Financial statements

2016

Financial statements

2016

Contents

Thurston Point is a major new development of new homes in Lewisham. There is a selection of one-to-three bedroom apartments available to purchase or for private rent.

01 Executive and advisers

Executive and advisers

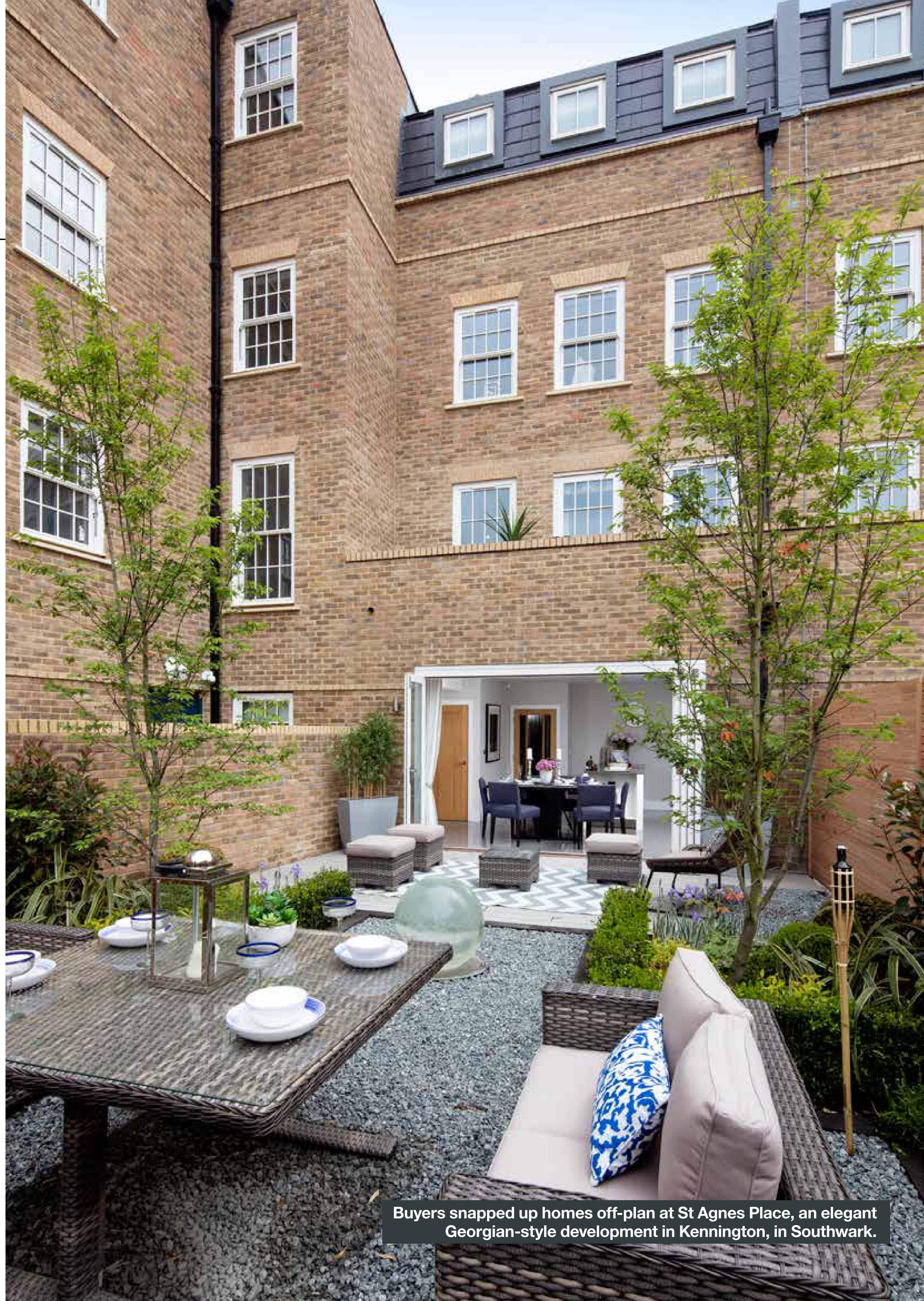
Board
Aubrey Adams (Group Chairman)
(appointed 3 September 2015)
Robert Cooper (Chair of Audit and Risk Committee)
David Montague CBE (Chief Executive)
Anne Elizabeth Bassis (appointed 3 September 2015)
Frank Chersky
Tracey Fletcher–Ray (appointed 3 September 2015)
Samantha Hyde
Michael More (appointed 3 September 2015)
Trevor Moross
Simon Rubinsohn

Executive group
David Montague CBE (Chief Executive)
Waqar Ahmed (Group Finance Director)
Mike Donaldson
Jerome Geoghegan
Diane Hart
Tim Mulvenna
Tom Nicholls

Secretary and registered office
Emuoborohwo Siakpere
One Kings Hall Mews
London, SE13 5JQ

Statutory auditor
KPMG LLP
15 Canada Square
London, E14 5GL

Registrations
Registered Society number 30441R
Homes and Communities Agency number L4517



Buyers snapped up homes off-plan at St Agnes Place, an elegant Georgian-style development in Kennington, in Southwark.


Quebec Quarter is a landmark new development in Canada Water set next to green spaces and woodland but still close to central London.

02 Chairman's introduction

Looking back, it's fair to say that my first year as Chairman of L&Q has been an exciting one. I am really proud of how L&Q has responded to the challenges we have faced. Our future promises to be even brighter.

More people have had a roof put over their heads by L&Q this year than ever before. That's quite an achievement and something that makes me even prouder.

Chairman's introduction

In fact, we have completed 24% more homes than last year. This has allowed over 2,500 individuals, couples or families to move into one of our new homes in the past 12 months. Of those, more than 1,100 have bought or rented their home on the open market, and almost 1,400 have rented their home from us, at market or sub-market rates.

What's more, during the year, we have increased the total number of homes in our development pipeline from 13,500 to just short of 40,000 homes.

All of this has been made possible by achieving our highest surplus ever, of £274 million, up some 27% on last year. This has been achieved by meeting our targets on commercial activities, continuing to drive further efficiencies on our core rental activities and taking advantage of our strong credit profile through lower cost of borrowings.

We have reinvested every penny of that surplus back into providing more homes and better services for our customers including £277 million in building new homes for social rent, £45 million in improving existing homes, and increased investments in properties for market sales and private rent by £303 million.

Crucially, it enables us to help people in local communities who are in real need. Changes to welfare benefits are leaving many of our customers with less money in their pockets than before. We're making sure they manage this transition and, perhaps more importantly, we're helping them back into work. This year, we supported 438 of our residents into employment training or paid work, including 23 apprentices that we took on directly and many more within our supply chain.

Thanks to us, many of our customers are getting exactly the helping hand they need in today's challenging environment. This need is what prompted us, for example, to take part in the government's Voluntary Right to Buy pilot this year. We knew it would give some of our customers a head start on owning their homes.

We piloted the programme in eight London boroughs: Croydon, Enfield, Greenwich, Haringey, Lambeth, Lewisham, Newham and Southwark. As a result, 50 of our existing customers were ready to buy their own home as soon as parliament approved the necessary legislation.

That is all part of our aim to offer homes to suit a wide range of people. In fact, with more than 73,000 homes to our name, we now house some 180,000 people in London and the wider South East. Each of them needs or wants something different – and helping them is part of what we do.

The remarkable achievements delivered by L&Q set strong foundations on which to embark on plans to merge with two other housing associations, The Hyde Group and East Thames Housing Group.

We know that we can deliver our goals alone, however we also believe we can achieve even more by joining forces with other similar like-minded organisations. If the merger goes ahead, L&Q will join with Hyde and East Thames to create a brand new and more ambitious housing provider, by the end of 2016.

By bringing our three organisations together, we can increase our capacity to build, house and help – far more so than we could individually. We will be able to deliver more new homes, better services, increase investment in communities as well as increased employment and training initiatives for staff and residents.

Together, we will be able to increase development across London and the South East, aiming to build 100,000 new homes over 10 years for people who need them. This will make us London's largest developer and one of the top home builders in the UK. Some 50% of these homes will be genuinely affordable to people on low and intermediate incomes.

Hyde is a 50,000 home housing association with 1,200 staff based like us in London and the South East. It is an organisation that has very similar values to us and in some ways a similar history, being formed around the same time.

East Thames is a 15,000 home housing association based in East London and Essex. It also has very similar values to us and deep roots in its communities. It has over 800 staff.

We will also be able to improve our services to our customers, by bringing together the best aspects of what we each do already. By adding £5 million to our existing training and apprentice budgets we will create a new training academy helping local communities and our residents into construction and housing related jobs to support our major house building programme.

We will also set aside £250 million to further our community investment programme and invest in like minded smaller charities who aspire to make London and the South East a better place.

Under our merger plans we will have a new regional structure to ensure continued local accountability and deliver efficiency savings of £50 million a year within five years. This will be in addition to the efficiencies already identified as part of our plans to address the impact of the government's new housing policies on rent reductions across the sector.

Maintaining the confidence of banks and investors is vital to our plans. Our two recent successful bond issuances, one of which won the Association of Corporate Treasurers Deals of the Year for bonds below £500 million, demonstrate that the financing community recognises L&Q's strong financial performance and management team, they understand the rationale for our merger discussions, and they can see that we are delivering on the transparency agenda.

