829,287)	(779,669)	(699,166)
Other long term liabilities	**(754,704)**	(751,106)	(741,188)	(738,395)	(814,836)
Pension liability	**(39,316)**	(73,799)	(57,697)	(60,414)	(39,453)
Net assets	**577,350**	495,546	466,225	422,289	411,070
Reserves: Income and expenditure	**576,721**	494,474	465,769	419,364	407,872
: Restricted	**629**	1,072	456	936	1,209
: Revaluation	**-**	–	–	1,989	1,989
Total capital and reserves	**577,350**	495,546	466,225	422,289	411,070
Housing stock units					
Social	**49,856**	49,552	49,516	49,071	48,980
Non-social	**5,326**	5,013	4,351	4,905	4,789
	55,182	54,565	53,867	53,976	53,769

The 2015 figures have been restated to reflect the introduction of FRS 102.

In line with FRS 102, surpluses on the sale of properties have been included within operating surplus and grants have been shown within liabilities and the 2014 figures have been restated accordingly.

Principal risks and uncertainties

The key risks which may prevent us from achieving our strategy are reviewed on a continuing basis throughout the year by the Board, the Executive team and senior management. The risks are identified, evaluated, monitored and reported in line with our Risk Management Framework which is approved by the Audit Committee.

All strategic risks and those operational risks presenting the greatest risk to Home Group are reported to each Audit Committee and twice annually to the Board. The risk updates include an assessment of the scoring, details of the controls in place and any future plans to help reduce the risk to a more tolerable level. In addition to reviewing individual risks, management and the Board review the cumulative effect of all risks and evaluate the combined impact these could have should they occur at the same time.

Home Group operates in an increasingly complex environment and in a sector which is significantly impacted by its political and social importance. We must be responsive to the challenges our external environment presents and we understand the importance that a robust risk management process has in relation to this.

Our strategy is based on the achievement of four key goals; to build 10,000 new homes, to be market leaders in new models of care, to enable 90% of our customers to regularly use their digital accounts and to be 20% more efficient. We have continued to assess and understand the key risks to us in meeting these objectives and we continue to monitor these and implement plans to mitigate them.

Strategic risks

- We have continued with our ambitious plans for development of 10,000 new homes by 2021/22. Outright sale activity forms an increasing part of both the number of homes developed and the funding plan of the development programme. A significant downturn in the economy, including a property market crash would result in increased pressure on cash flow and would impact on our ability to deliver on this element of the strategy.
- We have continued to expand our services within new models of care, particularly in the areas of mental health and learning disabilities. In an uncertain healthcare market, any changes in funding streams, political agenda or our ability to develop successful partnerships, will affect our plans for growth and reduce the estimated financial contribution of these services.

In the year we have also continued to focus on the following key risks:

- Our customers' health, safety, wellbeing and satisfaction is paramount. If we do not understand our customers, or respond to their diverse and changing needs we are at risk of not delivering on our key social mission.
- We have continued to monitor and respond to risks and issues arising from the tragic incident at Grenfell Tower. We have reviewed our internal fire safety strategy and have put in place a number of actions to further enhance this and to ensure we are prepared for the likely regulation changes in the future.
- Successful implementation of the strategy is underpinned by effective decision making based on the insight we can gain from our data. If the quality and timeliness of the data is poor there is a risk it could impact on decision making in the business at any level. We have implemented a new integrated system and are progressing towards the delivery of real time reports and data to all managers.
- Grenfell, Brexit and a government with a limited majority make the external environment both politically and economically complex and changeable. This will require us to continue with our approach of closely monitoring government policy and seeking to influence and respond to consultations where appropriate.
- We continually review and assess the impact of the Welfare Reform Act and the changes to the supported housing regime on our ability to collect rent, service charges and manage arrears. We face a risk that arrears increase significantly following the roll out of Universal Credit and that changes in supported housing cap may impact on our ability to charge for services.
- We have a number of external borrowings and given the external environment there is a risk that the price of funding increases in the future which could put pressure on our loan covenants.
- Compliance with the Regulatory Framework and all relevant legislation remains a priority. Any failing in these areas could lead to action being taken against us, as well as impacting on our future strategy and reputation.
- We work with a number of key suppliers and partners, particularly with respect to our developments and ongoing maintenance of properties, who are vital in helping us deliver services to our customers. Any disruption to these arrangements could impact the continuity of services, resulting in a financial loss and/or impact on the level of service our customers receive.
- We are aware of the increasing risk around cyber security and the impact any breach could have on our customers and reputation. We carry out regular reviews of our security and perform penetration testing annually.
- We are focused on ensuring we are efficient and effective so we regularly monitor our plans to deliver our defined efficiencies and not doing so would present a risk to our strategy.

Treasury management

The Group's Treasury function operates within a framework of clearly defined, Board approved policies and procedures that serve to control the use of financial instruments and the Board receives regular reports on relevant treasury matters. The overall aim of the Group's Treasury function is to ensure sufficient liquidity is available to meet foreseeable needs, surplus cash is invested prudently and financial risk is minimised.

Home Group finances its operations through a mixture of retained earnings, grants and long-term loans. The overall borrowing policy is approved by the Board which undertakes regular reviews of borrowings and covenant compliance. Home Group borrows in sterling at both fixed and floating rates of interest.

A Treasury Panel has been constituted on an advisory basis. It comprises the Home Group Chairman, the Chief Executive and the Chairman of the Audit Committee. The panel meets once a year, otherwise as and when required, and considers recommendations made to the Board on strategic treasury matters and reviews performance of treasury activities.

Interest rate risk

The exposure to fluctuating interest rates is managed by fixing debt to maintain the level of long-term fixed-rate funding between a minimum and maximum proportion of total debt. At present the policy is to aim to maintain between 65% and 80% of borrowing in long-term fixed-interest rate funding, allowing flexibility to move outside of this range, in either direction, on a temporary basis. This policy reflects and matches the long-term nature of Home Group's asset base and the regular rental income arising from it. The remaining debt is held at floating rates. At the year-end 65.4% (2017 : 69.7%) of the Group's borrowing was in the form of long-term fixed interest rate debt.

It is estimated that each quarter point increase in interest rates would increase costs by £830,000 per annum based on the variable rate debt held at 31 March 2018.

The rules of Home Group allow the use of derivatives. The ability to use stand-alone derivatives increases the options available to Home Group in managing interest rate risk. They cannot be used for speculative purposes. Home Group currently has no derivative instruments in place.

Credit risk

Home Group's policy is to minimise borrowings and surplus funds and any investments are only made with highly rated counterparties on the Board approved list and in the form specified therein.

Liquidity risk and future borrowings

Cash inflows and outflows for the year ended 31 March 2018 are set out in the Cash Flow Statement on page 42. The net cash inflow from operating activities was £99.2 million (2017 : £55.1 million). Cash and cash equivalents were £26.9 million (2017 : £27.9 million) with no bank overdraft. The Group held no short term investments (2017 : £0.0 million).

As at 31 March 2018, Home Group had £282.8 million committed and undrawn facilities, £207.8 million of which were immediately available for drawdown. Home Group continues to have a large pool of unencumbered properties available as security for future borrowings to support its growth strategy.

Taxation

As a responsible tax payer, Home Group meets its liabilities to pay taxes in full as they fall due. The table below summarise the total tax payable by the Group:

	2018 £m	2017 £m
Irrecoverable input VAT	**20.4**	21.2
Pay As You Earn	**9.0**	8.9
National Insurance	**11.8**	11.7
Corporation tax	**1.3**	1.0
Stamp duty land tax	**0.5**	1.8
Total	**43.0**	44.6

As the majority of Home Group's income is exempt from VAT, the Group is unable to recover the majority of the VAT it suffers on purchases. As a result the Group pays over £20 million in irrecoverable input VAT each year. The Group is a major employer with over 3,000 colleagues employed. Total employer and employee National Insurance and Pay As You Earn is also over £20 million per annum.

Statement of internal controls

The Home Group Board acknowledges its overall responsibility for establishing and maintaining the whole system of internal control and reviewing its effectiveness across the Group.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. It can only provide reasonable and not absolute assurance against material misstatement or loss.

The process for identifying, evaluating and managing significant risks faced by the Group is ongoing, and has been in place throughout the period from 1 April 2017 up to the date of approval of the Financial Statements. This process is set out in the Group's Risk Management Framework and its effectiveness is assessed on an annual basis by the Board.

Key elements of the internal control framework include:

- Board approved terms of reference and delegated authorities for all Boards and Committees, including the Audit Committee;
- clearly defined management responsibilities for the identification, evaluation and control of significant risks;
- strategic and operational risk registers which are regularly reviewed by Senior Management, Executive, the Audit Committee and the Board;
- a robust planning process with detailed financial budgets, forecasts and performance measures;
- regular reporting to Executive and the appropriate Board/Committee of key performance indicators to monitor progress against objectives;
- an established health and safety management system and compliance framework;
- a structured approach to the appraisal and authorisation of all significant new business initiatives and commitments;
- a considered and documented approach to treasury management which is subject to annual review;
- formal recruitment, retention and training and development policies;
- Board approved Confidential Reporting Policy and Fraud and Bribery Prevention, Detection and Response Policy;
- detailed policies and procedures in each area of the Group's operations; and
- an Assurance Service which reviews internal controls across the Group and provides regular reports to the Audit Committee on any significant control weaknesses.

The Board cannot delegate ultimate responsibility for the system of internal control, but it can, and has, delegated authority to the Audit Committee to regularly review the effectiveness of the system of internal control. The Audit Committee received the Annual Assurance Statement from the Head of Audit and the Group Chief Executive's annual review of the effectiveness of the system of internal control. The Audit Committee has subsequently reported its findings to the Board in its Annual Report.

During the year there were no significant findings or weaknesses identified in internal controls, which resulted in material losses, contingencies or uncertainties that require disclosure in the financial statements or in the report of the auditors.

Governance

Governance structure

Throughout the year the Association operated under its established governance structure comprising:

- The Board of the Association.
- Home Scotland, HGDL, Live Smart and NHL subsidiary boards.
- Six Board committees and an advisory panel – the Audit Committee, Governance Committee, Health and Safety Governance Committee, Clinical Governance Committee, Action Committee, Rayners Lane Estate Committee and the Treasury Panel.

Representatives of the Group attend Board meetings of joint ventures and associates.

In addition, the Association has a customer forum which is responsible for involving customers in all Association matters and for representing their views at a national level.

The Board

The Board of the Association comprises:

- ten non-executive members, including customer representation; and
- two executive members; the Chief Executive and the Chief Financial Officer.

Governance (continued)

The Board of the Association and the Executive are shown on page 5, and details of their remuneration are given in Note 5 to the financial statements on pages 54-55. Non-executive members of the Board together with one member of the Board of Home Scotland, hold one fully paid share of £1 in the Association.

Corporate governance

Home Group has been rated as G1:V1 for governance and financial viability by the Regulator of Social Housing. The Board confirms that Home Group has assessed its compliance with the Governance and Financial Viability Standard during the year and certifies that in all material respects Home Group is in compliance with the Governance and Financial Viability Standard.

The Board has adopted and is compliant with the requirements of the National Housing Federation's Code of Governance 2015 edition ("Code"), subject to one minor reasoned non-conformance with Code B4 for the period 8 June 2017 to 20 July 2017 during which the Board size increased temporarily from 12 to 13 to accommodate a period of transition on the retirement of Nigel Fee, the Senior Independent Member. The Board is committed to supporting adherence to high standards of corporate governance, and has adopted and is compliant with the National Housing Federation's Code of Conduct 2012.

During the financial year, Home Group submitted a partnership proposal to a regional-based housing organisation, as part of a competitive process alongside a small number of other providers. Home Group was not selected in the final round. Home Group is also in ongoing initial discussions on a short term risk management plan for a small housing association, to accommodate vulnerable customers if required. All discussions and proposals are in line with the principles of the National Housing Federation: Code on Mergers, Group Structures and Partnerships (2015).

The **Board** is responsible for the overall direction of Home Group's business. Each business unit operates in accordance with the five year business plan approved annually by the Board. Management is delegated through the Executive to the management team of each business unit. The essential functions of the Board are formally recorded to reflect the Code of Governance; they include the setting of strategy and monitoring of progress in achieving that strategy, the definition of values and objectives, approving policies, plans and budgets, and monitoring performance of the business and its executive management. In this process, the Board seeks to ensure that undue risks are not taken and that Home Group's affairs are conducted to the highest standards of performance and propriety. The Board annually reviews Home Group's governance arrangements and undertakes an annual self-evaluation of its effectiveness as a Board. A system of non-executive Board member appraisal is in place, under which the Chairman conducts an annual individual appraisal of non-executive Board members, incorporating feedback from other non-executive Board members and members of the Executive. An equivalent appraisal of the Chairman is conducted by the Senior Independent Member. Performance appraisal of Executive Board members is conducted within the framework of Home Group's Performance through People appraisal system.

The Board met seven times in the year (the minimum number of meetings permitted within the rules is three). Board meetings are also attended by the members of the Executive as required. The Board receives reports relevant to its role, including reports on Home Group's financial, operations, and development performance.

The Association introduced a policy in July 2005 which entitles non-executive members of the Board to elect to draw remuneration. The Association's remuneration framework was set in accordance with the regulatory requirements set by the Housing Corporation in 2003, and in accordance with National Housing Federation guidance. This reflects the business needs of the Association, having regard to the complexity, size and demands of the organisation. Following a review of non-executive Board member remuneration during the year, the Association considers that remuneration remains appropriate. Details of the remuneration drawn by members of the Board during the year are set out in Note 5 to the financial statements on pages 54-55. The total remuneration of non-executive Board members represents 0.02% of Group turnover.

The Board is supported in its role by six committees and the Executive.

The **Audit Committee** is chaired by a member of the Association's Board, appointed by the Board to this role, not being the Home Group Chairman or the Chairman of the Board of a subsidiary. Currently the Committee comprises three members of the Association's Board – Nick Salisbury (Committee Chairman), Rhona Bradley and Ken Gillespie – together with one independent member (Neil Braithwaite). The Chief Executive, Chief Financial Officer, Director of Finance and Director of Assurance and Corporate Services attend all meetings. External auditors and other Directors attend the meetings by invitation. The Committee normally meets four times a year, and minutes of Committee meetings are reported to the Board.

The Committee oversees financial reporting and Home Group's high level risk and control framework, internal and external audit arrangements and internal control systems. The Committee's role includes an overview of the work undertaken throughout Home Group by Home Group's risk and assurance services team, and reviewing and recommending the report and financial statements to the Board for approval. In addition, the Committee keeps under review the independence and objectivity of Home Group's external auditors, KPMG, and monitors the provision of non-audit services undertaken by the external auditors, including the fees charged for such services. On occasion,

Governance (continued)

the nature of non-audit services may make it more timely and cost-effective to select KPMG given their knowledge and understanding of Home Group and the housing association sector. The Committee has established a process for engaging external auditors to carry out non-audit work, under which the prior approval of the Chairman of the Committee is required for any proposed commission. KPMG is also subject to professional standards which safeguard the integrity of their auditing role. Before KPMG is engaged for any non-audit services, a thorough assessment is performed to confirm whether the service is permissible under the Financial Reporting Council's Revised Ethical Standard.

The **Governance Committee** is chaired by Bharat Mehta, together with four further Home Group Board members, Bob Davies (Home Group Chairman), Leslie Morphy, Nick Salisbury, and Marjorie Macfarlane. The Committee normally meets four times each year and minutes of the Committee meetings are reported to the Board. The Chief Executive, Chief Financial Officer and Company Secretary attend all meetings.

The Committee oversees annual reviews of Home Group's compliance against the Regulator's Regulatory Standards, Home Group's Rules, Governance Framework and Governance Standards, and recommends any changes to the Board of the Association. In addition, the Committee is responsible for non-executive recruitment and succession planning, and for recommending to the Association's Board Home Group's policy on Board member evaluation and non-executive appraisal. It is also responsible for the recruitment process in respect of Executive appointments, and for supporting the Board in ensuring adequate succession planning for the Executive. The Committee notes any developments in best practice or regulation in relation to non-executive remuneration, and refers them to the Executive, who are responsible for reviewing non-executive remuneration and subsequently making a clear recommendation on future remuneration, using independent advice and benchmarking as required for resolution by the shareholders. The Committee recommends to the Home Group Board the remuneration package offered to the Chief Executive, and any change to the Chief Executive's remuneration package following a review by the Committee of the Home Group Chairman's annual appraisal of the Chief Executive. The Committee's endorsement is required to the remuneration packages offered by the Chief Executive to other members of the Executive, and to any changes to their remuneration packages recommended by the Chief Executive following each annual appraisal.

The **Health and Safety Governance Committee** is chaired by Leslie Morphy, together with three further members appointed by the Home Group Board, Bharat Mehta, Ken Gillespie and Colin Strachan (Home Scotland Board member). The Committee normally meets four times a year and otherwise as and when required and minutes of the Committee meetings are reported to the Board. The Committee meetings are also attended by the Executive Director – Operations and the Head of Health and Safety.

The Committee provides a strategic steer into the Association's Health and Safety Strategy and Implementation Plan and oversees progress against these to provide assurance to the Executive and the Home Group Board of the effective development and maintenance of the health and safety management system.

The **Clinical Governance Committee** is chaired by Rhona Bradley, together with three further members appointed by the Home Group Board, Bharat Mehta, Leslie Morphy and Kim Tinneny. The Committee normally meets four times a year and otherwise as and when required and minutes of the Committee meetings are reported to the Board. The Committee meetings are also attended by the Executive Director – New Models of Care and the Head of Clinical Practice.