I know that the new organisation post merger will be able to do more to tackle the housing crisis in London and the South East than any other.

Aubrey Adams
Group Chairman

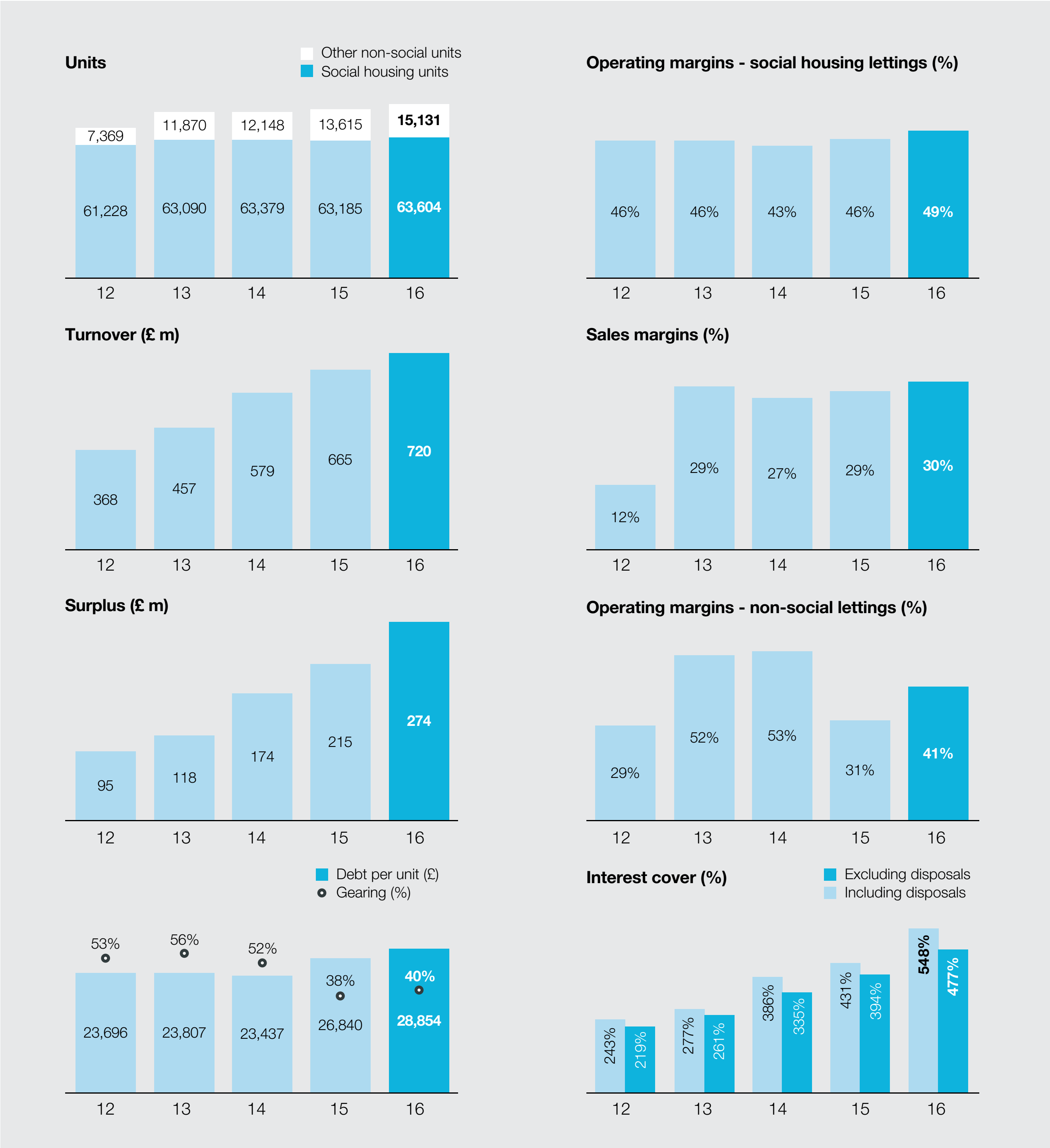

Our development of 13 houses and 23 apartments in Green Lanes, north London, scored highly under the Considerate Constructor Scheme.

03 Strategic report

Strategic report

Year ended 31 March 2016

Highlights



Note: Gearing is calculated as net debt divided by total reserves and grant. Gearing has reduced as a result of adopting FRS102 with increased reserves on revaluation to deemed cost.

L&Q vision

We are now more than ever before directly positioning ourselves as a charitable housing association – with our mission remaining 'Creating places where people want to live'. Our vision is one that sees everyone having a safe, warm, quality and affordable home.

L&Q corporate values

The following are our guiding principles. They dictate how we deliver our mission and vision through our behaviours and actions.

- Charitable – our history is important to us. We are an independent charity set up to house people not provided for by the market
- Surplus for purpose – we invest all our income in support of our charitable objectives. We apply commercial discipline to every aspect of our business so that we can invest in new and existing homes, communities and services
- Customer driven – we put our customers at the heart of what we do. We want them as our biggest advocates
- Focused on delivery – we get things done, whether by ourselves or in partnership. We stand by our promises
- We care – we are committed to empowering people and communities and aim to minimise our impact on the environment.

L&Q 2020

Last year we launched our new five-year plan, L&Q 2020, and we set ourselves the following four strategic objectives and targeted initiatives:

- **Customer experience**
  everyone taking personal responsibility for making sure that our customers receive the best possible experience we can provide.

  - We will make our most used services by customers 'digital by default' by making them available online
  - We will be developing a new service offer with a much greater emphasis on reducing customer effort focusing on customer needs, capabilities and preferences
  - We will also be improving our understanding and use of customer insight through customer profiling and behavioural analysis, improved satisfaction monitoring and demographic mapping.

- **Financial strength and growth**
  maximising our capacity to invest in new and existing homes, services and communities for all our customers.

  - We will deliver 5,000 homes of all tenures a year by 2020 with a minimum annual output of at least 1,000 affordable rented homes
  - We will be maximising returns through greater commercialisation of our ancillary services and non-social housing activities, generating comparable returns to market competitors and preparing us for a future without reliance on grant
  - We will also be ensuring at least £2 for every £1 invested goes back into our community investment work through the L&Q Foundation.

- **Business excellence**
  delivering cost-effective and quality homes and services through efficiency and innovation.

  - We will improve our decision making and responsibility across the organisation by creating a flatter, more efficient management structure
  - We will be accelerating the transition of office based working practices to mobile, home and agile ways of working
  - We will also bring homes up to an agreed property standard by 2020, starting with all new build and re-let handovers meeting this standard this financial year
  - A new health and safety strategy will ensure that health and safety is fully embedded into the culture of our people and contractors.

- **People and culture**
  creating value for our customers by investing in our people to develop everyone's full potential.

  - We will introduce new talent management initiatives, embedding a culture of leadership, customer excellence and engagement throughout the organisation
  - We want to establish ourselves as a leading employer of choice to support our competiveness and attractiveness in the jobs marketplace
  - We will also continue to benchmark against comparators such as the Great Place to Work index, Stonewall top 100 and progressing our qualification towards Investors in People platinum standard.

Strategic report

Year ended 31 March 2016

We set some clear targets around this balanced scorecard approach which would determine staff bonuses. Here is how we delivered earning staff the maximum 5% bonus:

Our customer experience bonus target: Consistently deliver customer service that ranks among that of the top 25% of London housing associations. We delivered 79% placing us within top quartile.

Financial strength and growth bonus target: 2,500 handovers from development. We delivered 2,510.

Business excellence bonus target: Achieve a budgeted operating cost for all lettings of £3,455 per home. We achieved £3,118.

People and culture bonus target: Achieve Investors in People Gold standard. We achieved this in November 2015.

We finalised our Customer Service Charter following two years of customer research that revealed our customers' priorities. The Charter's commitments help us all to put ourselves in our customers' shoes, take a fresh look at how we deliver our services from their point of view, and to deliver the changes that will make the difference.

Our five commitments to our customers are:

1. Provide a good quality home.
This commitment is about the quality of homes at the point that our customers move in. It applies equally to newly built homes and to homes previously occupied by other customers.

Our Quality team has also been very busy making sure that our new homes meet the needs and expectations of our customers. Over the last 18 months, they have worked closely with our contractors and consultants to ensure that our new homes meet a strict quality standard. They have provided over 1,800 customers with an 'introduction visit' to their new homes, showing them how to use things like the heating and water systems in their homes. This shows our commitment to customer service and reduces the number of calls to our Aftercare team during the course of the two-year new homes warranty that we offer to our customers.

2. Deliver reliable services to maintain your home and the area where you live.
This commitment is about the continuous care and maintenance of our customers' homes. It applies to ad hoc repairs to single properties, but also large scale maintenance projects for a number of homes.

Early in April 2015, we brought together our Direct Maintenance service and our Technical Services teams, to support more collaborative working in terms of service delivery, whilst we continue to improve systems and processes by creating more of a customer focused culture throughout the group.