The role of the Committee is to give the Board assurance on the quality of care for customers and its remit covers governance and internal monitoring, organisational policies and procedures, safety and excellence in customer care and quality assurance.

The **Action Committee** meets as required. It acts in relation to matters requiring an express authorisation of the Board which are not otherwise covered by delegated authority and which are necessary to safeguard the business interests of Home Group and where it is not possible or practicable to convene a meeting of the full Board. The quorum for the Committee is three members of the Board and all decisions are reported to the next meeting of the Board and to other Boards where relevant.

The **Rayners Lane Estate Committee** was established under the terms of a stock transfer agreement between the Association and the London Borough of Harrow, and oversees the delivery of the Association's commitments under the stock transfer agreement, specifically in respect of the regeneration of the Rayners Lane estate in Harrow. Its membership comprises individuals nominated separately by the London Borough of Harrow, the Rayners Lane Estate Tenants and Residents Association, the Association's customers on the estate and the Association.

The **Executive** comprises the Chief Executive and the Executive Directors shown on page 5. The Executive is responsible for driving forward the business of Home Group, focusing on strategic issues and monitoring the performance of Home Group against budgets and business plans. The work of the Executive is supported by the customer forum. The Executive meets on a weekly basis.

Board member and Committee member attendance at meetings during the year ended 31 March 2018 is shown in the table overleaf.

Governance (continued)

Home Group Board and Commitee attendance

Name	Home Group Board		Audit Committee		Governance Committee		Health and Safety Governance Committee		Clinical Governance Committee	
	A	B	A	B	A	B	A	B	A	B
Non-executives										
Claire Bassett	7	6	–	–	–	–	–	–	–	–
Rhona Bradley	7	5	3	2	–	–	–	–	2	1
Neil Braithwaite	–	–	3	2	–	–	–	–	–	–
Bob Davies	7	7	–	–	4	4	–	–	–	–
Nigel Fee	3	3	1	–	2	2	–	–	–	–
Ruth Jackson	7	6	–	–	–	–	–	–	–	–
Marjorie Macfarlane	7	7	–	–	4	4	–	–	–	–
Bharat Mehta	7	7	–	–	4	3	4	4	2	2
Leslie Morphy	7	6	–	–	4	3	4	4	2	2
Nick Salisbury	7	7	3	3	4	4	–	–	–	–
Colin Strachan	–	–	–	–	–	–	4	2	–	–
Kim Tinneny	7	5	–	–	–	–	–	–	–	–
Ken Gillespie	6	5	3	2	–	–	2	2	–	–
Executives										
Mark Henderson	7	7	–	–	–	–	–	–	–	–
John Hudson	7	7	–	–	–	–	–	–	–	–

A = maximum number of meetings that could have been attended **B** = number of meetings actually attended

- Ken Gillespie was appointed to the Home Group Limited Board on 8 June 2017 and to the Audit Committee and to the Health and Safety Governance Committee on 20 July 2017.
- Nigel Fee stood down from the Home Group Limited Board, from the Audit Committee and from the Governance Committee on 20 July 2017.
- Bharat Mehta, Rhona Bradley and Leslie Morphy were appointed to the Clinical Governance Committee on 20 July 2017.
- Kim Tinneny was appointed to the Clinical Governance Committee on 14 March 2018.
- Marjorie Macfarlane stood down from the Home Group Limited Board and from the Governance Committee on 22 May 2018.
- Bob Davies stood down from the Home Group Limited Board and the Governance Committee on 19 July 2018.
- John Cridland was appointed to the Home Group Limited Board and Governance Committee on 19 July 2018.
- Lara Joisce was appointed to the Audit Committee on 22 May 2018.
- Victoria Peterkin was appointed to the Home Group Limited Board on 22 May 2018.

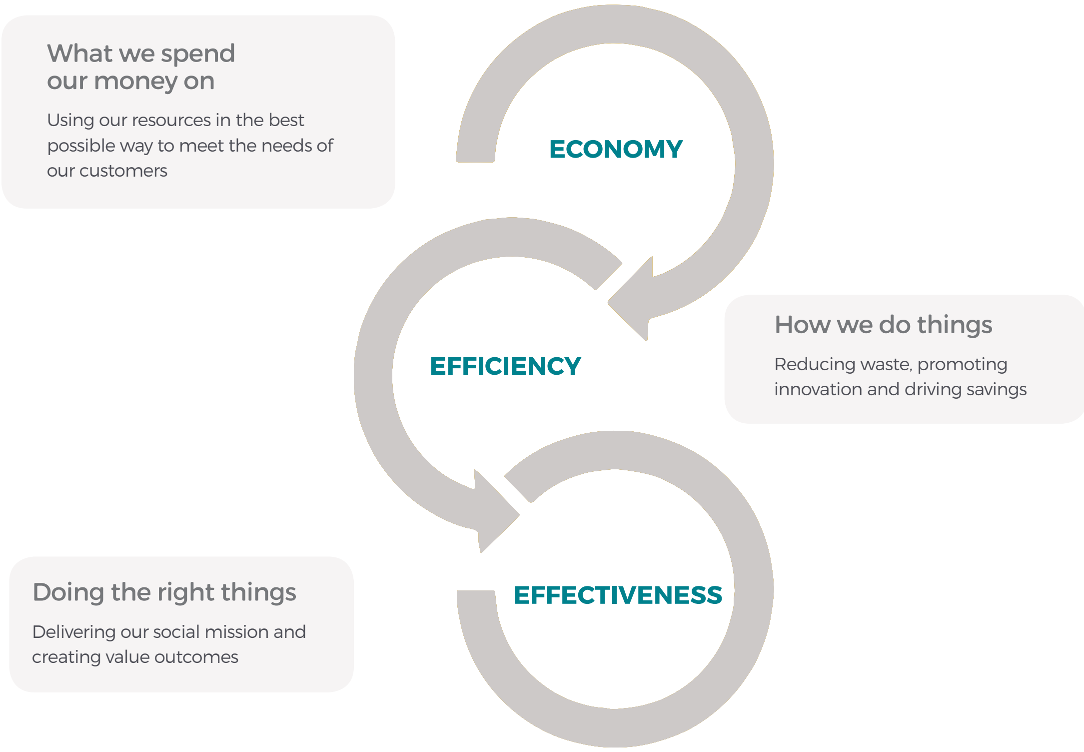
Dates of meetings

Home Group Board	Audit Committee	Governance Committee	Health and Safety Governance committee	Clinical Governance Committee
6 April 2017	6 July 2017	5 April 2017	5 April 2017	6 November 2017
8 June 2017	19 October 2017	7 June 2017	19 July 2017	22 January 2018
20 July 2017	11 January 2018	11 September 2017	14 November 2017	
12 September 2017		24 January 2018	13 March 2018	
15 November 2017				
25 January 2018				
14 March 2018				

Value for Money

Our Value for Money model

Our approach to Value for Money (VfM) is embedded throughout our strategic objectives which set out the outcomes we intend to deliver. By undertaking this in a cost-effective way, we are able to do more with less. Our VfM model is based around the three Es – Economy, Efficiency and Effectiveness – and our approach is set out below:



In doing this, we acknowledge the need to strike the right balance between delivering our strategic objectives, which include significant cost savings, and our risk appetite with particular regard to compliance and regulation. The key principle underpinning our strategy and approach to VfM is the need to ensure the long-term viability of the business, which means that consideration must be given to the likely long-term consequences of decisions so we can continue to deliver our social mission now and in the future.

Our VfM performance

Our performance on our VfM key performance indicators against the 2017/18 target and the trend over the last three years are shown on the following pages. The indicators are based on the sector scorecard measures and the VfM metrics set out by the Regulator of Social Housing (RSH), together with additional indicators linked to our strategy, '*Building homes, independence and aspirations.*'

We benchmark our VfM indicators where appropriate against a group of comparable housing providers to help us understand our performance and inform our improvement plans and targets. Because information for 2017/18 is not available at the time of preparing the annual reports, benchmarking information is presented for our 2016/17 performance.

The VfM regulatory standard requires us to develop improvement plans to address areas of underperformance. We have carried out an assessment of whether we consider each area to be underperforming, taking into account targets, recent trends, and performance in relation to the sector and our peer group. There may be areas where we perform below average in comparison to the sector and peer group; however if we understand the reasons why and are comfortable with this result in relation to our strategic objectives and direction, we may decide that specific improvement actions are not necessary.

Value for Money (continued)

Performance against target

Indicator	2017/18 target	2017/18 result/trend	2016/17 result/trend	2015/16 result
Business health				
Operating margin – overall	23.0%	21.9% ↓	23.6% ↑	23.3%
Operating margin – social housing lettings	26.4%	26.9% ↓	27.5% ↑	26.9%
Interest cover (EBITDA MRI %)	191%	198% ↓	238% ↑	187%
Profit from new build sales and joint ventures	£18.8m	£12.6m ↑	£8.9m ↑	£4.6m
Development – capacity and supply				
New homes developed	1,400	1,364 ↑	1,104 ↑	612
New supply delivered – social*	2.1%	2.1% ↓	2.2% ↔	2.2%
New supply delivered – non-social*	0.2%	0.4% ↑	0.2% ↑	0.1%
Gearing*	45.3%	43.9% ↑	42.4% ↑	39.4%
Outcomes delivered				
Customer satisfaction – rented	93%	93% ↔	93% ↔	93%
Customer satisfaction – supported	96%	96% ↔	96% ↑	95%
£s invested in communities per social unit	£22	£22 ↑	£18 ↓	£22
Social housing reinvestment	7.1%	6.3% ↑	5.8% ↑	5.3%
Effective asset management				
Return on capital employed	4.1%	4.0% ↔	4.0% ↓	4.1%
Occupancy (rented)	99.2%	98.8% ↓	99.2% ↑	99.0%
Occupancy (supported)	95.5%	93.1% ↑	87.2% ↓	97.1%
Repairs ratio	0.7	1.0 ↓	0.9 ↓	0.7
Operating efficiencies				
Social housing cost per unit*	£4,475	£4,409 ↑	£4,445 ↑	£4,928
Rent collected (rented)	99.3%	99.9% ↑	99.1% ↑	98.5%
Rent collected (supported)	96.2%	98.8% ↑	96.0% ↓	97.1%
Overheads as % adjusted turnover	13.3%	12.8% ↓	12.5% ↑	12.8%

* The new supply, gearing and social housing cost per unit definitions used by the RSH were updated during the year. As a result, our target, results and trends have been updated to reflect the new definition. However due to the availability of benchmarking data, the benchmarked result for 2016/17 is calculated in accordance with the previous definition.

Value for Money (continued)

Although we have seen a trend of improvement in most areas over the last three years, we did not meet our targets on a number of indicators. In many cases, this was because the target set was a challenging stretch target, and we do not consider this to represent poor performance. Areas where we did not meet target have been understood and are discussed further below.

Business health

Operating margin (both overall and social housing lettings) decreased compared to the previous year, partially due to the continuing impact of the 1% rent cut, as we have not been able to mitigate the full impact of this through cost savings. Increased development and marketing costs, as we scale up our development programme to meet our strategic objectives, have further impacted overall operating margin.

Surplus generated from new build sales and joint ventures/associates has increased significantly over recent years as we increase our investment in homes for outright sale in order to generate additional funding for affordable homes.

We missed our challenging target in 2017/18 due to delays in handovers of homes for sale.

Development – capacity and supply

Our performance on new homes developed was slightly behind target as a result of construction delays due to severe weather in the final months of the year. Completion of a number of affordable homes slipped into the first months of 2018/19 following these delays, and also impacted our sales programme resulting in lower than expected profit generated from new build sales.

Outcomes delivered

The reinvestment ratio shows the amount invested into new and existing social housing properties as a proportion of the carrying value of the properties. Although the level of reinvestment increased compared to previous years, we did not meet the target due to delays to the development programme as discussed above.

We are planning further investment into communities as we develop the building aspirations strand of our strategy, which may result in the development of new measures in this area.

Effective asset management

Return on capital was slightly below our target due to the lower than expected profits from new build sales and joint ventures/associates. It remained in line with the previous year.

Supported occupancy levels improved, whereas rented occupancy levels declined, mainly as a result of a large number of new build properties first becoming available for letting at the end of the year. Neither met the target set, although improvement plans have been put in place to focus on occupancy levels.

The repairs ratio shows how much we spend on responsive repairs compared to planned maintenance and improvement works. The lower this ratio, the better we are at controlling our repairs spend. Our ratio was unusually high in 2016/17 due to the phasing of our planned maintenance programme. We expected the ratio to decrease again in 2017/18, however there were revisions to our planned programme resulting in work being deferred until later years which meant planned and capitalised maintenance spend was lower than expected.

Operating efficiencies

Our social housing cost per unit was particularly low in 2016/17 as a result of the phasing of our planned maintenance programme. Although these costs were expected to increase back in line with previous levels in 2017/18, this was offset by forecast decreases elsewhere, particularly in the area of care and support services as we transition to new models of care. As a result, our 2017/18 target cost per unit was set at a similar level to the 2016/17 result and we outperformed this target.

Value for Money (continued)

Comparative performance

Indicator	2016/17 result	Quartile*
Business health		
Operating margin - overall	23.6%	3
Operating margin – social housing lettings	27.5%	3
Interest cover (EBITDA MRI %)	283%	2
Profit from new build sales and joint ventures	£8.9m	2
Development – capacity and supply		
New homes developed	1,104	1
New supply delivered – social	2.1%	1
New supply delivered – non-social	3.7%	2
Gearing	43.7%	2
Outcomes delivered		
Customer satisfaction – rented	93%	n/a
Customer satisfaction – supported	96%	n/a
£s invested in communities per social unit	£18	2
Social housing reinvestment	5.8%	1
Effective asset management		
Return on capital employed	4.0%	2
Occupancy (rented)	99.2%	4
Occupancy (supported)	87.2%	4
Repairs ratio	0.9	4
Operating efficiencies		
Social housing cost per unit	£4,369	3
Rent collected (rented)	99.1%	4
Rent collected (supported)	96.0%	4
Overheads as % adjusted turnover	12.5%	3

* Our peer group of 12 providers was selected based on size, geographical area covered and level of supported housing activity. Information has been taken from their 2016/17 financial statements, sector scorecard data or the RSH global accounts dataset in order to calculate their indicators. As there was not sufficient data from this peer group to benchmark occupancy and rent collected for supported housing, these benchmarks have been taken from HouseMark (the peer group being all providers with more than 500 supported housing units). Performance is shown in terms of Home Group's quartile position within the peer group.

We perform strongly on development and outcomes indicators, which demonstrates our commitment to increasing the supply of new homes and creating social value. Our performance elsewhere is mixed, particularly in the areas of asset management and operating efficiencies, which could indicate that we have the capacity to deliver more. Areas where we benchmark as third or fourth quartile have been analysed to further understand our position and to seek any opportunities for improvement.

Business health

Operating margins are slightly lower in the north, as a result of there being greater regional differences in rental income relative to costs, but it is supported housing which has the greatest impact on our operating margin. Supported housing generally achieves a lower margin because it requires higher staffing levels to support our most vulnerable customers. Even within our peer group with higher than average levels of supported housing, we are third quartile, which can perhaps be explained by us having the highest proportion of supported housing within the group.

If supported housing activities are excluded, the median operating margin of the peer group is 29.0% and we move to second quartile; our margin excluding supported housing being 31.7%. A similar effect can be seen on operating margin for social housing lettings.

Value for Money (continued)

The 1% rent cut in combination with the impact of inflation on our cost base will lead to reducing operating margins in future years unless we are able to make cost savings. Outright property sales and the provision of supported housing tend to be lower margin than our core rental activities, so changes in the relative size of these different segments of our business as a result of our strategic direction will impact our overall margin.

Given the number of different factors impacting margin and our recognition that our strategic direction will depress this further, we do not have a specific improvement plan for these metrics. We recognise that it is important that we mitigate pressure on margins through making efficiency savings where appropriate, and this is addressed through the improvement plan we have put in place for social housing cost per unit.

Effective asset management

We are bottom quartile on occupancy levels for both rented and supported stock. To some extent, our performance on this measure is affected by the location of our stock, as occupancy rates tend to be lower in the north of England. 63% of our stock is in the north. Occupancy levels for supported housing will also vary depending on the type of services provided, for example whether these are long or short term, and we currently have a large number of short-term services which as expected have a high turnover of customers.

To further understand our performance in this area, we have carried out detailed analysis of our occupancy levels. The table below shows the average occupancy for the sector in each English region compared to our actual performance. This shows that although we outperform, or match the local average in a number of regions, it is our underperformance in the North East and North West, where the majority of our stock is concentrated, which is driving our overall performance.

The repairs ratio shows responsive repairs as a proportion of all other maintenance spend. In theory, an effective planned programme will result in fewer responsive repairs, causing the ratio to drop. However in practice, the ratio will fluctuate depending on the phasing of work, and a trend over several years could be more informative. Our ratio was particularly high in 2016/17 resulting in our bottom quartile performance. It increased again in 2017/18 however we expect it to decrease in future years, averaging 0.74 over the next five years which would move us to third quartile.

Our planned maintenance programme is based on the results of our detailed stock condition surveys, and we expect to see a longer term downwards trend, therefore an improvement plan is not considered necessary.

Region	Average occupancy*	Actual occupancy	Performance
East	99.6%	99.6%	
East Midlands	99.0%	98.3%	
London	99.6%	99.7%	
North East	99.0%	98.8%	
North West	98.8%	98.7%	
South East	99.6%	99.6%	
South West	99.8%	100.0%	
West Midlands	99.6%	100.0%	
Yorkshire and the Humber	98.8%	99.5%	

* Weighted average for the region based on our stock profile

Operating efficiencies

We are third quartile on social housing cost per unit, which is to be expected given our relatively high proportion of supported housing, even within the peer group.