Our Direct Maintenance has been running since April 2014 and has now grown to over 130 operatives providing repairs services to around 30,000 of our homes – as well as carrying out voids works in empty homes across all of our Neighbourhoods. Our in-house maintenance provision allows us to offer a better and more flexible service at a lower cost, with more control of the day to day service offered. We have continued to outperform our contractors in the external customer surveys.

Our five year planned works programme has been updated and will provide our customer-facing teams with essential information about any planned maintenance in each of our properties, helping them to better handle customer enquiries. By providing a greater visibility of the works due in a property, it will help our teams to make better informed decisions following reactive repair requests and on budgeting. In time, all of our homes will have planned maintenance works carried out, as the different components that make up a home require replacement.

We also introduced our new routine repair responsibilities policy. This sets out more clearly which repairs we will deal with, and which ones we expect our residents to take care of themselves. We will now be focusing on delivering a better service on our most important repairs, doing what we say we'll do, really well. It will contribute to reducing total spend in this area by doing less discretionary work.

3. Make any charges accurate and clear.
In our continued drive for efficiency, our Service Charge team introduced a comprehensive query and workflow system, which reduced the waiting time for service charge queries from 30 to four days.

To deliver a more streamlined process, the team also introduced a bespoke service charge system to manage the processing and calculation of service charges.

To provide our customers with greater flexibility when making payments, the Revenue team recently launched automated telephone payments. These allow our customers to make payments 24 hours a day, seven days a week.

We are committed to supporting our customers, understanding their rent and service charges. We produced both a service charge statement guide and rent guide which we sent out with our annual service charge statements and annual rent increase letters.

4. To offer information and services that are easy to access.
As part of our continued drive to meet the changing needs of our customers and improve their customer experience, in January 2016 we launched a new restructured website. This new website brings together over six years of extensive research and incorporates feedback from a large cross section of our customers and staff. Our growing presence on social media also continues, with Twitter and Facebook being integral elements of the new website.

We have followed a customer-led design process for the new website, and have identified what all our online customers need from us. From that starting point, we have designed everything to fulfil those customer needs.

5. Have professional staff who listen and respond helpfully.
Our Social Customer Service team was established in 2014 is committed to respond to enquiries from our customers on our Facebook and Twitter pages within one hour, as well as handling all of the organisation's online queries from the website. They have promptly answered more than 40,000 queries in the year. Our social media pages have turned into a core communication line in tracking and resolving repairs for our customers, for many of whom this has become the primary method of contacting us.

Soon after the launch of L&Q 2020 the government announced that all housing associations' rents would be cut by one per cent each year, for four years. We knew this would have a huge impact on our Business Plans – we had to respond with change.

Our response was a positive one, focusing on growth and efficiency whilst remaining true to our core social objectives.

We went back through our budgets to find savings and efficiencies and quickly put together a new Business Plan. But we also wanted to be more imaginative and ambitious - building on everyone's ideas at L&Q, senior leaders working groups' recommendations, and Executive Group discussions.

Strategic report

Year ended 31 March 2016

Our current plans were re-shaped around:

- Keeping our most important commitments and many of the long term objectives from our original L&Q 2020 plan. Our mission, vision and values are unchanged. We stay committed to our pipeline of 50,000 homes over 10 years, including continuing to build affordable homes, and to creating sustainable communities. Our geographical focus remains rooted in London and the South East, and we will continue to invest in our people and developing their skills
- Creating a new vision for service that makes dealing with us easier and better for our customers. This includes a new 'digital by default' approach for our most frequently accessed services and a review of our service standards and charter
- For our people, it also includes speeding up our move to more mobile, home and agile ways of working, removing barriers to getting things done, and being more flexible in our recruitment offers, and we will explore how we can deliver more commercial services, for example in relation to market rent and energy
- Creating a new vision for growth, to deliver at least 1,000 affordable social rented homes each year. This includes developing a new L&Q-defined standard measure of affordability, a review of our existing product range and exploring new products and opportunities to make sure we have something to offer all of our customer groups. It also involves getting higher value returns on our assets and better understanding the lifetime costs of our buildings so we can build better quality homes, more quickly and more efficiently.

We will extend our partnerships with smaller housing associations, and we will explore the potential for a proactive regeneration programme and for getting more involved in placemaking by developing infrastructure.

Summary of financial performance and year end position

Income and expenditure account (£ m)	2016	2015	2014	2013*	2012*
Turnover	**720**	665	601	457	368
Operating costs and cost of sales	**(440)**	(412)	(382)	(277)	(224)
Surplus on disposal of assets	**41**	24	20	-	-
Operating surplus	**321**	**277**	**239**	**180**	**144**
Net interest charge and other finance costs	**(65)**	(66)	(64)	(69)	(65)
Surplus on disposal of assets	**-**	-	-	11	16
Change in valuation of investment properties	**23**	4	8	-	-
Taxation	**(5)**	-	(6)	(4)	-
Surplus for the year after tax	**274**	**215**	**177**	**118**	**95**

Balance sheet (£ m)	2016	2015	2014	2013	2012
Housing properties at cost less depreciation	**7,024**	6,875	6,708	4,787	4,618
Social Housing and other grants	**-**	-	-	(2,625)	(2,564)
Total Housing properties	**7,024**	6,875	6,708	2,162	2,054
Other tangible fixed assets and investments and Joint Ventures	**723**	530	398	144	51
Net current assets	**287**	314	176	395	340
Total assets less current liabilities	**8,034**	**7,719**	**7,282**	**2,701**	**2,445**
Loans due after one year	**2,109**	2,042	1,824	1,877	1,749
Unamortised grant liability	**1,766**	1,800	1,780	-	-
Other long-term liabilities	**303**	283	215	250	216
Cash flow hedge reserve	**(159)**	(147)	(71)	(93)	(77)
Revenue reserve	**4,015**	3,741	3,534	667	557
Total	**8,034**	**7,719**	**7,282**	**2,701**	**2,445**

	2016	2015	2014	2013	2012
Number of homes managed	**73,100**	71,500	70,600	70,100	68,600
Estimated open market value	**£17.5bn**	£16.3bn	£12.7bn	£12.0bn	£10.8bn

*Not restated under FRS102 and Accounting Direction 2015

Strategic report

Year ended 31 March 2016

Financial performance

Turnover has increased by 8% to £720 million (2015: £665 million) with income generated from lettings and associated income of £452 million (2015: £428 million) and sales income of £268 million (2015: £237 million).

Of the above £484 million (2015: £439 million) is classified as turnover from social housing activities (including social lettings, grant income and first tranche sales) and £236 million (2015: £226 million) from non social housing activities (including open market and Private Rented Sector lettings).

Total operating costs excluding cost of sales increased by 4% to £253 million (2015: £243 million) of which £128 million (2015: £133 million) related to the provision of maintenance and services to residents and £60 million (2015: £62 million) depreciation of housing properties. Housing management costs, community investment and other costs amounted to £66 million (2015: £49 million).

Operating surplus before profit on disposal has increased by 11% to £280 million (2015: £253 million) with a 19% increase in contribution from sales activities of £81 million (2015: £68 million).

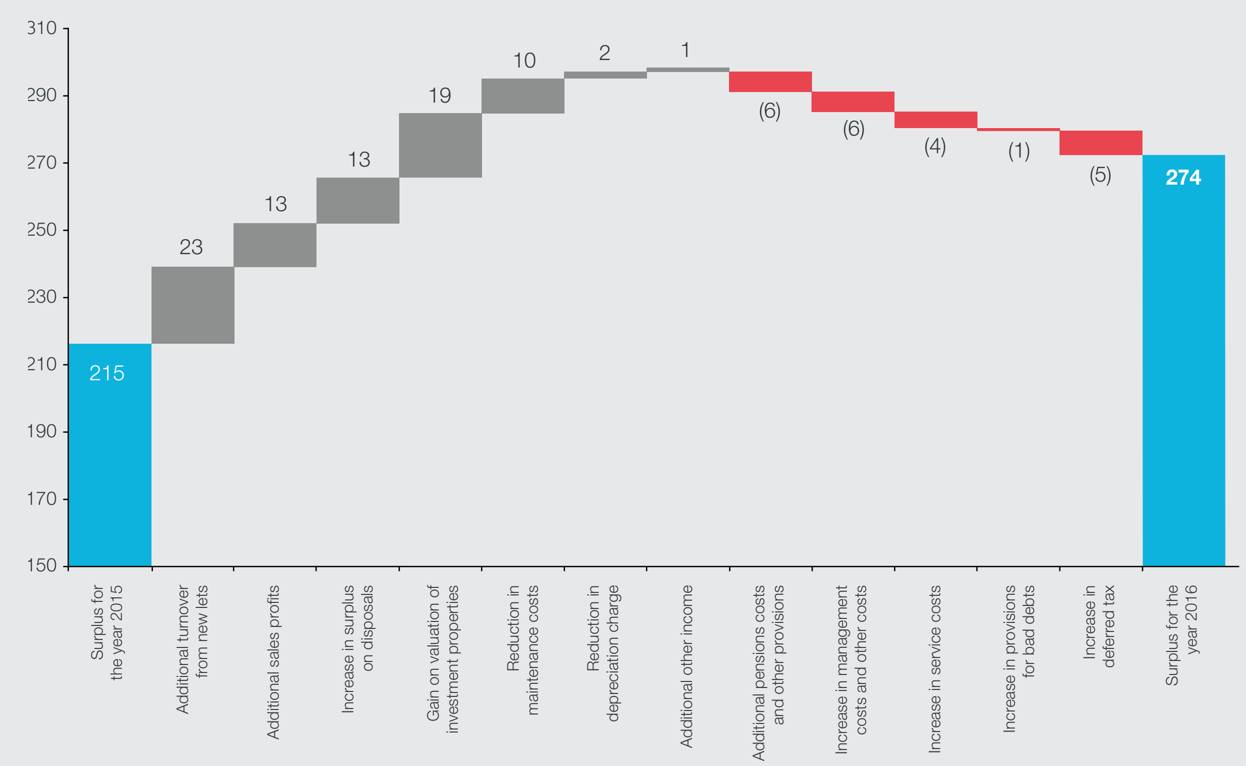
Operating margin on all lettings activities was 49% (2015: 46%) and net margin achieved on sales was 30% (2015: 29%).