We also analysed our performance at a component cost level, comparing our overall performance and excluding the impact of supported housing. This shows that it is the inclusion of supported housing which drives our below average performance on management costs, service charge costs, and 'other' costs (which include care and support costs). However it does not explain our below average performance on maintenance costs (which includes both responsive repairs and planned maintenance).

	Sector median	Home Group (overall)	Quartile	Home Group (excluding supported)	Quartile
Management cost per unit	£941	£1,106	3	£922	2
Service charge cost per unit	£372	£582	3	£130	1
Maintenance cost per unit	£925	£1,148	4	£1,157	4
Major repairs cost per unit	£683	£322	1	£328	1
Other cost per unit	£241	£1,211	4	£203	2

We also benchmark our costs at a more detailed level through HouseMark, where our repairs and maintenance costs benchmark as lower than average within our peer group.

	2016/17	Quartile*	2015/16	Quartile*
Cost per property – major works and planned maintenance	£921	1	£1,311	2
Cost per property – responsive repairs and void works	£829	2	£891	2

* HouseMark peer group: traditional housing associations with more than 15,000 units

It therefore appears that one reason we benchmark poorly on maintenance cost per unit is differences in how providers allocate overheads and management costs within the financial statements, which drives the headline maintenance cost per unit figure. HouseMark benchmarking should reflect a more comparable position as costs are allocated in line with common definitions and methodology.

Value for Money (continued)

We are bottom quartile on rent collected, both for rented and supported. There was a slight increase in arrears levels year-on-year, but the main driver of our performance was the amount of former customer arrears written off as unrecoverable. An improvement plan has been put in place, resulting in improved collection rates in 2017/18 but we recognise more can be done.

We are third quartile on overheads as a percentage of turnover. This ratio is affected to some extent by our large supported housing provision, as this requires higher staffing levels which increases the back office support needed. The benchmarking below shows that our costs are comparatively low when compared on a per employee basis.

	2016/17	Quartile*	2015/16	Quartile*
Premises cost per employee	£3,828	2	£2,386	1
IT cost per employee	£5,644	1	£4,044	1
Finance cost per employee	£1,654	1	£1,343	1
Central overhead cost per employee	£5,685	1	£5,148	1

* HouseMark peer group: traditional housing associations with more than 15,000 units

This shows that although our overheads appear high, they are actually in line with expectation given our staffing structure, so no direct improvement plan is considered necessary. Benchmarking of our overheads and back office costs within and outside the sector will continue to help identify areas where potential cost efficiencies could be made. Any improvements identified will be linked to the cost per unit improvement plan.

Improvement plans

Based on our performance, our improvement plans for the coming year will focus on social housing cost per unit, occupancy and rent collected. A number of the actions are from the prior year which we are continuing to work on and we have also included a number of new action plans.

Social housing cost per unit – improvement plan

Action	Target	Commentary
Gain a better understanding of the key cost drivers and how we compare to others to identify specific areas of underperformance to target for efficiency improvement.	Complete by December 2018 **ONGOING**	A summary of the initial analysis carried out is included in the comparative performance section above. This identified that maintenance (including responsive repairs and planned maintenance) was an area where we appear particularly high cost compared to others, although this is at least partially driven by differences in allocation of overheads and management costs by providers. Work will continue in this area to provide further insight and identify areas for cost improvement in maintenance costs.
Key to delivering the reduction in cost per unit is the delivery of the efficiency savings included in our five year business plan.	£8.2 million efficiency savings targeted 2018/19.	We have made significant efficiency savings in recent years, and are targeting further savings of £8.2 million in 2018/19.

Value for Money (continued)

Introduce reporting of cost per unit at directorate/ operational business unit level to increase understanding and ownership of component costs.	Complete by March 2019 **ONGOING**	Internal targets have been set as part of the 2018/19 budget process.
Regeneration and development plans will deliver additional new build social homes with lower maintenance costs.	854 new homes for affordable rent (2018/19)	Our sustainability model informs our regeneration plans in determining where investment in existing stock would be most cost effective.
Target social housing cost per unit for 2018/19	£4,675	We are targeting an increased cost per unit compared to 2017/18 actuals, driven by scaling up our supported housing provision and planned maintenance programme. However this target includes £2.4 million procurement savings and a further £5.8 million general efficiency savings.

Occupancy – improvement plan

Action	Target	Commentary
Carry out detailed analysis of occupancy levels to understand impact of regional performance.	December 2017 **COMPLETE**	A summary of the analysis carried out is included in the comparative performance section above. This identified that the North East and North West in particular were areas of underperformance.
Develop new void standard.	April 2018 **PILOTED IN MARCH**	The new void standard was piloted in March and will be rolled out across all regions in 2018/19. Improved and more consistent standards should improve acceptance rates.
Additional budget allocated for hard-to-let properties.	April 2018 **IN PLACE FOR 2018/19**	In place for 2018/19. This will enable focused spend in areas with lower occupancy rates.
Target for 2018/19	98.7% rented 93.5% supported	Targets take into account the impact of large numbers of new build properties being completed around the year end due to the phasing of our development programme, and decommissioning of supported services as we transition to new models of care.

Value for Money (continued)

Rent collected – improvement plan

Action	Target	Commentary
Rent profiling analysis to understand which customers are more likely to go into arrears, and most effective way of targeting rent collection activity.	March 2018 **COMPLETE**	New rent collections process launched during 2017/18.
Review how other providers measure rent collection to understand whether we are comparing like with like on this measure. Benchmarking against others to understand where performance improvements should be targeted.	September 2018 **ONGOING**	Some benchmarking has been completed to date, but further work needs to be done to understand how other providers are measuring rent collected and how better performance is being achieved.
Develop new standardised collections process for former customer arrears.	January 2019	Former customer arrears collections team to be centralised and collections process standardised.
Targets for 2018/19	98.6% rented 99.3% supported	The reduced target for rented factors in expected increases in arrears as a result of a large proportion of our customers transitioning to Universal Credit in 2018/19. However within this target increased collection rates have been targeted for other groups.

VfM conclusions

2017/18 was a challenging year as we entered the first year of our strategy, '*Building homes, independence and aspirations*', with some ambitious targets associated with this. We performed strongly against many of the outcomes-based targets, delivering 1,364 new homes against our stretch target of 1,400, increasing our level of reinvestment in social housing to 6.3%, and increasing the amount invested in communities and neighbourhoods from £18 per social home to £22.

However we did not perform as well on some of the efficiency measures, particularly occupancy and rent collected where we have established further improvement plans.

Our cost per unit decreased from £4,445 to £4,409. This is mainly driven by a reduction in costs associated with support services as we transition our supported housing business to new models of care; however £10.8 million of efficiency savings delivered in the year against our target of £10.0 million have also contributed to the decrease.

Other information

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

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

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

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Association and of the income and expenditure of the Group and the Association for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the Group or the Association or to cease operations, or has no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

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

Disclosure of information to auditors

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

Colleagues

Home Group is committed to supporting every colleague to be brilliant. We placed 27th in the 'UK's Best Large Workplaces 2018' (an improvement on 2017's ranking of 33rd). We embrace equality and diversity too – we were listed in Stonewall's top 100 employers 2018.

We work with colleagues to make sure people feel aware, informed and involved with Home Group's strategic direction and we welcome views and suggestions. We use a range of ways to engage with colleagues including Workplace (an enterprise social network), our intranet, seminars, meetings and events as well as a strong team culture of briefings, meetings and brilliant conversations. We continue to invest in colleague learning and development and wellbeing as this is key to engagement and business success. This year, we have consulted with colleagues on pay, reward and performance management and as a result, we are introducing a mutual award which means that as well as all colleagues contributing to Home Group's ongoing achievements, we all share in our successes too.

Health and safety

Home Group takes steps to ensure that it complies with relevant health and safety legislation. It has a clear policy framework which sets out the responsibilities of both Home Group and colleagues in relation to health and safety.

Post balance sheet events

The Board considers that there have been no events since the year end that have had a significant impact on the Group's financial position.

Annual General Meeting

The Annual General Meeting was held on 19 July 2018.

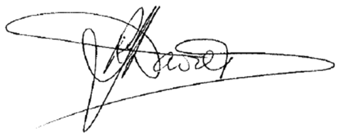
Auditors

A resolution to reappoint KPMG LLP as auditors was agreed at the Annual General Meeting.

Statement of compliance

The Board confirms that this Report of the Board and Strategic Report has been prepared in accordance with the principles set out in the 2014 SORP for Registered Social Housing Providers.

On behalf of the Board.



R J Davies, LLB, FCMA
Home Group Chairman

19 July 2018

Independent Auditor's Report to Home Group Limited

1. Our opinion is unmodified

We have audited the financial statements of Home Group Limited ("the Association") for the year ended 31 March 2018 which comprise the Group and Association Statements of Comprehensive Income, Group and Association Statements of Financial Position, Group and Association Statements of Changes in Reserves, the Group Statement of Cash Flows and related notes, including the accounting policies in Note 1 of the financial statements.

In our opinion the financial statements:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor in 2001. The period of total uninterrupted engagement is for the 17 financial years ended 31 March 2018.

We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter, in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

Overview

Materiality: Group financial statements as a whole	£3.6 million (2017: £5.3 million) 1.0% (2017: 1.5%) of income	
Coverage	100% (2017: 100%) of Group income	
Risks of material misstatement		vs 2017
Recurring risks	Valuation of developments	◄►

Independent Auditor's Report to Home Group Limited (continued)

	The risk	Our response
Group and Parent risk **Valuation of developments** (Group: Housing properties under construction £121.3 million; 2017: £92.1 million; Work in progress £106.3 million; 2017: £90.9 million) (Association: Housing properties under construction £107.0 million; 2017: £79.2 million; Work in progress £56.7 million; 2017: £56.8 million) Refer to page 44 and 45 (accounting policies) and pages 60, 61 and 66 (financial disclosures)	**Subjective valuation** The Group has a significant development programme which includes mixed tenure schemes as well as a significant portion of open market sales. At each reporting date an assessment needs to be made of whether there are any indicators of impairment. This is a subjective assessment that needs to be made for a large number of schemes and which requires a detailed understanding of the progress of each scheme. There is a risk that impairment indicators may not be identified by the Group and therefore work in progress or housing properties under construction may be overstated. The considerations differ depending on the intended purpose of each scheme. Where schemes predominantly consist of social housing units these are considered to be assets held for their service potential, in keeping with the requirements of FRS 102. In most circumstances this results in making an assessment of the carrying amount compared to the cost of constructing an equivalent asset under optimal conditions. This is a subjective assessment, however it is likely that where there have been increases in construction costs or where construction cost inflation exceeds rent inflation an impairment may be required. In order to assess impairment for development schemes which do not primarily comprise social housing units an assessment of whether the net realisable value ("NRV") exceeds the carrying amount must be made. Where development is ongoing, NRV is the forecast total selling price less the forecast costs to complete and sell. The same forecasts are used to determine the appropriate gross profit to recognise on sales from ongoing developments. There is a risk that the total forecast profits on a development may be overestimated and as a result an adjustment may be required to the profit recognised on completed sales. For all schemes assessing the total costs to complete developments requires judgement as the costs not yet incurred can change. For some schemes this assessment may be made more difficult due to complex arrangements with third party contractors and contractual disputes.	Our procedures included: • **Our development project expertise:** Using our own quantity surveying expert to assist in assessing the Group's approval process and the level of control around project spend and contract monitoring. This includes attending a selection of sites where specific impairment risks are identified; • **Control observation:** Evaluating the Group's approval and appraisals processes upon which the forecast scheme outcomes are based. This includes assessing the process for authorising and recording incurred and projected costs in the appraisals; • **Our sector experience:** Carrying out corroborative inquiries and inspection to identify contractual or budgeting issues on specific sites, comparing these with other sources of information, our experience of the Group and the wider sector, and the results of other inquiries where appropriate; • **Assessing valuer's credentials:** Where market sales valuations are used to support an impairment review, assessing the competence, capability, objectivity and independence of the Group's valuers; • **Sensitivity analysis:** Performing sensitivity analyses over the assumptions and considering the outcomes with reference to benchmarks to identify the key assumptions affecting the appraisal; • **Benchmarking assumptions:** Challenging the key assumptions in the Group's plans and forecasts using third party data and the Group's historic experience of costs and revenues; • **Historical comparisons:** Comparing initial forecast costs and selling prices with the actual outturn for completed developments and critically assessing the accuracy of the Group's forecasting; and • **Comparing valuations:** Where there are uncertainties related to contractor costs or contractual disputes, comparing the Group's estimates with actual results or the latest available evidence available after the reporting date. **Our results:** We found the estimated recoverability of the carrying value of housing properties under construction and work in progress to be acceptable (2017: acceptable).

Independent Auditor's Report to Home Group Limited (continued)

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £3.6 million (2017: £5.3 million), determined with reference to a benchmark of Group income as disclosed in the Statement of Comprehensive Income, of £365 million, of which it represents 1.0% (2017: 1.5%).

Materiality for the Association financial statements as whole was set at £3.3 million (2017: £4.6 million), determined with reference to a benchmark of Association income, of which it represents 1.0% (2017: 1.4%).

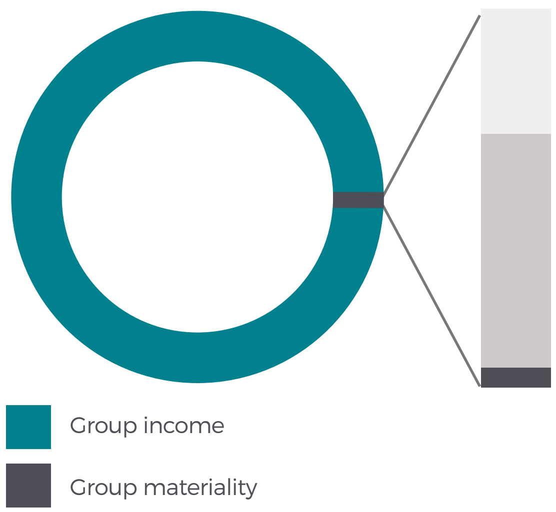
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.2 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

We subjected all of the Group's four (2017: four) reporting components to full scope audits for group purposes.

The components within the scope of our work accounted for the percentages illustrated below.

The work on all components (2017: all components), including the audit of the parent Association, was performed by the Group team.

Group income
£365 million (2017:£353 million)

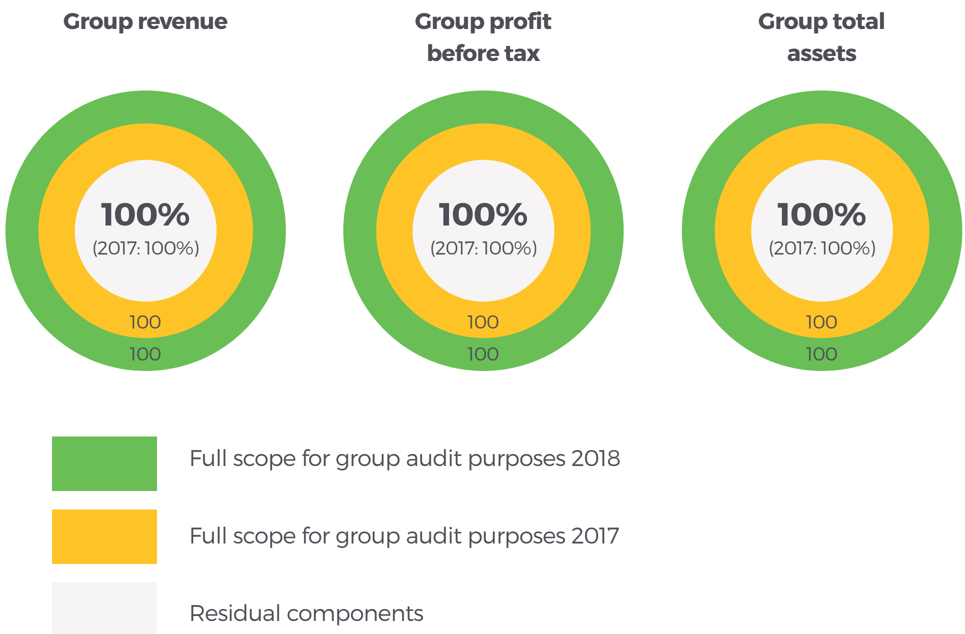


Group materiality
£3.6 million (2017: £5.3 million)

£3.6 million
Whole financial statements materiality (2017: £5.3 million)

£3.3 million
Range of materiality at four components (£0.2 million to £3.3 million) (2017: £0.1 million to £4.6 million)

£0.2 million
Misstatements reported to the audit committee (2017: £0.3 million)



4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least 12 months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The Association's Board is responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Based solely on our work on the other information:

- we have not identified material misstatements;
- in our opinion the information given as other information for the financial year is consistent with the financial statements; and
- in our opinion the other information has been prepared in accordance with the Co-operative and Community Benefit Societies Act 2014 and the regulations made under it.

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Board's responsibilities
As explained more fully in their statement set out on page 32, the Board is responsible for: preparing financial statements which give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Association or to cease operations, or have no realistic alternative but to do so.

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

Irregularities – ability to detect
Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the accounts. In planning and performing our audit, we considered the impact of laws and regulations related to the provision of private and social housing, given the industry in which the Group operates. We identified these areas through discussion with the directors and other management (as required by auditing standards), and from our sector experience. In addition we had regard to laws and regulations in core areas such as financial reporting and taxation legislation.