We have also seen a 71% increase in our surplus on disposals to £41 million (2015: £24 million) primarily through staircasing disposals where existing shared owners have acquired a further stake in the property they jointly own with L&Q, and also disposals through day to day asset management.

Our net interest bill of £98 million remained at the same level as last year, of which capitalised interest was £40 million (2015: £34 million).

The surplus for the year at £274 million (2015: £215 million) is a 27% year-on-year increase.

How our surplus has grown from last year



Social housing lettings

Our social housing lettings activities benefitted from a net increase of 453 units generating additional rental income. This increase, together with annual rent increases applied to existing tenancies and a reduction in operating costs of £2 million contributed to operating margins increasing from 46% to 49%.

Our social housing lettings tenure mix continues to gradually change with 'general needs' making up 75% of total social housing lettings turnover, from 80% just three years ago. The operating margin contributions from tenures were as follows: General needs at 46%, Low cost home ownership at 75%, Affordable rent at 66%, Intermediate market rent at 51%, Sheltered housing at 25%, and Supported housing at 22%, generating a combined operating surplus of £207 million.

We piloted a new approach to housing management in our Thames neighbourhood and our customers have told us that it is working well. We are working to roll out the following changes for all our residents:

- A Property Manager's primary focus being now on property and estate based matters,
- A Case Manager's key area of responsibility being tenancy issues including tackling anti-social behaviour,
- A dedicated Lettings team that will take on allocations across our organisation.

Having clearly defined roles of Property and Case Managers will enable us to deliver improved results for our customers as we become more effective in assigning responsibilities across L&Q teams, such as Direct Maintenance, Technical Services and the Customer Service Centre.

Welfare reform represents the single biggest change to welfare benefits for over 60 years. Under Universal Credit, which began rolling out across the UK on Sunday 1 February 2015, residents who receive housing benefit will start receiving this directly in their personal bank accounts. For the first time they will be responsible for passing their rent money to their landlord. For L&Q, this will affect around a third of our households and half our income. We have taken steps to ensure our organisation and our residents are prepared for the changes.

During the year, we have been helping residents prepare with a pilot of communications and support services to assist them. Some residents may need additional support to manage their finances and this change effectively, making this an ideal opportunity to test out the support services that we currently offer our residents and to decide whether a proactive or a reactive approach works best.

Our pilot initially rolled out to residents in Greenwich, whom we asked by letter to volunteer to have their housing benefit paid directly to them instead of us ahead of the change. Since then, the arrears of people on this pilot have slightly reduced. Residents have also been better at declaring any vulnerabilities, which has meant we have been able to offer them the support and help they need. We have also helped them to open new bank accounts in preparation for Universal Credit.

In the year, we witnessed an unprecedented amount of property disposals, 362 units in total, where shared owners have in most cases acquired the remaining share of their properties, and another 54 tenants eligible to acquire their properties have done so.

The extension of the Right to Buy scheme to housing association tenants will mean that many more of our tenants will be eligible to purchase their property with the discounts available under the scheme – up to £103,900. Residents will be able to proceed now the Housing and Planning Bill has passed, and received Royal assent.

Although we do not want to lose valuable social housing, we also understand that many of our customers aspire to own their own homes. This is an opportunity for us to help eligible tenants to achieve their ambitions, and to support them through this process. We are one of five housing associations (and the only one in London) to take on the Voluntary Right to Buy Pilot, which we announced in November last year. Being involved in this pilot gives us the opportunity to help shape this Right to Buy scheme to make it work best for our residents, for homes in London, and for ourselves.

Strategic report

Year ended 31 March 2016

The government has committed to funding the pilot, so councils involved will not have to fund it by compulsory sales of their own homes. We have offered to work closely with relevant councils to establish how we can best ensure we replace homes sold so that London does not lose out on affordable housing. We are working with the government to offer residents in Croydon, Enfield, Greenwich, Haringey, Lambeth, Lewisham, Newham and Southwark the chance to start the process to buy their own homes. We are also talking to these London boroughs to help secure like-for-like replacement for any homes sold.

Non social housing lettings

Our turnover from non social housing lettings increased by 33% to £24 million (2015: £18 million) generating an operating surplus of £9 million (2015: £6 million). The operating margins by tenure were 72% on private rented sector (PRS), 21% on student accommodation, 63% on garages and parking spaces, 24% on commercial properties and nil on homeowners and leaseholders where we break even on service charges.

We have increased the market value of our PRS portfolio to £267 million (2015: £171 million). Our PRS properties are held in a subsidiary of the Trust, L&Q PRS Co Limited. The market value is made up of an initial £192 million transfer from the Trust, a further net investment of £52 million, and an upward change in valuation of £23 million in the year. The number of market rented properties owned stands at 863 homes (2015: 645 homes) generating a net yield of 4.6% (2015: 4.1%).

We recently launched 238 new homes for private rent at Thurston Point in Lewisham as part of our big plans for private rent over the next five years. It is one of London's largest new-build schemes offering new homes for private rent just a few minutes' walk from Lewisham station and Docklands Light Railway. It includes studios and one, two and three bedroom apartments.

We plan to develop 5,000 private rental homes over the next five years - creating the UK's largest selection of purpose built and newly refurbished rental properties. We understand that renting has increasingly become a lifestyle choice for those who appreciate a more flexible living arrangement. This shift, coupled with rising house prices, has put the current rental sector under huge pressure. As a result homes with the right quality, value and location from trustworthy landlords are in short supply.

We believe choosing to rent should never mean compromising on location, quality, service or design. Our new rental portfolio will deliver on the expectations that today's discerning tenants quite rightly have, with the added security of renting from a professional and experienced landlord. We aim to provide a streamlined process of renting for our tenants and offer a responsive and hassle-free service.

Sales and development performance

Our turnover from property sales reached £272 million (2015: £237 million) in the year with £58 million (2015: £33 million) from low cost home ownership first tranche sales included in our "Other social housing activities" segment of reporting, and £214 million (2015: £204 million) from open market sales, also known as outright sales, reported as "Other non social housing activities". The total number of homes sold in the year was 986 (2015: 919).

The net sales margins achieved for first tranche sales and open market sales were 52% and 23% respectively. Half of the open market sales turnover was achieved through various joint ventures with other house builders.

We achieved strong volume growth with a 24% increase in housing completions (including Joint Ventures) to 2,510 homes (2015: 2,031 homes). Housing completions include 1,364 (2015: 993) homes for sub-market tenures (social housing and shared ownership) and 1,146 (2015: 1,038) homes for market tenures (open market sale and market rent).

L&Q is currently operating from 77 (2015: 92) active sites (including Joint Venture sites) and continues to secure excellent land deals and longer term opportunities through the acquisition of strategic land options that meet or exceed our investment criteria. Recent wins include developments at Barking Riverside and Purfleet Centre Regeneration, both of which will be managed by L&Q.

During the course of the financial year we have increased total homes in the development pipeline to 39,758 homes (2015: 13,500 homes). 7,611 homes (19% of the approved pipeline) are on site, which outlines our approach to measured risk and phased development.

We monitor the level of market sales, market rent, sub-market sales, and sub-market rent monthly, as part of our commitment to deliver growth and maintain our charitable objectives.

Former London Mayor Boris Johnson approved our plans to transform the Walthamstow stadium into a 294 – home development back in 2012. A section of the development, Stadium Place, was handed over in 2016 and includes 99 shared ownership properties. These comprise maisonettes, houses and five wheelchair accessible homes, all built by our construction subsidiary, Quadrant Construction. Other proposed facilities at the stadium include a preschool nursery, play areas, a newsagent and a cafe. Solar panels and combined heat and power will result in low emissions and low energy bills.

It is always pleasing to win some accolades as a testimony of the quality of our developments.

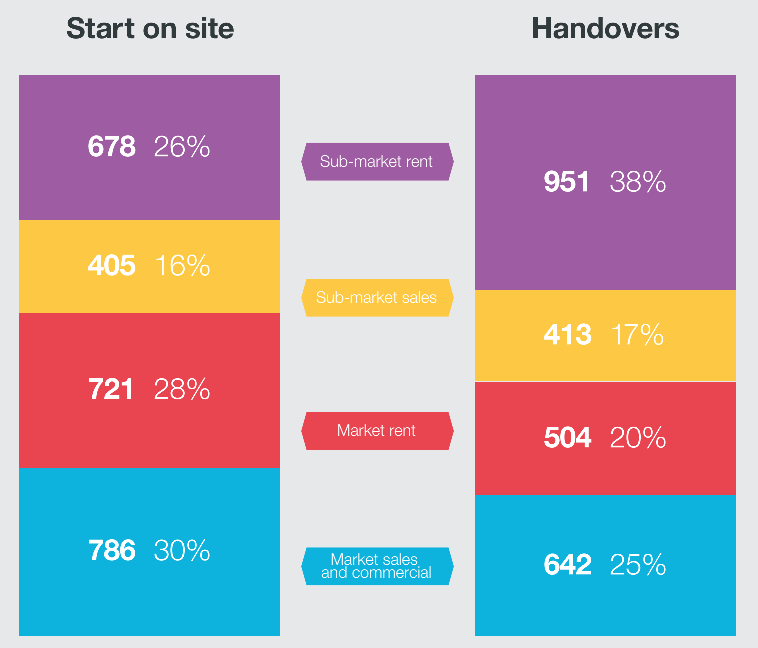
Our Development and Sales teams received their first award of the year in April 2015 at the Transform Awards, where we were recognised for our excellence in branding and brand development with our The Schoolyard development, in Wandsworth. We were crowned as the overall gold winner in the Best Visual Identity category, where our City Mills development in Haggerston, also earned a silver award. The Schoolyard was also awarded Best Show Home at the First Time Buyers Awards, beating some stiff competition.

In May 2015 we were entered into The Wharf Awards and were awarded with the coveted Housing Association of the Year title. This award highlights our great local community engagement, successes and dedication to delivering customer value.

We won Housing Association of the Year at the What House? Awards 2015. Judges gave us the gold award for the scale of our impact and our continued innovation. Their report states: "L&Q is becoming a genuine competitor to the big housebuilders in London and the south-east. It is now involved in 20% of London's housing development output."

They were impressed by the 'multi-generation houses' we are building at our Chobham Manor development in the Olympic Park. These family homes will each include a separate annexe, offering independent living to grandparents no longer able to manage alone or adult children unable to afford a place of their own. Judges described this as "designing in solutions to two of the big housing problems people now face in London". They also noted our investment in supporting our

Number of units started on site or handed over in the year



Strategic report

Year ended 31 March 2016

local communities through the L&Q Foundation. They highlighted how we use our profits to support our social purpose by building more affordable homes.

Our Chobham Manor development also won the Best Scheme in Planning award at this year's National Housing Awards run by the National Housing Federation recognising the excellent work between our Neighbourhood and Development teams, as well as our Architectural team's skill in translating the design brief into buildings and a sense of place that will set the standard for the rest of the Queen Elizabeth Olympic Park and the Stratford area.

Chobham Manor is a joint venture with Taylor Wimpey and is the first of five new neighbourhoods set around Queen Elizabeth Olympic Park. It will provide 850 new homes, including town and mews houses, maisonettes and single flats, with 75% designed for families and around a third affordable homes. It will welcome its first residents later this year.

London Mayoral candidate, now elected mayor, Sadiq Khan visited the development as part of a visit to the Olympic Park. We are looking forward to his support for more homes being built in London.

We won awards for both our City Mills development and our PricedIn marketing campaign at the Estates Gazette Property Marketing awards (PMA). The PMA awards are among the leading marketing awards in the property industry. They have been recognising innovation, creativity and the effectiveness of creating and delivering marketing campaigns for 23 years.

We won Best Residential Regeneration Marketing Campaign for City Mills, a development consisting of 761 homes, shops, public spaces and a community centre. People's perception of the location of this new neighbourhood was key to our marketing strategy. We created a 'power of the people' approach and worked with our existing residents at every stage to create a real sense of community.

We also won Best Digital Marketing Campaign' for our work in taking the already successful PricedIn marketing campaign, which launched in 2013, and applying it to all of our shared ownership marketing collateral. This way we created a definitive online resource for shared ownership buyers. PricedIn allows our audience to watch short films highlighting vital buying information, local areas, and experiences from previous buyers.

Future development

We have teamed up with the Greater London Authority (GLA) to fast-track the building of one of the largest and most ambitious regeneration schemes in Europe. Barking Riverside will make an enormous contribution to support efforts to increase housing supply in the capital and in delivering our promise to build a pipeline of 50,000 new homes in the next 10 years.

The 179-hectare former Barking power station site had lain dormant for more than 35 years. But now our development will create a new town the size of Windsor. It will deliver 10,800 new homes for Londoners, around a third of which will be affordable. It will also include 65,000 square metres of commercial, retail and community facilities, one secondary and up to four primary schools, public squares and walkways, and major new highway infrastructure.

We have taken over a 51% stake in the joint venture from Bellway Homes, who were instrumental in setting the site up with planning permission and developing the early phases. They will continue to make a significant contribution as a development partner bringing forward plots for market sale.

We are also investing £70 million into a £263 million project to extend the London Overground Gospel Oak line from Barking to a new station at Barking Riverside. This will put Barking Riverside within 25 minutes of central London. The extension has now been fully funded by us, City Hall and Transport for London. Work begins in 2017 and is set to be completed by 2021.

New roads, bus routes and river taxi services will also connect the new neighbourhood to other parts of the capital. Now we're on board, the level of house building on site is set to quadruple to 600 homes a year.

The former Mayor of London, Boris Johnson, said: "This former power station site is now ripe and ready not only to deliver thousands of much-needed new homes, but creating jobs and growth in a whole new bustling town in east London."

The first phase of a major regeneration project in Purfleet, Essex, has received a boost thanks to our investment of £27 million. We are teaming up with Urban Catalyst, a regeneration and development specialist, to create a new partnership called Purfleet Centre Regeneration Limited (PCRL).

This new partnership will deliver around 2,500 homes on brownfield land in Purfleet, Essex, and will also feature a 600,000 square foot media village – the first purpose-built film and TV studio complex of this type in the UK for 50 years.

Our involvement will bring extensive experience of place making and a track record of delivering high quality, award-winning homes. The nine-phase master plan will also see the regeneration of Purfleet's town centre, providing shops and local leisure amenities such as a marina and oyster bar on the redeveloped waterfront.

The scheme will also include new community facilities such as a primary school and a health centre, as well as an upgraded rail station. The station will provide excellent connections, with London Fenchurch Street less than half an hour away.

We also obtained planning permission for 73 new homes in Erith in Kent on the site of a former swimming baths and also signed a partnership deal to develop up to 600 new homes at a former quarry also in Erith.

The former Riverside Baths has been standing vacant for a number of years. It has good views across public gardens and the River Thames. It also benefits from existing and improving transport links. Our development will be the first residential scheme in a wider masterplan for the area. It should help bring in more investment. It will also provide a primary school and space for business or community facilities. Proposals for the site include around three hectares of set-aside grassland and woodland belts.

Quadrant Construction, also obtained the green light to begin building its largest scheme to date this summer. 'The Hyde' is a major new build residential-led scheme in Hendon, in our North Neighbourhood. It has planning approval for 381 apartments and five houses, as well as commercial and basement space.

The homes will be available on a mix of tenures: 308 for private sale, 41 for shared ownership and 37 for affordable rent. The 10 blocks range in height from five storeys to a 14-storey building – the landmark for the development. The high-quality design of the residential units provides flexible areas within homes and large living spaces.

Strategic report

Year ended 31 March 2016

The layout of the scheme will create several outdoor courtyard areas with high quality green spaces and water features. Along with private balconies, gardens and terraces, residents will enjoy access to more than 3,250 square metres of communal roof terraces and landscaped areas.

We obtained planning permission in March 2016 to deliver 202 new homes – including 30% affordable housing – in Bream Street on Fish Island in Hackney Wick in our North East Neighbourhood. This site is between the Regent's Canal and River Lea, and next to the Queen Elizabeth Olympic Park. Our proposed development is designed by 2015 Stirling Prize winning practice AHMM. It includes significant new public space and improved access to Old Ford Locks which is next to the site. The London Legacy Development Corporation's Quality Review Panel praised the scheme for its outstanding architecture.

Our proposals also include new employment space to support and enhance the vibrant local cultural economy. This could potentially generate 225 new jobs. Quadrant Construction will build the development and are due to start on site later this year.

We have been selected with Countryside Properties to take on the regeneration of Beam Park, a huge 29-hectare site that will provide around 3,000 new homes for east London. The derelict former Ford factory plant stretches across the London Boroughs of Barking and Dagenham and Havering in our North East neighbourhood. Our development plans will provide around 3,000 homes, a new train station on the C2C line, a new park, improved public realm, two schools and community and leisure facilities. The homes will be mixed tenure, with 35% being affordable including a significant proportion for shared ownership. These will be marketed to the local community first.

Trains will be stopping at the new Beam Park station in 2020, just 20 minutes away from central London. It will support the Mayor's wider aspirations to improve employment opportunities in the area.

We now offer smaller housing associations the chance to buy new-build homes on smaller sites at cost price. This will help boost the supply of new homes across London.