We considered the extent of compliance with those laws and regulations that directly affect the financial statements, being those related to the provision of private and social housing, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we made enquiries of directors and other management (as required by auditing standards).

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Independent Auditor's Report to Home Group Limited (continued)

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Association those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Association as a body, for our audit work, for this report, or for the opinions we have formed.

Nick Plumb (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor

Chartered Accountants
Quayside House
110 Quayside
Newcastle Upon Tyne
NE1 3DX

7 August 2018

Statement of Comprehensive Income for the year ended 31 March 2018

		GROUP		ASSOCIATION	
	Notes	**2018**	2017	**2018**	2017
		£000	£000	**£000**	£000
Turnover	2	**364,703**	352,698	**327,122**	330,214
Cost of sales	2	**(27,851)**	(10,226)	**(11,983)**	(6,485)
Operating expenditure	2	**(256,938)**	(259,163)	**(244,231)**	(247,261)
Surplus on disposal of housing properties	3	**7,597**	3,774	**7,582**	3,663
Operating surplus		**87,511**	87,083	**78,490**	80,131
Share of profit in joint ventures	15	**5,087**	1,411	–	–
Share of profit in associate	15	**514**	448	–	–
Interest receivable	7	**2,091**	2,156	**1,059**	583
Interest payable and financing costs	8	**(43,357)**	(42,660)	**(41,326)**	(40,790)
Gift aid receipt	9	–	–	**4,248**	–
Surplus on ordinary activities before taxation	10	**51,846**	48,438	**42,471**	39,924
Taxation	11	**(1,326)**	(1,029)	**(136)**	(282)
Surplus for the year		**50,520**	47,409	**42,335**	39,642
Actuarial gain / (loss) relating to pension schemes	26	**31,735**	(18,750)	**31,735**	(18,750)
Total comprehensive income for the year		**82,255**	28,659	**74,070**	20,892

All activities are continuing.

The notes on pages 43 to 91 form part of the financial statements.

The financial statements on pages 39 to 91 were approved by the Board on 19 July 2018 and were signed on its behalf by:

R J Davies, LLB, FCMA
Home Group Chairman

N W Salisbury, BA (Hons)
Board Member

A Woods, LLB (Hons)
Company Secretary

Statement of Financial Position as at 31 March 2018

		GROUP		ASSOCIATION	
	Notes	**2018**	2017	**2018**	2017
		£000	£000	**£000**	£000
Fixed assets					
Housing properties	12	**2,177,651**	2,090,311	**2,054,195**	1,987,728
Other fixed assets	13	**24,441**	26,150	**24,439**	26,146
Intangible fixed assets	14	**19,584**	21,055	**19,584**	21,055
Investment in subsidiaries	15	–	–	**105,821**	73,385
Investment in joint ventures	15	**47,579**	33,576	–	–
Investment in associates	15	**11,775**	10,569	–	–
Other investments	15	**9,814**	8,341	**7,586**	7,873
Homebuy loans receivable		**682**	682	**682**	682
		2,291,526	2,190,684	**2,212,307**	2,116,869
Current assets					
Properties held for sale	16	**125,287**	94,758	**72,151**	60,577
Debtors	17	**28,872**	26,865	**30,588**	26,497
Investments	18	–	–	–	2,172
Cash and cash equivalents		**26,854**	27,918	**24,532**	26,697
		181,013	149,541	**127,271**	115,943
Creditors: amounts falling due within one year	19	**(158,010)**	(121,015)	**(143,672)**	(116,377)
Net current assets / (liabilities)	20	**23,003**	28,526	**(16,401)**	(434)
Total assets less current liabilities		**2,314,529**	2,219,210	**2,195,906**	2,116,435
Creditors: amount falling due after more than one year	21	**(1,697,863)**	(1,649,865)	**(1,675,170)**	(1,634,835)
Pension provision	26	**(39,316)**	(73,799)	**(39,316)**	(73,799)
Net assets		**577,350**	495,546	**481,420**	407,801
Capital and reserves					
Non-equity share capital	27	–	–	–	–
Restricted reserve		**629**	1,072	**629**	1,072
Income and expenditure reserve		**576,721**	494,474	**480,791**	406,729
Total capital and reserves		**577,350**	495,546	**481,420**	407,801

The notes on pages 43 to 91 form part of the financial statements.

The financial statements on pages 39 to 91 were approved by the Board on 19 July 2018 and were signed on its behalf by:

R J Davies, LLB, FCMA
Home Group Chairman

N W Salisbury, BA (Hons)
Board Member

A Woods, LLB (Hons)
Company Secretary

Statement of Changes in Reserves for the year ended 31 March 2018

GROUP	Income and expenditure reserve £000	Restricted reserve £000	Total reserves £000
As at 1 April 2016	465,769	456	466,225
Total comprehensive income for the year	28,659	–	28,659
Transfer to income and expenditure reserve	46	(46)	–
Restricted income	–	662	662
As at 31 March 2017	494,474	1,072	495,546
Total comprehensive income for the year	82,255	–	82,255
Transfer from income and expenditure reserve	(8)	8	–
Repayment of restricted income	–	(451)	(451)
As at 31 March 2018	**576,721**	**629**	**577,350**

ASSOCIATION	Income and expenditure reserve £000	Restricted reserve £000	Total reserves £000
As at 1 April 2016	385,791	456	386,247
Total comprehensive income for the year	20,892	–	20,892
Transfer to income and expenditure reserve	46	(46)	–
Restricted income	–	662	662
As at 31 March 2017	406,729	1,072	407,801
Total comprehensive income for the year	74,070	–	74,070
Transfer from income and expenditure reserve	(8)	8	–
Repayment of restricted income	–	(451)	(451)
As at 31 March 2018	**480,791**	**629**	**481,420**

The notes on pages 43 to 91 form part of the financial statements.

Group Cash Flow Statement for the year ended 31 March 2018

	Notes	2018	2017
		£000	£000
Net cash inflow from operating activities	28	**99,200**	55,104
Cash flow from investing activities			
Purchase of housing properties, other fixed assets and intangible assets		**(148,955)**	(129,342)
Loans to joint ventures		**(27,521)**	(16,798)
Repayments from joint ventures		**18,162**	12,897
Distributions received from joint ventures		**2,100**	–
Loans to associates		**(2,157)**	(3,195)
Repayments from associate		**1,789**	2,365
Additions to other investments		**(1,804)**	(915)
Disposals of other investments		**331**	338
Proceeds from sale of housing properties and other fixed assets		**15,686**	11,660
Capital grants received		**15,909**	18,771
Capital grants repaid		–	(270)
Interest received		**104**	206
Net cash outflow from investing activities		**(126,356)**	(104,283)
Cash flow from financing activities			
Interest paid		**(33,924)**	(34,515)
New secured loans		**75,629**	79,827
Repayment of borrowings		**(15,162)**	(17,196)
Withdrawal from deposits		–	736
(Repayment from) / payment into restricted reserve		**(451)**	662
Net cash inflow from financing activities		**26,092**	29,514
Net change in cash and cash equivalents		**(1,064)**	(19,665)
Cash and cash equivalents at the beginning of the year		**27,918**	47,583
Cash and cash equivalents at the end of the year		**26,854**	27,918

The notes on pages 43 to 91 form part of the financial statements.

1. Principal accounting policies

Basis of accounting

The financial statements have been prepared in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102'), the Accounting Direction for Private Registered Providers of Social Housing 2015 and the Statement of Recommended Practice for registered social housing providers Update 2014 ('SORP 2014').

Compliance with the SORP 2014 requires departure from the requirements of FRS 102, section 19 'Business Combinations and Goodwill', in relation to negative goodwill and an explanation of the result of the departure is given in the 'Negative goodwill' policy below.

As a public benefit entity, Home Group has applied the public benefit entity 'PBE' prefixed paragraphs of FRS 102.

In preparing the separate financial statements of the parent company (the Association), no cash flow statement has been presented for the Association because advantage has been taken of the disclosure exemption available in FRS 102.

The financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The financial statements are prepared on the historical cost basis of accounting with the exception of investment properties which are carried at a valuation. There are no material differences between the surplus on ordinary activities before taxation and the surplus for the current or prior year and their historical cost equivalents.

A summary of the more important Group accounting policies is set out below, together with an explanation of where they have not been applied consistently.

Going concern

The Group's business activities, its current financial position and factors likely to affect its future development are set out within the Board Report and the Strategic Report. The Group has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with the Group's day to day operations. The Group also has a long-term business plan which shows that it is able to service these debt facilities whilst continuing to comply with lender's covenants. The Group carries out comprehensive, risk-based stress testing on its business plan and longer term financial forecasts to understand the impact on the financial performance should the risks materialise. The stress testing provides confidence that the Group would be able to take mitigating action to protect itself in the event that the major business risks did crystallise.

On this basis, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Basis of consolidation

The Group Statement of Comprehensive Income and Statement of Financial Position consolidate the results and financial position of the Association and its subsidiary undertakings, joint ventures and associates. Details of the subsidiary undertakings, joint ventures and associates are included in Note 15 to the financial statements. Intra-group turnover, surpluses and balances are eliminated fully on consolidation. Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and on transfers of engagements represents the excess of the fair value of identifiable assets over the fair value of consideration given. Where negative goodwill arises on the acquisition of a business as a part of a commercial transaction it is classified as a negative asset and amortised over the life of the asset acquired. Where negative goodwill arises through an acquisition which is in substance a gift of a business (a non-exchange transaction) the fair value of the gifted recognised assets and liabilities is recognised as a gain or loss in the income and expenditure reserve in the year of the transaction.

The outlined treatment is in accordance with the SORP 2014 but not in accordance with section 19 of FRS 102 which requires that negative goodwill is shown as a negative asset on the Statement of Financial Position. The Board is of the opinion that the treatment required by FRS 102 would not present a true and fair view of the Group's net assets because the substance of each transaction is a transfer of a business for no consideration rather than a purchase in the conventional manner. If the negative goodwill had been treated as a negative asset as required by FRS 102 then the Group's net assets would have been reduced by £92.8 million (2017 : £93.3 million).

Turnover

Rental income is recognised on a straight line basis, in accordance with the terms of the tenancy agreement, on an accrual basis. Revenue arising from the sale of property is recognised on legal completion. Revenue from contracts for support services is recognised in line with the contractual terms when the services are rendered. Revenue from shared ownership sales is recognised on

1. Principal accounting policies (continued)

the legal completion of the first tranche disposal. Revenue from government grants is recognised in line with the accounting policy set out below.

Charges for support services

Income in respect of contracts for support services received is accounted for as charges for support services in the turnover in Note 2 to the financial statements. The related support costs are matched against this income.

Housing properties

Housing properties are stated at cost less accumulated depreciation and impairment. Housing properties in the course of construction are stated at cost and are transferred into housing properties when completed.

The cost of a property comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Directly attributable costs include the employment costs of development colleagues, finance and legal colleagues, and surveyors arising directly from the construction or acquisition of the property, together with other incremental costs which would have been avoided only if the property had not been constructed or acquired. Interest incurred on financing a development is capitalised up to the date of practical completion of the scheme. The capitalisation rate is the weighted average of the rates applicable to general borrowings that are outstanding during the period.

Housing properties are split under component accounting between their land, structure costs and a specific set of major components which require periodic replacement. Refurbishment or replacement of such components is capitalised and depreciated on a straight line basis over the estimated useful economic life of components as follows:-

Component	Estimated useful economic life (years)
Property structure	100
Bathroom	25 – 30
Boiler	15
Central heating	30
Doors	20 – 25
Electrical	25 – 30
Kitchen	15 – 20
Roof	40 – 55
Windows	30
Lift	15
Insulated render	35
Solar panels	25

Freehold land is not depreciated.

Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and impairment. Depreciation is charged on a straight line basis to write off the cost less any estimated residual value over the expected useful economic lives of the assets.

Type of asset	Estimated useful economic life (years)
Freehold offices and long leasehold offices	40 or over the life of the lease
Improvements to short leasehold properties	5 – 20
Plant, machinery and fixtures	4 – 8
Motor vehicles	4
Computer equipment	3 – 5
Leased equipment	over the life of the lease

Intangible assets – software

Intangible assets that are acquired are stated at cost less accumulated amortisation and less accumulated impairment losses. The useful life of software is seven years.

Government grants

Government grants include grants receivable from Homes England, Greater London Authority, the Scottish Housing Regulator, local authorities and other government organisations. Government grants received for housing properties are recognised in income over the useful life of the housing property structure and, where applicable, its individual components (excluding land) under the accruals model.

Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate once reasonable assurance has been gained that the entity will comply with the conditions and that the funds will be received. Grants due from government organisations or received in advance are included as current assets or liabilities.

Government grants released on sale of a property may be repayable but are normally available to be recycled and are credited to a Recycled Capital Grant Fund and included in the Statement of Financial Position in creditors. If there is no requirement

1. Principal accounting policies (continued)

to recycle or repay the grant on disposal of the asset, any unamortised grant remaining within creditors is released and recognised as income in income and expenditure. Where individual components are disposed of and this does not create a relevant event for recycling purposes, any grant which has been specifically allocated to the component is released to income and expenditure. Upon disposal of the associated property, the Group is required to recycle these proceeds and recognise them as a liability.

Other grants

Grants received from non-government sources are recognised using the performance model. A grant which does not impose specified future performance conditions is recognised as revenue when the grant proceeds are received or receivable. A grant that imposes specified future performance-related conditions is recognised only when these conditions are met. A grant received before the revenue recognition criteria are satisfied is recognised as a liability.

Impairment

Reviews for indicators of impairment of housing properties are carried out on an annual basis and any impairment in an income generating unit is recognised by a charge to the Statement of Comprehensive Income. An impairment is recognised where the carrying amount of an income generating unit exceeds its recoverable amount being the higher of its fair value less costs to sell and its value in use.

Disposals of housing properties

Where properties built for sale are disposed of during the year, the disposal proceeds are included in turnover and the attributable costs included in cost of sales. Where properties previously rented out to customers are disposed of, the surplus on disposal is included in operating surplus.

Where a component is replaced or restored, the old component is written off to the Statement of Comprehensive Income, to avoid double counting, and the new component is capitalised. Charges arising from the early replacement of a component are reflected as part of the overall depreciation charge.

Where any Social Housing Grant (SHG) to be recycled or repaid is less than the SHG relating to the disposal, the difference is treated as abated SHG and included as a component of the surplus or deficit on disposal.

Properties for sale

Completed properties for outright sale and properties under construction are valued at the lower of cost and net realisable value.

Shared ownership

The costs of shared ownership properties are split between current and fixed assets on the basis of the first tranche portion. The first tranche portion is accounted for as a current asset and on disposal the first tranche sale proceeds are shown in turnover. The remaining element of the shared ownership property is accounted for as a fixed asset. Any grant attributable to shared ownership assets is wholly attributed to the element retained and held in liabilities. Subsequent tranches sold ('staircasing') are accounted for as disposals of housing properties, as noted above.

Improvements to properties

Expenditure on housing properties which is capable of generating increased future rents, or extends their useful lives, or significantly reduces future maintenance costs, is capitalised.

Subsidiaries

The consolidated financial statements include the financial statements of the Association and its subsidiary undertakings made up to 31 March 2018. A subsidiary is an entity that is controlled by the parent (the Association). The results of subsidiary undertakings are included in the consolidated Statement of Comprehensive Income from the date that control commences until the date that control ceases. Control is established when the Association has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Joint ventures and associates

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Associates are all entities over which the Group has significant influence but not control. Investments in joint ventures and associates are accounted for by the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss after the date of acquisition. If the Group's share of losses exceeds the carrying amount of its investment, the Group discontinues recognising its share of further losses. Additional losses are recognised as a provision only to the extent that the Group has a legal or constructive obligation to make payments on behalf of the joint venture or associate. The Group only resumes recognising its share of profits after they equal the share of losses not recognised. Loans to joint ventures and associates are included in fixed asset investments.

Other investments

Other fixed asset and current asset investments are stated at market value.

Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Index-linked loans

Index-linked loans are shown at the amount borrowed net of any principal repayments plus indexation less issue

1. Principal accounting policies (continued)

costs. Indexation represents the amount of uplift of the borrowing by reference to movements in the retail prices index and is charged to the Statement of Comprehensive Income annually.

Loan issue costs

Issue costs of long term loan finance are deducted from the proceeds of the loan and accordingly reduce the amount at which the loan is initially recorded and are charged to the Statement of Comprehensive Income at a constant rate on the carrying amount over the term of the loan. Redemption costs are charged when incurred.

Supported housing managed by agencies

Social Housing Grant and revenue grant claimed by the Group as owner of its supported housing schemes and the related expenditure are included in the Statement of Financial Position and Statement of Comprehensive Income of the Group. The treatment of other income and expenditure in respect of these schemes depends on whether the Group carries the financial risk. Where the Group carries the financial risk, all the scheme's income and expenditure is included in the Statement of Comprehensive Income within Note 2 to the financial statements. Where an agency carries the financial risk, the Statement of Comprehensive Income includes only that income and expenditure which relates solely to the Group. Other income and expenditure of schemes in this category is excluded from the Statement of Comprehensive Income.

Leaseholders' building funds

Charges which are made to leaseholders for future major repairs are held in designated interest-bearing bank accounts with a corresponding creditor disclosed on the Statement of Financial Position under creditors due within one year.

Pension costs

The Group operates three main defined benefit pension schemes. The operating costs of providing retirement benefits to participating employees are recognised in the accounting periods in which the benefits are earned. The related finance costs, expected return on assets and any other changes in the fair value of the assets and liabilities are recognised in the accounting periods in which they arise. The operating costs, finance costs and expected return on assets, and any other changes in the fair value of assets and liabilities are recognised in the Statement of Comprehensive Income.