We have set aside an initial £100 million to buy and build on public and private sites. We will take and manage all development risk. This means this 'untapped sites initiative' will be risk-free to the smaller housing associations.

The Mayor of London estimates that 100,000 new homes could be built on smaller sites in the capital – but larger developers do not see these sites as viable. Traditionally, smaller housing associations and smaller developers and contractors would have developed there. But many suffered through the last recession and now have less capacity and appetite to develop. Our initiative could help these organisations to grow again as well as helping boost housing supply.

By using our development and financial expertise we can enable smaller housing associations to develop and use their balance sheet capacity without risk. This could help smaller housing associations to meet their commitment to replace all homes lost through Right to Buy and will help take forward the next wave of housing.

On the site of the former power station, Barking Riverside will deliver 10,800 new homes, 65,000 square metres of commercial, retail and community space plus new transport infrastructure.

Strategic report

Year ended 31 March 2016

Financial position at year end

The Group's balance sheet comprises primarily of £7,024 million housing property assets (2015: £6,875 million) at cost with an estimated open market value of £17.5 billion.

Investments include the Group's share of joint ventures net assets of £288 million (2015: £182 million), other historic investments in Homebuy equity of £123 million (2015: £136 million), investments in market rent properties of £267 million (2015: £171 million), and real lettings property fund of £10 million (2015: £10 million).

Joint ventures show a 58% increase as we have continued to grow our existing partnerships and also entered new ones with key partners such as the GLA in Barking Riverside and Regeneration Investment Ltd in the Purfleet Regeneration Centre.

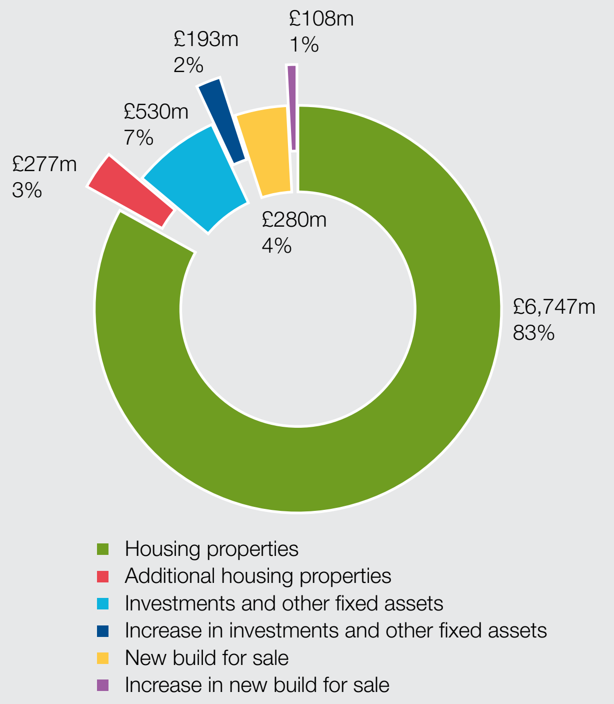
Other tangible fixed assets increased by 13% to £35 million (2015: £31 million) as we continued to invest in IT infrastructure as part of our Business transformation programme.

Properties for sale increased 39% to £388 million (2015: £280 million), which are mainly assets under construction with £21 million (2015: £8 million) being completed units available for sale.

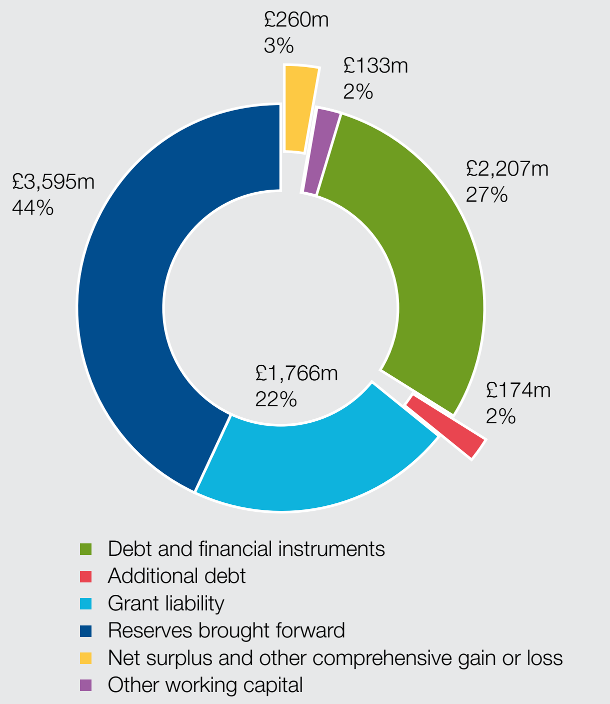
As at 31 March 2016, the Group had net current assets of £287 million (2015: £314 million) including cash and cash equivalents of £110 million (2015: £146 million), with short term debtors and creditors increasing in line with growing activities across the Group.

The Group balance sheet was restated in respect of its opening position as at 1 April 2013 through the early adoption of FRS102 by the Group, as a result of the listing rules and requirements of our bond issuance in October 2015. As such, our comparatives for 2015 are not shown as restated having already been re-issued in an FRS102 restated financial statements in the offering circulars made public last October. For clarity, a note explaining this restatement and its effect on 2014 and 2015 has been reproduced in note 32.

Assets (£ m)



Financed by (£ m)



The key changes were as follows:

- Under FRS102, social housing grant is amortised over the life of the properties. The element that remains to be amortised stands at £1,766 million and is a long term liability presented separately from creditors due after more than one year.
- Our transition to FRS102 allowed the Group to fair value a proportion of its housing properties and treat these as deemed cost with the uplift of £1,892 million on 1 April 2013 going to reserves. The grant associated with these properties amounting to £763 million was also credited to the revenue reserves at the time.

The Group is financed by its own reserves of £3,856 million (2015: £3,594 million), external bank and capital markets funding of £2,382 million (2015: £2,207 million), and un-amortised social housing grant of £1,766 million (2015: £1,800 million). Social housing grant included in reserves amounted to £1,029 million (2015: £1,010 million) and is disclosed as a contingent liability under the conditions set by the HCA.

Cash flow statement

Our net cash from operating activities for the year was £194 million (2015: £216 million), a reduction of 10% compared to the previous year, this is as expected given that our stock of units developed for sale increased by £108 million (2015: £69 million) consuming significant working capital. Without this increase in stock, the operating cash flow would have shown a 6% increase.

Our net cash outflow from investment activities was £391 million (2015: £356 million) driven mainly by cash expenditure on development of housing properties for social lettings of £196 million (2015: £202 million) and £46 million (2015: £71 million) of capital improvements to existing properties. We also had further cash investment of £104 million (2015: £68 million) in existing as well as new joint ventures, and £93 million (2015: £70 million) in properties for PRS.

A proportion of the investments outflow was offset by proceeds of £115 million (2015: £80 million) from disposals of housing properties through mainly staircasing and day to day asset management activities, and £19 million (2015: £3 million) from shared equity investment receipts.

Further financing was obtained in the year with an injection of £465 million comprising additional bank loans and a new bond issue in October 2015. We also repaid £304 million of loan debt in the year.

Our cash balance at the end of the financial year was £110 million (2015: £146 million). In April 2016 we successfully completed a further bond issue of £300 million.

Treasury management

Critical to supporting our growth ambitions are our treasury activities, which focus on ensuring that the Group has sufficient liquidity to fund its operations and its investments. Our strategy is to support the Group Financial Plan and to absorb, mitigate or manage treasury related risk within the threshold of L&Q's risk tolerance, currently defined as a single A credit rating outcome in the scenario that all composite risks materialise.

As at 31 March 2016, L&Q had the following credit ratings:

Credit rating agency	Credit rating	Rating outlook
Standard & Poor's	AA	Negative
Moody's Investors Service	A1	Stable

The negative outlook from Standard and Poor's is reflective of the negative outlook on the UK Sovereign rating and L&Q's implicit link to Government policy.

At 31 March 2016 the Group had drawn facilities of £2,208 million (2015: £2,047 million), with total undrawn facilities of £269 million (2015: £195 million), all of which are fully secured and committed revolving credit facilities available within 48 hours. During the year the Group secured £250 million of new debentures issued in October 2015.