In addition to the three defined benefit schemes above, the Group participates in a number of other multi-employer defined benefit schemes where it is not possible to identify the share of the underlying assets and liabilities belonging to individual participating employers. These pension schemes are accounted for as defined contribution schemes in line with SORP 2014 and FRS 102, with agreed deficit contributions being recognised as a liability in the Statement of Financial Position.

The Group also operates a defined contribution scheme. The contributions paid into this scheme are charged to the Statement of Comprehensive Income as incurred.

Taxation

The tax expense for the period comprises current and deferred tax. Current tax is recognised for the amount of income tax payable in respect of the taxable surplus for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the reporting date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the reporting date. Timing differences are differences between the Group's taxable surpluses and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable, and therefore recognised, only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable surpluses from which the future reversal of the underlying timing differences can be deducted. Deferred tax balances are not discounted.

Value Added Tax (VAT)

The Group is partially exempt from VAT. A small proportion of VAT is reclaimed but because of the small amounts involved, expenditure is shown gross and the VAT recovered is included in sundry income.

Homebuy

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

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

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

1. Principal accounting policies (continued)

Holiday pay accrual

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

Financial instruments

All financial instruments meet the criteria of a basic financial instrument as defined in section 11 of FRS 102 and are accounted for under the amortised historic cost model.

Restricted reserves

Services within Home Group's supported services are empowered to raise funds at a local level for the future benefit of that service. Funds collected and relevant expenditure incurred are recorded in the Statement of Comprehensive Income in the period with net movement transferred between the income and expenditure reserve and the restricted reserve at the end of each year.

Significant judgements and estimates

Preparation of the financial statements requires management to make significant judgements and estimates. The judgements and estimates which have the most significant impact on amounts recognised in the financial statements are set out below.

Significant management judgements

Carrying value of housing properties and stock
Judgement is exercised in determining the carrying value of housing properties and stock in line with the accounting policies set out on pages 44 to 45.

The Group has conducted a review of the financial performance and future prospects of its existing, rented housing properties to assess whether there has been a trigger event for an impairment review. An impairment review may be triggered where there are demand issues in terms of letting performance, lower than expected rental levels or where there are higher than anticipated operating costs.

An impairment review has been carried out at 31 March 2018 to determine whether any assets required impairment.

In determining whether an impairment is required, the carrying amount of each scheme has been compared to the estimated recoverable amount which is the higher of a scheme's fair value less costs to sell and its value in use. The fair value reflects sales values achieved on the sale of similar housing properties where this data is available. The value in use calculation is based on either a depreciated replacement cost or a discounted cash flow model reflecting future anticipated cash flows for the scheme discounted using an appropriate discount rate. Depreciated replacement cost reflects the anticipated costs of constructing or acquiring properties which deliver the same service potential as the existing property.

The Group has also reviewed the latest forecasts for its ongoing development schemes including costs to date, estimated costs to complete, future grant receipts and any anticipated sales proceeds from property developed for sale to determine whether there is an indicator of impairment in terms of properties in the course of construction held as either fixed assets or stock. Management is required to exercise significant judgement in estimating the outcome of a development and therefore in assessing whether, and what extent, impairment provisions are required.

Following these assessments, an impairment loss of £4.1 million was identified and included in the Statement of Comprehensive Income.

Investment in joint ventures and associates
For loans to joint ventures and associates, the Group has reviewed future projections for joint ventures to assess the likely recoverability of loans at the balance sheet date.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expense is provided below.

Defined benefit pension liabilities
The cost of defined benefit pension scheme benefits and the liability for benefit at the balance sheet date are determined using actuarial valuations. The actuarial valuation is based upon assumptions including discount rates, inflation, future salary increases and future pension increases. The valuation also reflects assumptions about future mortality rates. Variation in these assumptions may significantly impact the cost of defined benefit pension scheme benefits and the liability for benefit accrued at the balance sheet date. The overall liability across all defined benefit pension schemes as at 31 March 2018 was £39.3 million. It is estimated that a 0.1% decrease in the discount rate would add 2% to defined benefit scheme liabilities, that a 0.1% increase in inflation linked assumptions would add 1.6% to the liabilities and that an increase in average life expectancy by one year would also increase liabilities by 4%.

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

GROUP – YEAR ENDED 31 MARCH 2018

	Note	Turnover	Cost of sales	Operating expenditure	**Operating surplus/(deficit)**
		£000	£000	£000	**£000**
Income and expenditure from social housing lettings	2b	276,954	–	(202,563)	**74,391**
Other social housing activities					
Charges for support services		38,966	–	(37,284)	**1,682**
Shared ownership first tranche sales		14,466	(10,072)	(1,163)	**3,231**
Community investment		–	–	(1,132)	**(1,132)**
Development and marketing		–	–	(6,118)	**(6,118)**
Surplus on sale of social housing properties	3	–	–	–	**7,597**
Other		7,517	–	(5,034)	**2,483**
		60,949	(10,072)	(50,731)	**7,743**
Non-social housing activities					
Lettings – mid-market renting		3,120	–	(1,248)	**1,872**
Properties developed for outright sale		20,578	(16,347)	(437)	**3,794**
Other		3,102	(1,432)	(1,959)	**(289)**
		26,800	(17,779)	(3,644)	**5,377**
Total		**364,703**	**(27,851)**	**(256,938)**	**87,511**

2a. Turnover, cost of sales, operating expenditure and operating surplus / (deficit) (continued)

GROUP – YEAR ENDED 31 MARCH 2017

	Note	Turnover £000	Cost of sales £000	Operating expenditure £000	Operating surplus/(deficit) £000
Income and expenditure from social housing lettings	2b	274,171	–	(198,757)	75,414
Other social housing activities					
Charges for support services		49,351	–	(46,479)	2,872
Shared ownership first tranche sales		9,020	(4,837)	–	4,183
Community investment		–	–	(924)	(924)
Development and marketing		–	–	(5,858)	(5,858)
Surplus on sale of social housing properties	3	–	–	–	3,774
Other		5,534	–	(2,781)	2,753
		63,905	(4,837)	(56,042)	6,800
Non-social housing activities					
Lettings – mid-market renting		2,987	–	(1,095)	1,892
Properties developed for outright sale		8,457	(5,389)	(259)	2,809
Other		3,178	–	(3,010)	168
		14,622	(5,389)	(4,364)	4,869
Total		352,698	(10,226)	(259,163)	87,083

2a. Turnover, cost of sales, operating expenditure and operating surplus / (deficit) (continued)

ASSOCIATION – YEAR ENDED 31 MARCH 2018

	Note	Turnover	Cost of sales	Operating expenditure	**Operating surplus/(deficit)**
		£000	£000	£000	**£000**
Income and expenditure from social housing lettings	2b	261,575	–	(192,506)	**69,069**
Other social housing activities					
Charges for support services		38,818	–	(37,165)	**1,653**
Shared ownership first tranche sales		14,466	(10,072)	(1,163)	**3,231**
Community investment		–	–	(1,114)	**(1,114)**
Development and marketing		–	–	(6,052)	**(6,052)**
Surplus on sale of social housing properties	3	–	–	–	**7,582**
Other		7,535	–	(5,034)	**2,501**
		60,819	(10,072)	(50,528)	**7,801**
Non-social housing activities					
Properties developed for outright sale		2,205	(1,408)	(82)	**715**
Other		2,523	(503)	(1,115)	**905**
		4,728	(1,911)	(1,197)	**1,620**
Total		**327,122**	**(11,983)**	**(244,231)**	**78,490**

ASSOCIATION – YEAR ENDED 31 MARCH 2017

	Note	Turnover	Cost of sales	Operating expenditure	Operating surplus/(deficit)
		£000	£000	£000	£000
Income and expenditure from social housing lettings	2b	259,861	–	(189,454)	70,407
Other social housing activities					
Charges for support services		49,181	–	(46,194)	2,987
Shared ownership first tranche sales		9,020	(4,837)	–	4,183
Community investment		–	–	(922)	(922)
Development and marketing		–	–	(5,784)	(5,784)
Surplus on sale of social housing properties	3	–	–	–	3,663
Other		5,528	–	(2,781)	2,747
		63,729	(4,837)	(55,681)	6,874
Non-social housing activities					
Properties developed for outright sale		3,058	(1,648)	–	1,410
Other		3,566	–	(2,126)	1,440
		6,624	(1,648)	(2,126)	2,850
Total		330,214	(6,485)	(247,261)	80,131

2b. Income and expenditure from social housing lettings

GROUP

	Housing accommodation	Supported housing and housing for older people	Shared ownership	**2018 Total**	2017 Total
	£000	£000	£000	**£000**	£000
Income					
Rent receivable net of identifiable service charges	195,255	21,997	5,516	**222,768**	221,556
Service charges income	6,171	29,911	838	**36,920**	38,394
Net rents receivable	201,426	51,908	6,354	**259,688**	259,950
Amortised government grants	6,041	2,161	361	**8,563**	9,012
Revenue grants from local authorities and other agencies	181	8,522	–	**8,703**	5,082
Revenue grants for major repairs	–	–	–	–	127
Total income from social housing lettings	207,648	62,591	6,715	**276,954**	274,171
Expenditure					
Service charge costs	5,521	23,674	771	**29,966**	29,358
Management	41,502	18,066	1,226	**60,794**	55,768
Routine maintenance	33,001	5,527	129	**38,657**	35,931
Planned maintenance	16,507	2,459	110	**19,076**	21,946
Major repairs expenditure	1,709	18	–	**1,727**	2,949
Rent losses from bad debts	3,482	2,199	8	**5,689**	4,855
Property lease charges	17	3,614	–	**3,631**	4,456
Depreciation of housing properties	33,804	4,151	843	**38,798**	41,482
Impairment of housing properties	2,965	961	187	**4,113**	1,483
Other costs	1	111	–	**112**	529
Total expenditure on social housing lettings	138,509	60,780	3,274	**202,563**	198,757
Operating surplus on social housing letting activities	69,139	1,811	3,441	**74,391**	75,414
Rent losses from voids	2,686	5,606	25	**8,317**	7,404

2b. Income and expenditure from social housing lettings (continued)

ASSOCIATION

	Housing accommodation	Supported housing and housing for older people	Shared ownership	**2018 Total**	2017 Total
	£000	£000	£000	**£000**	£000
Income					
Rent receivable net of identifiable service charges	180,262	21,650	5,446	**207,358**	207,001
Service charges income	5,585	29,746	837	**36,168**	37,753
Net rents receivable	185,847	51,396	6,283	**243,526**	244,754
Amortised government grants	7,115	2,124	354	**9,593**	10,132
Revenue grants from local authorities and other agencies	10	8,446	–	**8,456**	4,848
Revenue grants for major repairs	–	–	–	–	127
Total income from social housing lettings	192,972	61,966	6,637	**261,575**	259,861
Expenditure					
Service charge costs	4,970	23,517	769	**29,256**	28,693
Management	38,775	18,007	1,226	**58,008**	53,324
Routine maintenance	30,832	5,474	129	**36,435**	34,126
Planned maintenance	15,234	2,422	110	**17,766**	20,329
Major repairs expenditure	1,707	18	–	**1,725**	2,837
Rent losses from bad debts	3,238	2,192	8	**5,438**	4,614
Property lease charges	–	3,614	–	**3,614**	4,439
Depreciation of housing properties	31,346	4,027	835	**36,208**	39,150
Impairment of housing properties	2,797	961	187	**3,945**	1,483
Other costs	–	111	–	**111**	459
Total expenditure on social housing lettings	128,899	60,343	3,264	**192,506**	189,454
Operating surplus on social housing letting activities	64,073	1,623	3,373	**69,069**	70,407
Rent losses from voids	2,554	5,604	15	**8,173**	7,239

3. Surplus on disposal of properties

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Social housing				
Sales proceeds	**15,961**	11,699	**15,927**	11,483
Cost of sales	**(3,901)**	(4,663)	**(3,882)**	(4,558)
	12,060	7,036	**12,045**	6,925
Capital grant recycled	**(4,463)**	(1,562)	**(4,463)**	(1,562)
Disposal proceeds fund	**–**	(1,700)	**–**	(1,700)
	7,597	3,774	**7,582**	3,663

4. Housing stock

The disclosure below relates to units of housing accommodation and therefore excludes commercial properties and garages.

	GROUP		ASSOCIATION	
	2018 Number	2017 Number	**2018 Number**	2017 Number
Social housing				
General needs – social	**34,585**	35,286	**30,980**	31,724
General needs – affordable	**6,067**	4,714	**6,255**	4,846
Supported housing	**4,202**	4,373	**4,080**	4,251
Housing for older people	**1,697**	1,733	**1,697**	1,733
Shared ownership	**2,000**	1,922	**1,974**	1,896
Total social housing owned	**48,551**	48,028	**44,986**	44,450
Social housing managed only	**1,305**	1,524	**1,305**	1,524
Total social housing owned and / or managed	**49,856**	49,552	**46,291**	45,974
Non-social housing:				
Market rent	**440**	276	**68**	-
Leaseholder units	**4,886**	4,737	**4,874**	4,725
Total owned and managed	**55,182**	54,565	**51,233**	50,699
Social housing owned but managed by others	**854**	860	**1,042**	1,048

5. Emoluments of the Board, directors and senior colleagues

Analysis of non-executive Board members' emoluments

	2018	2017
	£000	£000
C E R Bassett	**9**	9
R Bradley	**9**	9
N T Fee (Until 31 August 2017)	**3**	11
K Gillespie (appointed 8 June 2017)	**6**	-
M Macfarlane	**10**	10
B Mehta	**9**	9
L A Morphy	**10**	10
N W Salisbury	**10**	10
	66	68

During the year there were no benefits, other than wages and salaries, payable to non-executive Board members.

The Chairman, R J Davies, has elected not to draw the remuneration to which he would otherwise be entitled. The amount forgone is instead specifically allocated to the Home Group Fund to be used to address cases of hardship amongst our customers.

Details of the emoluments of the executive Board members are provided within the analysis of directors' emoluments below.

5. Emoluments of the Board, directors and senior colleagues (continued)

Analysis of directors' emoluments (key management personnel)

The following disclosure relates to colleagues who are directors (key management personnel) as defined in the Accounting Direction for Private Registered Providers of Social Housing 2015.

	2018	2017
	£	£
Emoluments paid to the directors: Emoluments (including pension contributions and benefits in kind)	**1,171,268**	1,049,994
Highest paid director: Emoluments (excluding pension contributions)	**226,629**	225,189

	Remuneration	Benefits	Pension contributions	**2018 Total**	2017 Total
	£000	£000	£000	**£000**	£000
M G Henderson	220	7	11	**238**	237
R M Byrne	170	5	13	**188**	187
R Du Rose	170	7	13	**190**	189
B A Ham	162	8	15	**185**	183
J Hudson	177	7	11	**195**	191
M Forrest (appointed 10 October 2016)	159	6	10	**175**	63
Total	1,058	40	73	**1,171**	1,050

Remuneration represents payments receivable for employment in the period and includes salary and any performance related bonus.

The members of the Executive, who were in post at the year end, excluding the Chief Executive, are ordinary members of the defined contribution section of the Home Group pension scheme (Note 26). No enhanced or special terms apply. From 1 April 2016 the Chief Executive received a monthly payment in lieu of the pension contributions to which he would otherwise be entitled as an ordinary member of the scheme. This is disclosed within the pension contributions above.

5. Emoluments of the Board, directors and senior colleagues (continued)

The full time equivalent number of colleagues (including directors) whose remuneration payable in the year (including compensation for loss of office, performance-related bonus, expense allowances and pension contributions) fell above £60,000 was:	**2018 Number**	2017 Number
£60,000 – £70,000	**36**	35
£70,001 – £80,000	**26**	20
£80,001 – £90,000	**14**	11
£90,001 – £100,000	**6**	6
£100,001 – £110,000	**8**	3
£110,001 – £120,000	**4**	6
£120,001 – £130,000	**4**	2
£130,001 – £140,000	**2**	2
£170,001 – £180,000	**3**	–
£180,001 – £190,000	**1**	1
£190,001 – £200,000	**2**	3
£230,001 – £240,000	**1**	–
£240,001 – £250,000	**–**	1

6. Employee information

	GROUP		ASSOCIATION	
The average number of persons (including directors) employed during the year, expressed as full time equivalents, was:	**2018 Number**	2017 Number	**2018 Number**	2017 Number
Office colleagues	**1,371**	1,358	**1,330**	1,313
Wardens, caretakers, care workers and cleaners	**1,208**	1,287	**1,204**	1,281
Maintenance	**18**	19	**18**	19
	2,597	2,664	**2,552**	2,613

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
Employee costs (for the above persons):	**£000**	£000	**£000**	£000
Wages and salaries	**70,444**	73,154	**68,986**	71,582
Social security costs	**6,608**	6,467	**6,457**	6,315
Other pension costs (Note 26)	**3,489**	3,404	**3,274**	3,169
	80,541	83,025	**78,717**	81,066

7. Interest receivable

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Interest receivable from other Group companies	**-**	-	**953**	408
Interest receivable from bank and building society deposits	**101**	158	**97**	153
Other interest receivable	**1,990**	1,998	**9**	22
	2,091	2,156	**1,059**	583

8. Interest payable and financing costs

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Interest payable to other Group companies	**-**	-	**20**	64
On bank loans and overdrafts	**13,180**	12,643	**12,252**	11,722
On other loans	**31,347**	30,552	**30,098**	29,311
Other financing costs on defined benefit pension schemes	**1,789**	1,884	**1,789**	1,884
	46,316	45,079	**44,159**	42,981
Less: Interest capitalised on housing property development	**(2,959)**	(2,419)	**(2,833)**	(2,191)
	43,357	42,660	**41,326**	40,790
Average rate applicable to capitalised interest	**2.9%**	3.2%	**2.9%**	3.2%

Included within interest payable and financing costs are amounts for indexation and deferred interest totalling £9,136,531 (2017 : £8,161,065).