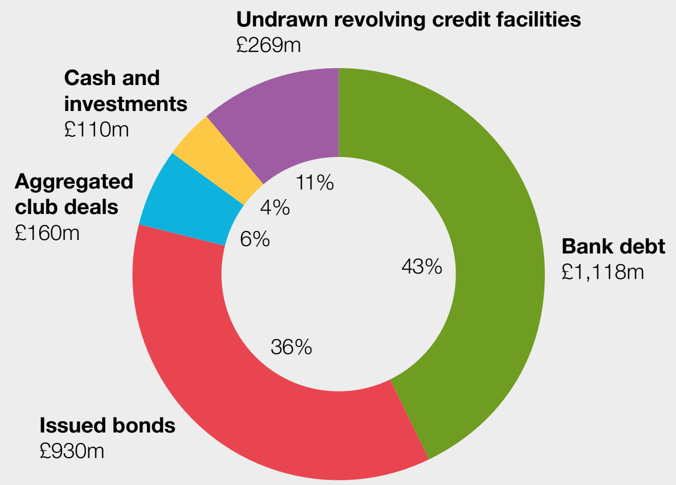
Strategic report

Year ended 31 March 2016

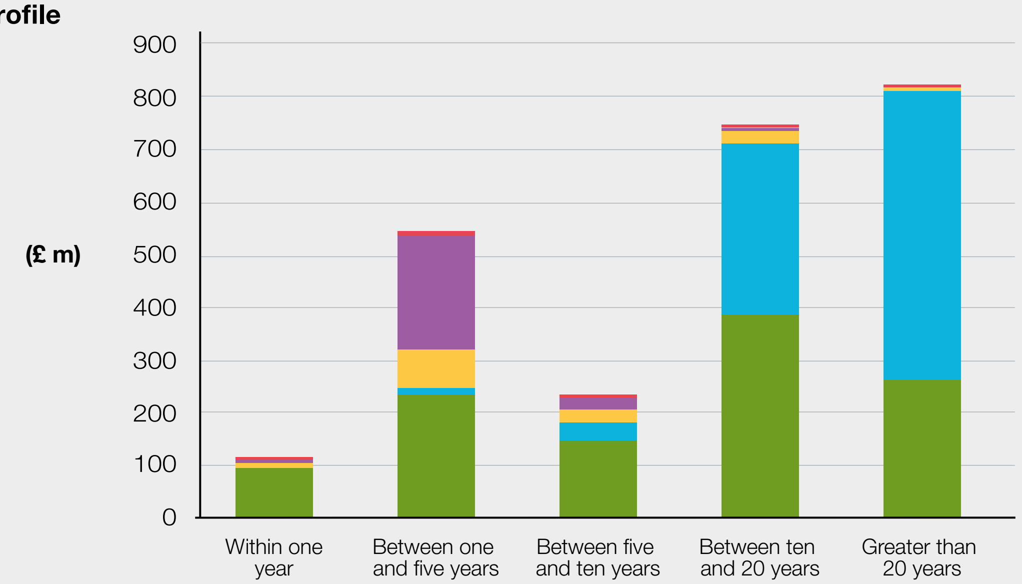
The weighted average cost of drawn debt increased in the year to 4.81% (2015: 4.70%) as a result of repaying revolving credit facilities from bond proceeds. The limited movement of the weighted average cost of debt to 4.44% (2015: 4.40%) reflected the static interest rate environment we are still experiencing. The weighted average duration of drawn debt across the Group is 16.5 years.

The Treasury strategy ensures that the Group does not have to refinance material amounts of debt in any one year. At 31 March 2016 the Group exposure to re-finance risk in the short term within 1 year was £121 million, representing 5% of debt facilities. A further 22% of loans totaling £547 million are repayable within 1-5 years, which we expect will extend far beyond their existing maturity dates.

Sources of finance (£ m)



Debt repayment profile



	Within one year	Between one and five years	Between five and ten years	Between ten and 20 years	Greater than 20 years
% of loan facilities	5%	22%	10%	30%	33%
Undrawn RCF's	11	218	32	8	-
Aggregated club deals	19	75	27	31	7
Secured debentures	-	15	35	329	550
Secured bank loans	91	239	144	381	264

The Group operates a conservative counterparty policy and aims to minimise the risk of financial loss, reputational loss or liquidity exposure linked to any counterparty. Short term investments are well diversified and kept at a minimum by temporarily repaying revolving credit facilities in order to manage working capital and our interest budget.

The Group borrows and invests surplus cash only in sterling and does not have any foreign currency risk.

Value for money

L&Q is steadfast in the commitments it set out in last year's L&Q 2020 plan to increase its output of new homes, deliver a good customer experience, achieve business excellence and invest in its people. Achieving value for money is integral to the delivery of that plan. In the intervening year of intense change in the social housing sector we have recast that plan into L&Q Reimagined to ensure we continue to deliver the value we want to achieve. We are also in merger talks with Hyde and East Thames, value for money is a key driver for these talks - achieving more for less.

In L&Q 2020 we aimed to increase our output of new homes to 5,000 per year, achieve greater efficiency, develop our people further and maintain high levels of customer satisfaction.

In its first year, 2015/16, through focused management of the balanced scorecard underpinning L&Q 2020, we improved on an already strong financial performance in absolute and comparative terms.

- We have increased our operating margin on social housing lettings from 46% to 49% and increased our overall margin from 38% to 39%
- We have reduced our maintenance costs by £152 per unit whilst at the same time delivering significant service improvements in satisfaction with our repairs service
- We have improved our resident satisfaction by 1% basis point and benchmark within the upper quartile of social landlords in London
- We have delivered 2,510 new homes, a 24% increase on the previous year, what will be the largest output across the social housing sector, and half way to our five-year goal
- We have continued to improve our position relative to our peers across a range of financial metrics and show ongoing improvement in our own performance over time (see "Self-assessment of Performance" table)
- We have reduced our rent arrears to 3.3% on our general needs provision (our lowest-ever level) whilst addressing the risk of welfare reform
- We have seen further expansion of our in-house building service, Quadrant Construction saving us £13 million in VAT in the year
- We have continued with the roll out of our in-house Direct maintenance services to residents saving us £2 million in VAT in the year and provided a better service at a lower cost
- We have achieved financial and wellbeing gains for our residents worth £28 million through our community investment work having invested £6 million in the year
- We have commenced deployment of Agile working which is about making better use of our workspace. This initiative has removed the need for two new offices, saving us £5 million over the next five years.

We need to continue working hard to improve resident satisfaction and to innovate so we can achieve more for our customers. All four of our L&Q 2020 objectives contribute to this.

We publish separately under a new 'Openness and Transparency' website page a 'Value for money at L&Q - Our self-assessment statement' which explains in more detail our approach and individual achievements so that anyone who has an interest in our work can hold us to account.

We have continued to keep track of our performance over time and in comparison to our peers, to ensure that we are providing ourselves with sufficient challenge. We primarily compare ourselves against the largest nine other housing providers operating in London and the South East – which currently comprises of A2Dominion, Affinity Sutton, Circle, Genesis, Hyde, Metropolitan, Notting Hill, Peabody and Southern.

This group has been selected from amongst the G15 group of landlords as being the closest in size and geographic focus to L&Q. We base this on our own analysis of their annual financial statements. We have largely maintained the same metrics as in previous years but this

Strategic report

Year ended 31 March 2016

year have segmented our analysis between social and non social housing activities to enable easier comparison. We further internally monitor these two broad segments into tenure portfolios to ensure they all contribute positively to the bottom line at the levels expected and based on economies of scale achievable. For instance we are satisfied that our supported housing portfolio will have lower operating margins than our general needs portfolio but still contributes positively with a performance of 22%.

In 2016 we have seen our performance improve across the range of indicators we monitor compared to our position in 2015.

The gains that have been achieved have been through cost control and planned efficiencies and have enabled us to invest significantly in our development pipeline.

In previous years we have noted that an outlying area of performance has been in our costs of maintenance, which were comparatively high and increasing. A number of long term initiatives have been in place to manage our maintenance costs – including roll out of our direct maintenance service. These initiatives are largely set out in the sections that follow looking at our approach to asset management and to service delivery. We have also through the segmental reporting been able to isolate areas to focus on and are encouraged by an 11% reduction in maintenance costs per social lettings home from £1,486 to £1,328 as a result of these initiatives.

We are confident this level of performance will push us further up the peer comparison table for 2016 as we continue to make our way to the top quartile.

In the period since we published our L&Q 2020 plan and our last value for money statement there have been dramatic changes in the operating environment for housing associations - particularly as a result of the new rental reduction policy but also as a result of the increasing pace of welfare reforms, the deregulatory agenda and the piloting of right to buy.

In common with all housing associations the changes in our operating environment have forced us to look at our costs and ambitions and produce a revised business plan. For L&Q the rental reduction policy amounted to a £57 million reduction in projected income over its four year life. The plan we produced to bridge this financial gap put in place £75 million of efficiency targets to offset this loss. The net effect was a reduction in our projected output of affordable homes. We called this Plan A.

For us Plan A was not a plan that delivered the value we want to achieve in terms of volume of new homes (particularly affordable homes) and positive experiences for our customers - rather it was a plan to demonstrate that we had the strength to cope with our changing environment. We wanted to deliver more and, once Plan A had been agreed, we began the search for more radical changes that would allow us to deliver more value, what we called L&Q Reimagined.

The starting point for delivering our L&Q Reimagined plan was about adopting a more radical and fundamental approach to how we deliver all aspects of what we do. Ultimately this was underpinned by a drive to deliver more value with at least as much as we had planned before the rental reduction policy was announced. The key planks of this plan remain those from our L&Q 2020 plan – delivery of new homes, creating a good customer experience, achieving business excellence and investing in our people. Our strategy has not changed.

The L&Q Reimagined plan as a whole seeks to achieve value for money, the key targets for the coming year are:

- Deliver a customer experience which consistently ranks among the very best with 80% or more of our customers satisfied with the quality of our homes
- Deliver a minimum of 1,000 below market rent homes and hand over 2,775 units overall
- Achieve a minimum cash operating margin for social housing lettings of 47% and operating cost per unit of £3,090
- Deliver annual budgeted accounting and cash surplus from core activities of £158 million and sales profits of £124 million to deliver a total surplus of £282 million in 2016/17
- To be ranked in the top 25 organisations benchmarked against the Great Places to Work (GPTW) index.