9. Gift Aid receipt

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Gift Aid receipt	**-**	-	**4,248**	-

During the year the Association received a Gift Aid payment from HGDL. The receipt has been included in a separate heading in the Statement of Comprehensive Income.

10. Surplus on ordinary activities before taxation

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Surplus on ordinary activities before taxation is stated after charging:				
Depreciation:				
Housing properties	**38,798**	41,482	**36,208**	39,150
Other fixed assets	**4,313**	7,002	**4,312**	7,781
Amortisation of intangible assets	**4,157**	780	**4,157**	780
Impairment of housing properties	**4,113**	1,483	**3,945**	1,483
Impairment of other fixed assets	**–**	33	**–**	33
External auditor's remuneration for audit services	**108**	93	**85**	70
External auditor's remuneration for non-audit services:				
Taxation compliance and advice	**–**	98	**–**	98
Other assurance services	**16**	22	**16**	22
Other services	**14**	155	**14**	155
Operating lease rentals	**7,045**	8,027	**6,935**	7,809

11. Taxation

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Current tax				
UK corporation tax	**2,044**	1,055	**136**	282
Adjustments in respect of prior years' UK corporation tax	**(722)**	(22)	**–**	–
Total current tax	**1,322**	1,033	**136**	282
Deferred tax				
Current period	**–**	(4)	**–**	–
Prior year adjustment	**4**	–	**–**	–
Total deferred tax	**4**	(4)	**–**	–
Tax on surplus on ordinary activities	**1,326**	1,029	**136**	282

No amounts have been recognised in respect of the deferred tax asset arising on the historic corporation tax losses in Live Smart as these amounts are only available if Live Smart generates future taxable surplus. Forecasts suggest only modest surpluses being generated by Live Smart therefore it is unlikely that the benefit of these losses will be realised in the foreseeable future.

The Group and Association's current tax charges for the period are lower (2017 : lower) than the standard rate of corporation tax in the UK (19%). The differences are explained below:-

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
Total tax reconciliation	**£000**	£000	**£000**	£000
Surplus on ordinary activities before taxation	**51,846**	48,438	**42,471**	39,924
Current UK corporation tax on above at 19% (2017: 20%)	**9,851**	9,688	**8,069**	7,985
Effects of:				
Expenses not deductible for tax purposes	**814**	–	**–**	–
Consolidation adjustment not deductible	**273**	34	**–**	–
Surplus exempt from tax due to charitable exemptions	**(8,889)**	(8,668)	**(7,933)**	(7,703)
Unrecognised deferred tax movement	**(5)**	(3)	**–**	–
Adjustments to tax charge in respect of previous periods	**(718)**	(22)	**–**	–
Total tax charge	**1,326**	1,029	**136**	282

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. There are £7.8 million of capital losses available to carry forward against future chargeable gains, but no deferred tax asset has been recognised due to uncertainties around future recoverability.

12. Housing properties

GROUP

	Completed housing properties £000	Housing properties under construction £000	Completed shared ownership housing properties £000	Shared ownership housing properties under construction £000	Total £000
Cost					
At 1 April 2017	2,240,136	78,475	135,444	17,154	2,471,209
Additions	–	92,371	–	26,267	118,638
Capitalised interest	–	2,162	–	597	2,759
Capitalised works	16,293	–	–	–	16,293
Transfer to completed schemes	76,818	(76,818)	12,904	(12,904)	–
Disposals	(8,631)	–	(2,761)	–	(11,392)
At 31 March 2018	**2,324,616**	**96,190**	**145,587**	**31,114**	**2,597,507**
Depreciation and impairment					
At 1 April 2017	371,053	3,241	6,346	258	380,898
Charge for year	37,955	–	843	–	38,798
Impairment	1,625	2,301	–	187	4,113
Eliminated in respect of disposals	(3,814)	–	(139)	–	(3,953)
At 31 March 2018	**406,819**	**5,542**	**7,050**	**445**	**419,856**
Net book value at 31 March 2018	**1,917,797**	**90,648**	**138,537**	**30,669**	**2,177,651**
Net book value at 31 March 2017	1,869,083	75,234	129,098	16,896	2,090,311

	2018	2017
	£000	£000
Completed housing properties, at net book value, comprise:		
Freeholds	**1,979,748**	1,930,433
Long leaseholds	**74,460**	65,752
Short leaseholds	**2,126**	1,996
	2,056,334	1,998,181
Works to existing properties in the year:		
Components capitalised	**16,293**	13,281
Amounts charged to expenditure in respect of major and planned repairs	**20,803**	24,895
	37,096	38,176

12. Housing properties (continued)

ASSOCIATION

	Completed housing properties £000	Housing properties under construction £000	Completed shared ownership housing properties £000	Shared ownership housing properties under construction £000	Total £000
Cost					
At 1 April 2017	2,145,465	65,311	135,908	17,280	2,363,964
Additions	–	71,647	–	25,026	96,673
Capitalised interest	–	2,036	–	597	2,633
Capitalised works	14,741	–	–	–	14,741
Transfer to completed schemes	56,265	(56,265)	12,904	(12,904)	–
Disposals	(8,346)	–	(2,761)	–	(11,107)
At 31 March 2018	**2,208,125**	**82,729**	**146,051**	**29,999**	**2,466,904**
Depreciation and impairment					
At 1 April 2017	366,602	3,112	6,264	258	376,236
Charge for year	35,373	–	835	–	36,208
Impairment	1,625	2,133	–	187	3,945
Eliminated in respect of disposals	(3,541)	–	(139)	–	(3,680)
At 31 March 2018	**400,059**	**5,245**	**6,960**	**445**	**412,709**
Net book value at 31 March 2018	**1,808,066**	**77,484**	**139,091**	**29,554**	**2,054,195**
Net book value at 31 March 2017	1,778,863	62,199	129,644	17,022	1,987,728

	2018	2017
	£000	£000
Completed housing properties, at net book value, comprise:		
Freeholds	**1,864,882**	1,834,988
Long leaseholds	**80,149**	71,523
Short leaseholds	**2,126**	1,996
	1,947,157	1,908,507
Works to existing properties in the year:		
Components capitalised	**14,741**	12,577
Amounts charged to expenditure in respect of major and planned repairs	**19,491**	23,166
	34,232	35,743

13. Other fixed assets

	Freehold and long leasehold office accommodation £000	Improvements to short leasehold office accommodation £000	Plant, machinery, fixtures and vehicles £000	Computer equipment and leased equipment £000	Total £000
GROUP					
Cost					
At 1 April 2017	12,059	3,982	2,194	52,794	71,029
Additions	1,391	594	478	806	3,269
Disposals	(757)	(212)	(286)	(169)	(1,424)
At 31 March 2018	**12,693**	**4,364**	**2,386**	**53,431**	**72,874**
Depreciation and impairment					
At 1 April 2017	3,396	1,568	899	39,016	44,879
Charge for year	291	765	249	3,008	4,313
Eliminated in respect of disposals	(342)	(205)	(187)	(25)	(759)
At 31 March 2018	**3,345**	**2,128**	**961**	**41,999**	**48,433**
Net book value at 31 March 2018	**9,348**	**2,236**	**1,425**	**11,432**	**24,441**
Net book value at 31 March 2017	8,663	2,414	1,295	13,778	26,150

	Freehold and long leasehold office accommodation £000	Improvements to short leasehold office accommodation £000	Plant, machinery, fixtures and vehicles £000	Computer equipment and leased equipment £000	Total £000
ASSOCIATION					
Cost					
At 1 April 2017	12,059	3,982	2,101	52,792	70,934
Additions	1,391	594	478	806	3,269
Disposals	(757)	(212)	(283)	(169)	(1,421)
At 31 March 2018	**12,693**	**4,364**	**2,296**	**53,429**	**72,782**
Depreciation and impairment					
At 1 April 2017	3,396	1,568	809	39,015	44,788
Charge for year	291	765	248	3,008	4,312
Eliminated in respect of disposals	(342)	(205)	(185)	(25)	(757)
At 31 March 2018	**3,345**	**2,128**	**872**	**41,998**	**48,343**
Net book value at 31 March 2018	**9,348**	**2,236**	**1,424**	**11,431**	**24,439**
Net book value at 31 March 2017	8,663	2,414	1,292	13,777	26,146

14. Intangible fixed assets

GROUP AND ASSOCIATION

	Software
	£000
Cost	
At 1 April 2017	21,835
Additions	2,686
Disposals	-
At 31 March 2018	**24,521**
Depreciation and impairment	
At 1 April 2017	780
Charge for year	4,157
Eliminated in respect of disposals	-
At 31 March 2018	**4,937**
Net book value at 31 March 2018	**19,584**
Net book value at 31 March 2017	21,055

15. Fixed asset investments

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Shares in Group undertakings				
At 1 April	**–**	–	**49,701**	49,701
Issued in the year	**–**	–	**25,000**	–
At 31 March	**–**	–	**74,701**	49,701
Loans to Group undertakings				
At 1 April	**–**	–	**23,684**	13,782
Additions	**–**	–	**67,030**	29,985
Repayments	**–**	–	**(59,594)**	(20,083)
At 31 March	**–**	–	**31,120**	23,684
Interests in joint ventures				
At 1 April	**1,587**	176	**–**	–
Share of results	**5,087**	1,411	**–**	–
Distributions received	**(2,100)**	**–**		
At 31 March	**4,574**	1,587	**–**	–
Interests in associate				
At 1 April	**448**	–	**–**	–
Share of results	**514**	448	**–**	–
At 31 March	**962**	448	**–**	–
Loans to joint ventures				
At 1 April	**31,989**	26,429	**–**	–
Additions	**29,178**	18,457	**–**	–
Repayments	**(18,162)**	(12,897)	**–**	–
At 31 March	**43,005**	31,989	**–**	–
Loans to associates				
At 1 April	**10,121**	8,974	**–**	–
Additions	**2,481**	3,512	**–**	–
Repayments	**(1,789)**	(2,365)	**–**	–
At 31 March	**10,813**	10,121	**–**	–
Other investments				
At 1 April	**8,341**	7,764	**7,873**	7,064
Additions	**1,804**	915	**44**	1,147
Disposals	**(331)**	(338)	**(331)**	(338)
At 31 March	**9,814**	8,341	**7,586**	7,873
Total fixed asset investments	**69,168**	52,486	**113,407**	81,258

Amounts charged as security for loans within other investments are for Group £4.9 million (2017 : £4.8 million) and for Association £4.4 million (2017 : £4.4 million)

15. Fixed asset investments (continued)

Shares in Group undertakings

At 31 March 2018 the Association controlled the following organisations, the results of each of which are consolidated in these financial statements in accordance with the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969:

Subsidiary name	Country of registration	Registered Social Landlord	Shares held by HGL	Basis of control
Home in Scotland Limited	Scotland	Yes	£1	Joint arrangement deed
Live Smart @ Home Limited	England	No	£10,701,000	100% share ownership
Home Group Developments Limited	England	No	£64,000,002	100% share ownership
North Housing Limited	England	No	£0.90	100% share ownership

The following dormant companies are also members of the Group:

Subsidiary name	Country of registration	Registered Social Landlord	Shares held by HGL	Basis of control
Home Housing Limited	England	No	£1	100% share ownership
Stonham Limited	England	No	£1	100% share ownership
Navigation Point Nominee Limited	England	No	£1	100% share ownership
North Eastern Housing Limited	England	No	£0.90	100% share ownership
Copeland Homes Limited	England	No	£1	100% share ownership
PGL (Twelve) Limited	England	No	£1	100% share ownership

Interests in joint ventures and associates

The Group, through its subsidiaries Home Group Developments Limited and North Housing Limited, holds an interest in the following joint ventures and associates:

Joint venture name	Country of registration	Principal activity	Percentage held
Evolution Gateshead Developments LLP	England	Property development	50%
Gateshead Regeneration LLP	England	Property development	25% (held indirectly)
Evolution Newhall LLP	England	Property development	50%
Evolution (Shinfield) LLP	England	Property development	50%
Evolution (Saffron Walden) LLP	England	Property development	50%
Linden (Northstowe) LLP	England	Property development	50%
Associate name	**Country of registration**	**Principal activity**	**Percentage held**
Evolution Morpeth LLP	England	Property development	50%
Ptarmigan Planning 4 Limited	England	Property development	50%

Ptarmigan Planning 4 Limited had three wholly owned subsidiaries at the balance sheet date, namely; Ptarmigan Birchington Limited, Ptarmigan Thatcham Limited and Ptarmigan Berinsfield Limited.

The Group results include a profit from interests in joint ventures of £5,087,000 (2017 : £1,411,000) and from interests in associates £514,000 (2017 : £448,000).

16. Properties held for sale

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Shared ownership properties:				
- Completed	**6,161**	3,117	**6,161**	3,117
- Work in progress	**10,736**	12,623	**10,736**	12,623
Outright sale properties:				
- Completed	**12,823**	706	**9,292**	662
- Work in progress	**95,567**	78,312	**45,962**	44,175
	125,287	94,758	**72,151**	60,577

17. Debtors

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Amounts falling due within one year:				
Rental and service charges receivable	**18,810**	15,815	**17,661**	14,683
Less: Provision for bad debts	**(8,014)**	(6,433)	**(7,461)**	(5,855)
Net rental debtors	**10,796**	9,382	**10,200**	8,828
Other grants receivable	**1,462**	1,973	**1,379**	1,942
Prepayments and accrued income	**8,124**	7,836	**8,015**	6,159
Other amounts due from Group undertakings	**–**	–	**3,652**	2,516
Other debtors	**8,490**	7,674	**7,342**	7,052
	28,872	26,865	**30,588**	26,497
Loans to employees included in other debtors	**132**	66	**132**	66

Loans to employees are made in three circumstances:

- Car loans: made in accordance with the policy of providing assistance to colleagues to purchase cars where the use of a car is required by their duties. Interest is charged at a flat rate of 5%.
- Season ticket loan: the Group provides assistance to colleagues to purchase season tickets for travel to work. No interest is charged.
- Salary sacrifice arrangements: opportunity for colleagues to fund learning, a bicycle or IT equipment costs from their salary.

18. Current asset investments

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Amounts loaned to other Group undertakings	**–**	–	–	2,172

In 2018 £0.7 million within cash and cash equivalents is charged as security for loans for Group and Association (2017 : £0.7 million).

19. Creditors: amounts falling due within one year

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Housing loans from third parties	**17,713**	14,988	**15,713**	12,988
8.375% debenture stock 2018	**22,985**	–	**22,985**	–
Loans from Group undertakings	**–**	–	**944**	5,000
Trade creditors	**21,093**	913	**14,700**	913
Social Housing Grant in advance	**5,008**	1,592	**4,928**	1,066
Deferred capital grant	**8,774**	8,452	**9,734**	9,552
Corporation tax	**1,893**	1,071	**136**	282
Other taxation and social security payable	**1,734**	1,629	**1,734**	1,629
Accruals and deferred income	**54,448**	68,307	**51,007**	62,753
Disposal Proceeds Fund	**1,293**	786	**1,293**	786
Recycled Capital Grant Fund	**1,270**	670	**1,270**	670
Other amounts due to Group undertakings	**–**	–	**–**	594
Other creditors	**21,799**	22,607	**19,228**	20,144
	158,010	121,015	**143,672**	116,377

Leaseholders' funds

As at 31 March 2018 the Group and Association held funds on behalf of leaseholders in respect of schemes under management of £13.5 million (2017 : £13.7 million). This is included in cash and cash equivalents, current asset investments and in other creditors within creditors falling due within one year.

20. Net current assets / (liabilities)

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Net current assets / (liabilities)	**23,003**	28,526	**(16,401)**	(434)

The Group has an active treasury management function which operates in accordance with the Treasury Policy approved by the Board, as noted in the Report of the Board and Strategic Report. In this way the Group manages its borrowing arrangements to ensure that it is always in a position to meet its financial obligations as they fall due, whilst minimising excess cash and cash equivalents held. At 31 March 2018, the Group had £207.8 million (2017 : £188.0 million) and the Association had £202.8 million (2017 : £180.3 million) in undrawn committed loan facilities which were immediately available for drawing.

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

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Discounted bonds	**187,693**	178,985	**187,693**	178,985
8.375% debenture stock 2018	**–**	22,958	**–**	22,958
Housing loans from third parties	**755,466**	696,816	**674,576**	616,683
Deferred capital grant	**741,283**	739,881	**801,226**	805,681
Disposal Proceeds Fund	**2,451**	3,005	**2,451**	3,005
Recycled Capital Grant Fund	**8,542**	6,841	**8,542**	6,841
Other creditors	**1,746**	697	**–**	–
Homebuy grant	**682**	682	**682**	682
	1,697,863	1,649,865	**1,675,170**	1,634,835

22. Debt analysis

	GROUP AND ASSOCIATION	
	2018	2017
	£000	£000
Discounted bonds		
Issued:		
8.75% guaranteed loan stock 2037	**100,000**	100,000
Zero coupon loan stock 2019	**58,953**	58,953
Zero coupon loan stock 2027	**94,450**	94,450
In issue at 31 March	**253,403**	253,403
Less: Deferred interest and issue costs:		
At 1 April	**74,418**	82,351
Charged to Statement of Comprehensive Income	**(8,708)**	(7,933)
At 31 March	**65,710**	74,418
Net value at 31 March	**187,693**	178,985
Market value at 31 March	**272,873**	261,655
Debenture stock		
Issued:		
8.375% debenture stock 2018	**23,000**	23,000
Less: Issue costs:		
At 1 April	**42**	68
Charged to Statement of Comprehensive Income	**(27)**	(26)
At 31 March	**15**	42
Net value at 31 March	**22,985**	22,958
Market value at 31 March	**24,825**	25,373

Housing loans, discounted bonds and debenture stock

The Group housing loans, discounted bonds and debenture stock are stated net of unamortised issue costs of £6.6 million (2017 : £4.6 million). The Association housing loans, discounted bonds and debenture stock are stated net of unamortised issue costs of £6.1 million (2017 : £4.1 million).

Housing loans are secured by specific charges on housing properties, bank and building society deposits and other current asset investments. The net book value of housing properties charged as security for loans is for Group £842.2 million (2017 : £921.3 million) and for Association £773.7 million (2017 : £783.3 million).

22. Debt analysis (continued)

Maturity of borrowings

The maturity profile of the carrying amount of the Group's and Association's borrowings as at 31 March 2018 was as follows:

	Less than 1 year	Due in 1 – 2 years	Due in 2 – 5 years	Due in over 5 years	Total
GROUP	£000	£000	£000	£000	£000
Discounted bonds	–	53,033	–	134,660	187,693
8.375% debenture stock	22,985	–	–	–	22,985
Housing loans					
– fixed	6,865	2,083	14,939	409,146	433,033
– floating	8,727	8,727	42,150	268,621	328,225
– index-linked	2,121	2,414	3,049	4,337	11,921
At 31 March 2018	**40,698**	**66,257**	**60,138**	**816,764**	**983,857**
ASSOCIATION					
Discounted bonds	–	53,033	–	134,660	187,693
8.375% debenture stock	22,985	–	–	–	22,985
Housing loans					
– fixed	6,865	2,083	14,939	378,631	402,518
– floating	6,727	6,727	21,239	241,156	275,849
– index-linked	2,121	2,414	3,049	4,338	11,922
Loans from Group undertakings	944	–	–	–	944
At 31 March 2018	**39,642**	**64,257**	**39,227**	**758,785**	**901,911**

The maturity profile of the carrying amount of the Group's and Association's borrowings as at 31 March 2017 was as follows:

	Less than 1 year	Due in 1 – 2 years	Due in 2 – 5 years	Due in over 5 years	Total
GROUP	£000	£000	£000	£000	£000
Discounted bonds	–	–	48,177	130,808	178,985
8.375% debenture stock	–	22,958	–	–	22,958
Housing loans					
– fixed	2,160	6,679	14,672	411,316	434,827
– floating	10,970	8,728	34,475	209,117	263,290
– index-linked	1,858	2,132	4,232	5,465	13,687
At 31 March 2017	14,988	40,497	101,556	756,706	913,747
ASSOCIATION					
Discounted bonds	–	–	48,177	130,808	178,985
8.375% debenture stock	–	22,958	–	–	22,958
Housing loans					
– fixed	2,160	6,679	14,672	380,814	404,325
– floating	8,970	6,728	16,301	179,660	211,659
– index-linked	1,858	2,132	4,232	5,465	13,687
Loans from Group undertakings	5,000	–	–	–	5,000
At 31 March 2017	17,988	38,497	83,382	696,747	836,614

22. Debt analysis (continued)

Terms of repayment

At 31 March 2018 the Group had £983.9 million loans drawn:

- £292.9 million is from a syndicate of four lenders led by Royal Bank of Scotland. The loans are repaid annually in April each year in accordance with an agreed repayment profile. The facility matures in April 2036.
- £187.7 million relates to the Association's three loan stock issues which mature as bullet repayments in 2019, 2027 and 2037.
- The remaining £503.3 million are bilateral loan facilities from various banks, building societies and sector-specific funders that are repaid in a variety of ways either over the term of the loan or as a bullet repayment on maturity. These loan payments are due at various future dates ranging from within one year to over 30 years.

Undrawn, committed facilities

The Group and the Association had the following undrawn, committed floating rate borrowing facilities available at 31 March:

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Expiring within one year	**3,000**	2,000	**3,000**	2,000
Expiring between one and two years	**24,500**	98,000	**24,500**	98,000
Expiring between two and five years	**180,000**	82,700	**175,000**	75,000
Expiring in more than five years	**272**	5,272	**272**	5,272
	207,772	187,972	**202,772**	180,272

These facilities have been arranged to help finance future business development. All facilities incur commitment fees at market rates.

Interest rate risk profile of borrowings

Group and Association borrowings comprise:	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Fixed rate borrowings	**643,710**	636,770	**613,196**	606,268
Floating rate borrowings	**340,147**	276,977	**288,715**	230,346
	983,857	913,747	**901,911**	836,614

22. Debt analysis (continued)

All of the Group's and Association's 'Creditors: amounts falling due within one year' (other than housing loans) are excluded from the analysis as they are short term in nature and are not subject to interest rate risk. Fixed rate borrowings include the zero coupon loan stocks to reflect the deferred interest charges.

Group fixed rate borrowings bear a weighted average interest rate of 6.12% (2017 : 6.08%), Association 6.35% (2017 : 6.30%) and are fixed for a weighted average period of 16 years (2017 : 16 years), Association 16 years (2017 : 17 years). Interest rates on Group fixed rate borrowings range between 2.30% and 14.00% and Association fixed rate borrowings range between 2.89% and 14.00%.

Floating rate borrowings bear interest rates based either on LIBOR or on a fixed coupon rate applied to debt balances, which change with movements in the retail price index.

The effective interest rates of borrowings are:	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	%	%	**%**	%
Discounted bonds	**9.8**	9.8	**9.8**	9.8
8.375% debenture stock	**8.4**	8.4	**8.4**	8.4
Housing loans				
– fixed	**4.5**	4.5	**4.6**	4.6
– floating	**0.9**	0.6	**0.8**	0.6
– index-linked	**5.5**	5.5	**5.5**	5.5
Loans from Group undertakings	**–**	–	**0.7**	1.3

23. Deferred capital grant

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
At 1 April	**748,333**	740,116	**815,233**	815,705
Grant received in the year	**14,147**	20,288	**9,180**	12,684
Released to income in the year	**(8,563)**	(9,012)	**(9,593)**	(10,132)
Disposals	**(3,860)**	(3,059)	**(3,860)**	(3,024)
At 31 March	**750,057**	748,333	**810,960**	815,233
Amount due to be released within one year	**8,774**	8,452	**9,734**	9,552
Amount due to be released in more than one year	**741,283**	739,881	**801,226**	805,681
	750,057	748,333	**810,960**	815,233

24. Financial instruments

An explanation of the role that financial instruments have had during the year is provided under Treasury Management on page 18 of the Report of the Board and Strategic Report.

Financial assets measured at amortised cost	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Fixed asset investments:				
– Loans to Group undertakings	**–**	–	**31,120**	23,684
– Loans to joint ventures	**43,005**	31,989	**–**	–
– Loans to associates	**10,813**	10,121	**–**	–
– Other investment	**1,756**	**–**	**–**	–
	55,574	42,110	**31,120**	23,684
Current asset investments:				
– Loans to Group undertakings	**–**	–	**–**	2,172
	–	–	**–**	2,172
Other financial assets:				
– Short term debtors	**10,796**	9,382	**13,852**	11,344
– Cash and cash equivalents	**26,854**	27,918	**24,532**	26,697
	37,650	37,300	**38,384**	38,041
Total financial assets	**93,224**	79,410	**69,504**	63,897

Loans facilities provided to Group undertakings comprise:

- £35 million loan facility to HGDL with a term of five years maturing in 2021
- £10 million 364 day loan facility to HGDL maturing in 2018
- £10 million loan facility to Home Scotland maturing in 2020

As at 31 March 2018, HGDL had drawn £26.9 million (2017 : £23.7 million) and Home Scotland had drawn £4.2 million (2017 : £2.2 million) from the Association.

The loan facilities attract interest charged at LIBOR plus margin.

Short term debtors comprise net rental debtors and amounts due from Group undertakings.

24. Financial instruments (continued)

Financial liabilities measured at amortised cost	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Discounted bonds	**187,693**	178,985	**187,693**	178,985
8.375% debenture stock	**22,985**	22,958	**22,985**	22,958
Housing loans				
– fixed	**433,033**	434,827	**402,518**	404,325
– floating	**328,225**	263,290	**275,849**	211,659
– index-linked	**11,921**	13,687	**11,922**	13,687
Loans from Group undertakings	**–**	–	**944**	5,000
Total borrowings	**983,857**	913,747	**901,911**	836,614
Other short term liabilities	**21,093**	913	**14,700**	1,507
Total financial liabilities	**1,004,950**	914,660	**916,611**	838,121

Other short term liabilities comprise trade creditors and other amounts due to Group undertakings. The Disposal Proceeds Fund and Recycled Capital Grant Fund are excluded from the above figures as they do not meet the definition of a financial liability. Terms and conditions of the above financial liabilities are included in Note 22.

25. Analysis of Recycled Capital Grant Fund and Disposal Proceeds Fund

GROUP AND ASSOCIATION	**2018**	2017
	£000	£000
Recycled Capital Grant Fund		
At 1 April	**7,511**	6,662
Inputs:		
– Grants recycled	**4,463**	1,562
– Interest accrued	**21**	24
Recycling: New build	**(2,183)**	(467)
Repayment of grant to Homes England / Greater London Authority	**–**	(270)
At 31 March	**9,812**	7,511
Disposal Proceeds Fund		
At 1 April	**3,791**	2,379
Inputs:		
– Grants recycled	**–**	1,700
– Interest accrued	**12**	9
Recycling: New build	**(59)**	(297)
At 31 March	**3,744**	3,791

No amounts are three years old or older and therefore repayment to HE / GLA is not required.

26. Pension obligations

The Group participates in three major funded pension schemes as detailed below. The Group also contributes to a number of other pension schemes for certain employees. Contributions to these schemes are immaterial and consequently details of the schemes are not provided. The amounts recognised within surplus or deficit in relation to all pension schemes for the year ended 31 March 2018 was £4,079,000 (2017 : £3,404,000) in respect of current service costs within operating expenditure and a charge of £1,789,000 (2017 : £1,884,000) within interest payable and financing costs.

The aggregate deficit across the three defined benefit pension arrangements is £39.3 million (2017 : £73.8 million). In addition to this, the Group has reflected liabilities in respect of the Scottish Housing Association Pension Scheme (SHAPS) of £1.4 million (2017 : £3.9 million). This represents the estimate of liabilities due as a result of cessation event when the final active members left the SHAPS scheme and the agreed transfer of the Group's historic participation in SHAPS to the Pension Trust Scheme in which the Group is the only participating employer.

Home Group Pension and Life Assurance Scheme

With effect from 1 April 2001 the defined benefit section of the scheme was closed to new entrants and a new defined contribution section was opened. Employees across the Group are eligible to join the defined contribution section of the scheme.

The relevant charge to the income and expenditure account within operating costs in respect of the scheme is as follows:

	2018	2017
	£000	£000
Defined benefit	1,295	1,046
Defined contribution	1,725	1,715
	3,020	2,761

The valuation used for defined benefit pension disclosures has been based on the results of the actuarial valuation at 31 March 2017. This has been updated by First Actuarial LLP to take account of the requirements of section 28 of FRS 102 in order to assess the liabilities of the defined benefit section at 31 March 2018. The defined benefit section's assets are stated at their market value at 31 March 2018.

A full actuarial valuation of the defined benefit section was undertaken at 31 March 2017. The results showed that the deficit had decreased from £18.5 million at the previous full valuation to £12.9 million.

As part of the agreeing the actuarial valuation at 31 March 2017, the employer and the trustees agreed that the employer contribution rate will be 24.6% of pensionable salary. In addition the employer will pay:-

- £2.674 million per annum from 1 June 2015 until October 2021 increasing at 4.5% per annum to meet the deficit, continuing the deficit recovery plan agreed in the 2014 actuarial valuation.
- £300,000 per annum for administration expenses.
- The Pension Protection Fund levy.

26. Pension obligations (continued)

Financial assumptions

The financial assumptions used to calculate the defined benefit section liabilities under FRS 102 are:

	2018	2017
Valuation method	**Projected unit**	Projected unit
Discount rate	**2.6%**	2.5%
Retail Price Index inflation	**3.2%**	3.3%
Consumer Price Index inflation	**2.2%**	2.3%
Rate of increase of pensions in deferment	**2.2%**	2.3%
Rate of increase of pensions in payment	**3.2%**	3.3%
Salary increases	**3.7%**	4.3%

Mortality assumptions

The post-retirement mortality assumptions used to value the benefit obligation are as follows:

	As at 31 March 2018	As at 31 March 2017
Males	**SAPS unrated, medium cohort with 1.25% per annum minimum improvement from 2017 rated by one year**	SAPS unrated, medium cohort with 1.25% per annum minimum improvement from 2014 rated by one year
Females	**SAPS unrated, medium cohort with 1.25% per annum minimum improvement from 2017 rated by one year**	SAPS unrated, medium cohort with 1.25% per annum minimum improvement from 2014 rated by one year

The assumed life expectations on retirement at age 65 are:

	2018	2017
	No. of years	No. of years
Males:		
Member aged 65 (current life expectancy)	**21.1**	21.7
Member aged 45 (life expectancy at 65)	**22.5**	23.4
Females:		
Member aged 65 (current life expectancy)	**23.0**	23.7
Member aged 45 (life expectancy at 65)	**24.5**	25.6

26. Pension obligations (continued)

Amounts recognised in surplus or deficit

	2018	2017
	£000	£000
Current service cost	**(911)**	(656)
Expenses	**(384)**	(390)
Amounts charged to operating expenditure	**(1,295)**	(1,046)

	2018	2017
	£000	£000
Interest income	**2,952**	3,467
Interest expense	**(4,470)**	(4,963)
Amounts charged to interest payable and financing costs	**(1,518)**	(1,496)

Amount of gains and losses recognised in the Statement of Comprehensive Income

	2018	2017
	£000	£000
Actuarial gains on scheme assets	**3,073**	13,781
Actuarial gains / (losses) on scheme liabilities	**20,497**	(31,409)
Actuarial gains / (losses) recognised	**23,570**	(17,628)

Amounts recognised in the Statement of Financial Position

	2018	2017
	£000	£000
Present value of funded obligations	**(160,961)**	(180,580)
Fair value of scheme assets	**123,450**	118,690
Deficit	**(37,511)**	(61,890)

Reconciliation of liabilities

	2018	2017
	£000	£000
Opening scheme liabilities	**180,580**	147,730
Current service cost	**911**	656
Interest cost	**4,470**	4,963
Contributions by employees	**181**	194
Actuarial (gains) / losses	**(20,497)**	31,409
Benefits paid	**(4,684)**	(4,372)
Closing scheme liabilities	**160,961**	180,580

26. Pension obligations (continued)

Reconciliation of assets

	2018	2017
	£000	£000
Opening fair value of scheme assets	**118,690**	102,481
Actuarial gains on scheme assets	**3,073**	13,781
Interest income	**2,952**	3,467
Employer contributions	**3,622**	3,529
Contributions by employees	**181**	194
Expenses	**(384)**	(390)
Benefits paid	**(4,684)**	(4,372)
Closing fair value of scheme assets	**123,450**	118,690

Analysis of scheme assets

	2018	2017
	% of Plan Assets	% of Plan Assets
Equities and property	**66.2%**	68.9%
Bonds	**32.8%**	15.6%
Gilts / other	**1.0%**	15.5%

Actual return on scheme assets

	2018	2017
	£000	£000
Actual return	**6,025**	17,248

26. Pension obligations (continued)

The Pensions Trust

The Group also participates in a pension scheme providing benefits based on pensionable pay which is administered by The Pensions Trust for charities and voluntary organisations. The scheme is closed to new members from the Group. The charge to operating expenditure in respect of the scheme during the year ended 31 March 2018 was £336,000 (2017 : £292,000).

The valuation used for defined benefit pension disclosures has been based on the results of the actuarial valuation at 30 September 2015. This has been updated by JLT Benefit Solutions to take account of the requirements of section 28 of FRS 102 in order to assess the liabilities of the scheme at 31 March 2018. Scheme assets are stated at their market value at 31 March 2018.

The actuarial valuation at 30 September 2015 showed a deficit of £12.3 million.

As documented in the scheme's current schedule of contributions put in place following the 30 September 2015 actuarial valuation, the employer has agreed with the trustee that it will aim to eliminate the deficit over a period of four years and three months from 1 April 2017 by the payment of annual contributions (in monthly instalments) of £2,100,000.

In addition, and in accordance with the 2015 actuarial valuation, the employer has agreed with the trustee that from 1 April 2017 it will pay 24.2% per annum of members' earnings in respect of the cost of accruing benefits and will meet expenses of the scheme and levies to the Pension Protection Fund. To meet the expenses, the employer pays at least £12,000 per month into the scheme.

Financial assumptions

The financial assumptions used to calculate scheme liabilities under FRS 102 are:

	2018	2017
Valuation method	**Projected unit**	Projected unit
Discount rate	**2.6%**	2.5%
Retail Price Index inflation	**3.2%**	3.3%
Consumer Price Index inflation	**2.2%**	2.3%
Rate of increase of pensions in deferment	**3.2%**	3.3%
Rate of increase of pensions in payment	**2.3%**	2.3%
Salary increases	**3.7%**	4.3%

26. Pension obligations (continued)

Mortality assumptions

The post-retirement mortality assumptions used to value the benefit obligation are as follows:

	As at 31 March 2018	As at 31 March 2017
Males	**SAPS unrated, medium cohort with 1.25% per annum minimum improvement from 2016**	SAPS unrated, medium cohort with 1.25% per annum minimum improvement from 2015
Females	**SAPS unrated, medium cohort with 1.00% per annum minimum improvement from 2016**	SAPS unrated, medium cohort with 1.00% per annum minimum improvement from 2015

The assumed life expectations on retirement at age 65 are:

	2018	2017
	No. of years	No. of years
Males:		
Member aged 65 (current life expectancy)	**23.2**	23.2
Member aged 45 (life expectancy at 65)	**23.7**	24.9
Females:		
Member aged 65 (current life expectancy)	**24.0**	24.9
Member aged 45 (life expectancy at 65)	**25.2**	26.4

Amounts recognised in surplus or deficit

	2018	2017
	£000	£000
Current service cost	**(202)**	(162)
Expenses	**(134)**	(130)
Amounts charged to operating expenditure	**(336)**	(292)

	2018	2017
	£000	£000
Interest income	**1,537**	1,667
Interest expense	**(1,800)**	(2,042)
Amounts charged to interest payable and financing costs	**(263)**	(375)

26. Pension obligations (continued)

Amount of gains and losses recognised in the Statement of Comprehensive Income

	2018	2017
	£000	£000
Actuarial gains on scheme assets	**1,665**	10,377
Actuarial gains / (losses) on scheme liabilities	**5,248**	(11,633)
Actuarial gains / (losses) recognised	**6,913**	(1,256)

Amounts recognised in the Statement of Financial Position

	2018	2017
	£000	£000
Present value of funded obligations	**(67,450)**	(73,086)
Fair value of scheme assets	**64,727**	61,467
Deficit	**(2,723)**	(11,619)

Reconciliation of liabilities

	2018	2017
	£000	£000
Opening scheme liabilities	**73,086**	60,695
Current service cost	**202**	162
Interest cost	**1,800**	2,042
Contributions by employees	**39**	42
Actuarial (gains) / losses	**(5,248)**	11,633
Benefits paid	**(2,563)**	(1,618)
Expenses	**134**	130
Closing scheme liabilities	**67,450**	73,086

26. Pension obligations (continued)

Reconciliation of assets	**2018**	2017
	£000	£000
Opening fair value of scheme assets	**61,467**	48,635
Interest income	**1,537**	1,667
Actuarial gains on scheme assets	**1,665**	10,377
Employer contributions	**2,582**	2,364
Contributions by employees	**39**	42
Benefits paid	**(2,563)**	(1,618)
Closing fair value of scheme assets	**64,727**	61,467

Analysis of scheme assets		
	2018	2017
	% of plan assets	% of plan assets
Equities	**61.5%**	66.5%
Bonds and gilts	**32.3%**	27.7%
Other	**0.8%**	0.5%
Property	**5.4%**	5.3%

Actual return on scheme assets		
	2018	2017
	£000	£000
Actual return	**3,202**	12,044

Cumbria Local Government Pension Scheme (CLGPS)

In 2004 Copeland Borough Council transferred its housing stock to Home Group Limited. As part of the transaction, Home Group Limited accepted the pension liability for all employees who transferred under the Transfer of Undertakings Protected Employment (TUPE) regulations.

As a consequence, Home Group Limited is a participating employer in the Cumbria Local Government Pension Scheme which provides benefits based on final pensionable pay. The scheme is closed to new members from the Group. The charge to operating expenditure in respect of the scheme during the year ended 31 March 2018 was £45,000 (2017 : £41,000). Employer contribution rates during the year ended 31 March 2018 were 19.2% of pensionable salary.

The valuation used for defined benefit pension disclosures has been based on the most recent actuarial valuation at 31 March 2016. This has been updated by Mercer Limited to take account of the requirements of section 28 of FRS 102 in order to assess the liabilities of the scheme at 31 March 2018. Scheme assets are stated at their market value at 31 March 2018.

Financial assumptions

The financial assumptions used to calculate scheme liabilities under FRS 102 are:

	2018	2017
Valuation method	**Projected unit**	Projected unit
Discount rate	**2.6%**	2.5%
Consumer Price Index inflation	**2.2%**	2.3%
Rate of increase of pensions in payment and deferment	**2.2%**	2.3%
Salary increases	**3.7%**	4.3%

26. Pension obligations (continued)

Mortality assumptions

The post retirement mortality assumptions used to value the benefit obligation are as follows:

	As at 31 March 2018	As at 31 March 2017
Males	**SAPS unrated, medium cohort with 1.5% per annum minimum improvement from 2015**	SAPS unrated, medium cohort with 1.5% per annum minimum improvement from 2015
Females	**SAPS unrated, medium cohort with 1.5% per annum minimum improvement from 2015**	SAPS unrated, medium cohort with 1.5% per annum minimum improvement from 2015

The assumed life expectations on retirement at age 65 are:

	2018	2017
	No. of years	No. of years
Males:		
Member aged 65 (current life expectancy)	**23.2**	23.1
Member aged 45 (life expectancy at 65)	**25.5**	25.4
Females:		
Member aged 65 (current life expectancy)	**25.8**	25.7
Member aged 45 (life expectancy at 65)	**28.5**	28.4

Amounts recognised in surplus or deficit

	2018	2017
	£000	£000
Current service cost	**(44)**	(40)
Expenses	**(1)**	(1)
Amounts charged to operating expenditure	**(45)**	(41)

	2018	2017
	£000	£000
Interest income	**597**	682
Interest expense	**(605)**	(695)
Amounts charged to interest payable and financing costs	**(8)**	(13)

Amount of gains and losses recognised in the Statement of Comprehensive Income

	2018	2017
	£000	£000
Actuarial gains on scheme assets	**331**	3,602
Actuarial gains / (losses) on scheme liabilities	**921**	(3,468)
Actuarial gains recognised	**1,252**	134

26. Pension obligations (continued)

Amounts recognised in the Statement of Financial Position	**2018**	2017
	£000	£000
Present value of funded obligations	**(23,590)**	(24,455)
Fair value of scheme assets	**24,508**	24,165
Surplus / (deficit)	**918**	(290)

Reconciliation of liabilities	**2018**	2017
	£000	£000
Opening scheme liabilities	**24,455**	20,653
Current service cost	**44**	40
Interest cost	**605**	695
Contributions by employees	**9**	11
Actuarial (gains) / losses	**(921)**	3,468
Benefits paid	**(602)**	(412)
Closing scheme liabilities	**23,590**	24,455

Reconciliation of assets	**2018**	2017
	£000	£000
Opening fair value of scheme assets	**24,165**	20,265
Interest income	**597**	682
Actuarial gains on scheme assets	**331**	3,602
Employer contributions	**9**	18
Contributions by employees	**9**	11
Expenses	**(1)**	(1)
Benefits paid	**(602)**	(412)
Closing fair value of scheme assets	**24,508**	24,165

Analysis of scheme assets	**2018**	2017
	% of plan assets	% of plan assets
Equities	**49.7%**	50.8%
Government bonds	**17.5%**	19.5%
Other bonds	**6.3%**	6.6%
Property	**9.3%**	10.1%
Cash	**5.4%**	3.1%
Other	**11.8%**	9.9%

Actual return on scheme assets	**2018**	2017
	£000	£000
Actual return	**928**	4,284

26. Pension obligations (continued)

Other defined benefit pension schemes

In addition to the three defined benefit schemes disclosed above, the Group participates in a number of other multi-employer defined benefit pension schemes, where it is not possible to identify the share of the underlying assets and liabilities belonging to individual participating employers. Accordingly, the charge to the income and expenditure account for the period represents the employer contribution payable. As the schemes are not material, detailed disclosures in respect of the schemes are not provided.

However, as a result of changes in pension scheme regulation, there is a potential debt on the employer that could be levied by the trustees of any defined benefit scheme. The debt is due in the event of the employer ceasing to participate in the scheme or the scheme winding up.

The debt for a scheme as a whole is calculated by comparing the liabilities for the scheme (calculated on a buyout basis) with the assets of the scheme. If the liabilities exceed the assets then there is a buyout debt.

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

27. Non-equity share capital

Each non-executive member of the Board holds one share of £1 in the Association. As at 31 March 2018, there were ten non-executive Board members who each held a share in the Association. In addition, in accordance with the Association's shareholding structure, one member of the Home Scotland Board holds one share of £1 in the Association.

	£
Allotted, issued and fully paid:	
At 1 April 2017	11
Issued during the year	1
Surrendered during the year	(1)
At 31 March 2018	**11**

Shares in Home Group Limited carry no rights to dividend and no rights of redemption, nor do they entitle the shareholding member to a distribution on winding up or dissolution. In a general meeting, every shareholding member present is entitled to one vote on a show of hands. On a poll every shareholding member present in person or by proxy is entitled to one vote.

28. Reconciliation of surplus to net cash inflow from operating activities

	2018	2017
	£000	£000
Surplus for the year	50,520	47,410
Adjustments for:		
Taxation	1,326	1,029
Depreciation of fixed assets	47,268	49,264
Impairment of housing properties and other fixed assets	4,113	1,516
Increase in properties held for sale	(30,329)	(64,039)
Increase in debtors	(2,595)	(995)
Increase / (decrease) in trade and other creditors	13,769	(520)
Surplus on disposal of housing properties and other fixed assets	(6,933)	(3,661)
Pension costs less contributions payable	(4,537)	(4,532)
Share of profit before tax in joint ventures	(5,087)	(1,411)
Share of profit before tax in associate	(514)	(448)
Adjustments for investing or financing activities:		
Government grants utilised in the year	(8,563)	(9,012)
Interest payable	43,357	42,659
Interest received	(2,091)	(2,156)
Corporation tax paid	(504)	–
Net cash inflow from operating activities	99,200	55,104

29. Capital commitments

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**307,967**	158,684	**216,787**	101,404
Capital expenditure that has been authorised by the Board but has not yet been contracted for	**455,653**	553,897	**286,282**	366,737

The Group expects to fund these commitments, and the costs associated with future growth of the business through a combination of cash flows from operating activities, grants, proceeds from the sale of housing properties, proceeds from the sale of properties developed for outright and shared ownership sale and further borrowings.

At 31 March 2018, the Group had £207.8 million committed and undrawn facilities all of which were immediately available for drawing. Further information on these facilities and future borrowings is provided in the Treasury Management section within the Report of the Board Strategic Report on page 18.

30. Financial commitments

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
At the year end the total contractual payments under non-cancellable operating leases were as follows:	**£000**	£000	**£000**	£000
Less than one year	**3,853**	3,979	**3,743**	3,868
Between one and five years	**4,706**	5,868	**4,266**	5,428
More than five years	**15,536**	16,763	**15,252**	16,369
	24,095	26,610	**23,261**	25,665

The Association has entered into a number of operating leases for assets which are used by other Group members. The lease cost is borne by the appropriate Group members within their income and expenditure account. However, as the leases are entered into by the Association, they have been included within the above note.

31. Contingent liabilities

There were no contingent liabilities as at 31 March 2018 (2017 : £nil).

32. Grant and financial assistance

	GROUP		ASSOCIATION	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
The total accumulated government grant and financial assistance received or receivable at 31 March:				
Held as deferred capital grant	**746,297**	748,333	**810,960**	815,233
Recognised as income in the Statement of Comprehensive Income	**116,790**	110,389	**148,200**	140,764
Grant within cost on properties at fair values at acquistion	**237,452**	237,452	**–**	–
	1,100,539	1,096,174	**959,160**	955,997

33. Grant funding

The Association received no grant funding during the year ended 31 March 2018 which requires specific disclosure in the financial statements. The following amounts were received in the year ended 31 March 2017:-

- £14,335 from Worcester City Council for use only in the Worcestershire Domestic Abuse Safe House was brought forward from 2015/16 and was all spent by 31 March 2017.
- £39,984 was received from Stafford Police and Crime Commissioner for use only in the Burton Domestic Violence Service. The funding was spent in full by 31 March 2017.

34. Related party transactions

The Home Group Board includes two customer representatives. All transactions in respect of customer Board members have been carried out at arm's length and under normal commercial terms. Details of the remuneration of Board members are included in Note 5.

Group

Transactions between fellow subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

During the year the Group entered into the following related party transactions with its jointly controlled entities and associates:

	2018	2017
	£000	£000
Invoiced to jointly controlled entities and associates in respect of interest charges	**1,981**	1,893
Purchase of housing property from jointly controlled entities and associates	**1,572**	7,189
Management fee income from jointly controlled entities	**161**	177
Amounts owed from jointly controlled entities and associates at the year-end	**53,979**	42,287

Association

During the year the Association entered into the following related party transactions with its subsidiaries and customer Board members:

	2018	2017
	£000	£000
Recharges to subsidiaries in respect of centrally provided services	**455**	591
Management fees payable by subsidiaries	**493**	509
Interest payable by subsidiaries on borrowings from the Association	**953**	408
Purchase of housing property from subsidiaries	**25,205**	20,757
Interest payable by the Association on borrowings from subsidiaries	**20**	64
Amounts owed to subsidiaries	**944**	5,594
Amounts owed from subsidiaries	**34,772**	28,372
Investment in subsidiaries	**74,701**	49,701
	£	£
Charges to customer Board members in respect of rent and service charges	**11,652**	5,726
Amounts owed to customer Board members at the year-end	**656**	120

The Association recharges each subsidiary for centrally provided services on a basis which reflects the time and cost of the services provided.

There are management agreements in place under which subsidiaries manage some properties on behalf of the Association. The management fees due under these agreements are summarised above.

Intergroup borrowings attract interest at either a fixed rate or interest which is variable and is based on LIBOR, plus a margin.

The Association has purchased housing properties from HGDL based on the construction cost plus a margin.

35. Operating segments

As a Public Interest Entity, Home Group is required to provide segmental analysis in line with International Financial Reporting Standard 8 'Operating Segments'. This requires operating segments to be identified based upon the Group's internal reporting to the Chief Operating Decision Maker (CODM) which forms the basis on which the CODM makes decisions about resources to be allocated to segments and assess their performance.

The Group's CODM is the Board.

During 2017/18, the Group had two operating segments. These operating segments undertake different activities and services, which are managed separately. The Group's operating segments are outlined below.

- Operations – this includes the Group's general needs rental business in England and Scotland, the management of homes previously sold as shared ownership and leasehold management, and the Group's supported housing and the provision of care and support services in England and Scotland. It also includes the mid-market rental activity carried out by Live Smart @ Home.
- Development – this includes the development of affordable housing and the development and subsequent sale of shared ownership homes and homes developed for sale on the private market. It includes the activity of Home Group Development and North Housing Limited.

The Group's third operating segment, New Models of Care, is not material and therefore not separately disclosed. New Models of Care leads on the design and development of integrated health and care services and oversees the bail accommodation support service contract.

These operating segments are supported by the Supporting Services business unit, which includes the delivery of support services including Chief Executive's team, Risk and Assurance, Communications, Strategy, Finance, Human Resources and Development, Company Secretary, Information Systems, Legal Services, Procurement and Asset Management.

The Board reviews the internal management accounts at each meeting.

The tables which follow set out the income and expenditure account of the Group's operating segments. The title "Other" has been included to reconcile the segments to the figures reviewed by the Board and is made up of the Group consolidation adjustments, and the Supporting Services and New Models of Care business units. The key operating performance measure of profit or loss used by the Board in terms of segmental analysis is operating surplus. The Board does not review any balance sheet measures by segment, only for the Group as a whole, so these have not been reported.

35. Operating segments (continued)

Income and expenditure account – year ended 31 March 2018

	Operations £000	Development £000	Other £000	Group £000
Turnover	317,301	36,214	11,188	364,703
Cost of sales	(19)	(27,454)	(378)	(27,851)
Employment costs	(60,899)	(2,646)	(16,530)	(80,075)
Maintenance	(51,794)	-	(852)	(52,646)
Service charges	(19,541)	-	(1,361)	(20,902)
Other direct housing	(17,438)	(11)	(2,793)	(20,242)
Overheads (facilities, staff, other administrative costs)	(10,590)	(3,992)	(16,552)	(31,134)
Depreciation and impairment	(43,077)	(2,255)	(6,036)	(51,368)
Other costs	(944)	(1)	374	(571)
Recharges	(6,087)	32	6,055	-
Operating expenditure	(210,370)	(8,873)	(37,695)	(256,938)
Surplus on disposal of housing properties	-	-	7,597	7,597
Operating surplus	**106,912**	**(113)**	**(19,288)**	**87,511**

Income and expenditure account – year ended 31 March 2017

	Operations £000	Development £000	Other £000	Group £000
Turnover	325,834	17,796	9,068	352,698
Cost of sales	(12)	(10,240)	26	(10,226)
Employment costs	(64,048)	(2,257)	(15,826)	(82,131)
Maintenance	(54,005)	-	(814)	(54,819)
Service charges	(18,975)	-	(1,034)	(20,009)
Other direct housing	(18,002)	(1)	(2,618)	(20,621)
Overheads (facilities, staff, other administrative costs)	(10,773)	(5,624)	(14,371)	(30,768)
Depreciation and impairment	(45,318)	(42)	(5,430)	(50,790)
Other costs	(423)	(141)	539	(25)
Recharges	(8,169)	136	8,033	-
Operating expenditure	(219,713)	(7,929)	(31,521)	(259,163)
Surplus on disposal of housing properties	-	-	3,774	3,774
Operating surplus	106,109	(373)	(18,653)	87,083

Segmental revenue and expenditure is all derived from UK customers and suppliers.

Building homes,
independence
and aspirations

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Home and Communities Agency
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