The delivery of social housing assets is the core of our business. We are a charitable housing association and the provision of safe, warm, quality and affordable homes (especially to those who cannot access the housing market) is our mission. Our overall strategy is to hold and invest in our social housing assets for the long term where possible so that we can provide for our current residents and make the most of the value in those assets to build more homes.

As well as investing in new homes we have continued to effectively manage our existing stock. Last year we reported on a new approach to planned maintenance based on geographic hotspots with an aim of better targeting resources where investment is required. In this year we have let contracts for the first time on this basis and are starting to procure contracts for 2017-2021. Through roll out of this initiative and focus on stock investment priorities we are able to identify ongoing efficiencies in our planned maintenance budget.

As part of our ongoing management of our reactive maintenance spend, we have carried out analysis as to why our reactive repair costs appear to be higher than average peers. This work revealed that, although we obtain good value for our day-to-day repairs, we spend more on specialist works through our reactive maintenance budget. We have taken the decision to introduce a “batch repair” process that will allow us to manage component replacements through our planned programme enabling additional scrutiny and procurement efficiencies over time.

In relation to our approach to asset management (acquisitions, disposals, reconfiguration, leasehold renewals) our dominant strategy remains to retain assets where possible. Our stock grading tool has identified our worst performing assets and has enabled us to establish a framework for selecting assets for which disposal would be the option that delivers best value for money. In this year we added £13 million of value from a range of asset management projects.

Strategic report

Year ended 31 March 2016

Self-assessment of performance

Value for money analysis	L&Q 2016			L&Q 2015 (note 2)			London peer group average 2015 (notes 1-3)	Peer group average 2015	Peer group average 2014
	Social housing letings	Non social housing lettings	**Combined lettings**	Social housing lettings	Non social housing lettings	Combined lettings			
Management costs per unit (£)	516	341	**482**	515	347	485	1,210	1	1
Total maintenance costs per unit charged to income and expenditure account (£)	1,328	194	**1,111**	1,486	225	1,263	1,262	8	9
Operating margin (%)	49%	41%	**49%**	46%	32%	46%	35%	1	2
Operating costs per unit (£)	3,391	967	**2,927**	3,447	918	2,998	4,220	2	2
Chief Executive pay per unit (£)	-	-	**4.52**	-	-	3.51	6.22	1	1
Chairman's pay per unit (£)	-	-	**0.40**	-	-	0.40	0.73	1	4
Current rent arrears (%)	-	-	**3.4%**	-	-	3.4%	4.3%	2	3
Rent void losses per unit (£)	48	81	**54**	37	116	50	90	1	1
Resident satisfaction overall (%)	-	-	**79%**	-	-	78%	74%	2	4

Notes:
1. The London peer group comprises the ten largest associations operating in and around London. The averages are taken from the latest published financial statements and regulatory returns for this peer group at the time of producing this report.
2. 2015 comparatives are extracted from L&Q and its peer group's 2015 audited financial statements.
3. Management and maintenance costs per home for L&Q include central overheads allocation.

Return on assets analysis

Portfolio	EUV £ m	MV - VP £ m	Rental income £ m	Gross yield 2016	Gross yield 2015	Operating profit £ m	Operating margin 2016	Operating margin 2015
Affordable rent	266	794	26	3.3%	2.6%	17	66%	63%
General needs	3,988	13,663	316	2.3%	2.3%	148	47%	45%
Supported housing	135	443	13	3.0%	2.4%	3	22%	8%
Housing for older people	112	346	13	3.9%	4.4%	3	25%	38%
Intermediate Market Rent	182	345	19	5.4%	4.3%	9	51%	61%
Low cost home ownership	423	1,497	35	2.4%	2.2%	27	75%	47%
Social housing lettings	**5,106**	**17,088**	**422**	**2.5%**	**2.4%**	**207**	**49%**	**46%**
Market Rent*	**278**	**350**	**15**	**5.5%**	**6.0%**	**9**	**72%**	**66%**

EUV - Existing Use Value
MV-VP - Market Value - Vacant Possession

*Market Rent has been adjusted to take the current annual rent charge divided by market value, removing the discrepancy caused by the vast amount of new units acquired part way through the year.

Gross yield is calculated using rental income over market value – vacant possession.

We commissioned JLL – an external financial and professional services company specialising in real estate - to set out the vacant possession market values of our housing portfolio. These show a 5% increase from the previous year's desktop valuation. Gross yield on social housing assets improved marginally.

With the rent reduction being factored in, the EUV-SH valuation for our social housing lettings portfolio reduced by 11% to £5,106 million (2015: £5,708 million) reflecting our intention to hold our social housing stock for the long term and apply rent changes in line with government policy.

For our social housing, we are aiming to achieve operating margins of above 50% as part of the long term financial plan. In 2015/16 we have achieved 49% (2015: 46%) demonstrating a significant improvement towards this target.

On private rented properties we achieved an annualised gross yield of 5.5% on cost (2015: 5.6%) against a target of 5.5% which compares favourably to an IPD benchmark released in March for gross rental yield for inner and outer London showing 4.7% for the year. Gross yields have reduced slightly from last year due to strong capital appreciation of 6.6% this year exceeding revenue increases of 3.9%, although strong and above a target of 3%.

Strategic report

Year ended 31 March 2016

Corporate Social Responsibility and community investment

As the L&Q Foundation enters its fifth year of steering our approach to community investment and supporting the Group's objectives around Corporate Social Responsibility (CSR), we take the opportunity to highlight its key achievements of 2015/16.

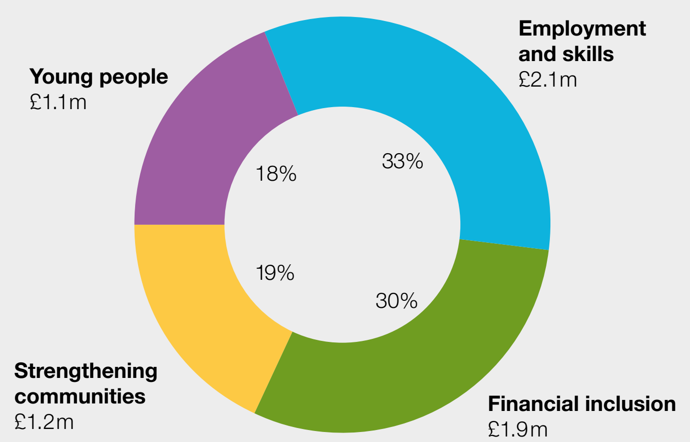
Our community investment work tackles four issues: financial exclusion, unemployment, community cohesion and positive opportunities for young people. The £7 million we invested in community investment through the L&Q Foundation as included in "Other social housing activities" was split as shown to the right.

The overall number of people (L&Q residents and non-residents) benefitting from the Foundation has increased significantly since it was established in 2011, with 16,000 accessing its activities last year.

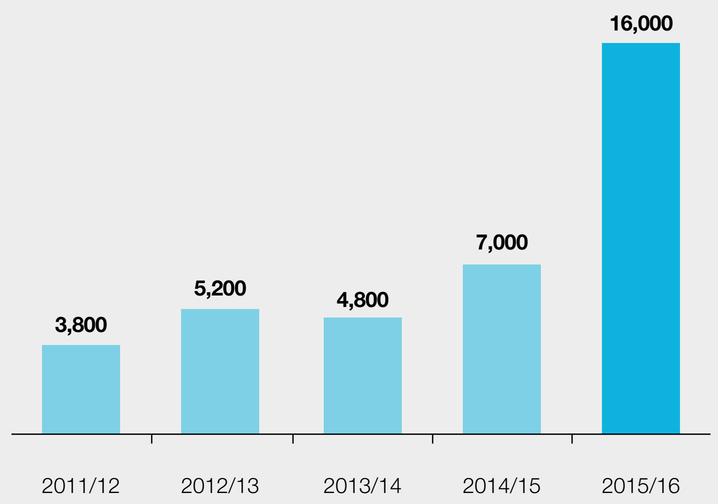
In 2015/16 our employment support team commissioned projects that helped 438 people into work, a 47% increase on the previous year. For instance seven residents were helped to be 'job ready' and secured employment with L&Q Caretaking services in the last year.

Since 2012 the Foundation has invested £1.6 million into apprentices prioritising opportunities for L&Q residents and their families. In 2015/16 we recruited 23 apprentices and 16 were L&Q residents. Our approach to apprenticeship is innovative because there is no age restriction and we currently pay London living wage.

Expenditure against theme 2015-16



Number of people benefitting the work of the Foundation



In the future increased apprenticeship opportunities for tenants will be available through the expansion of Quadrant Construction and Direct Maintenance, together expected to recruit over 60 apprentices in the next year.

We have secured over £0.4 million of European social funding to expand the employment support team. This will help the support team to get an additional 424 tenants into work over three years.

Pound Advice is an L&Q-led partnership of 17 Citizens Advice Bureaux and a telephone debt helpline. Last year 1,800 tenants were helped by Pound Advice, including over 900 families with children. We consolidated all our other debt support in Pound Advice because we found it was our most effective intervention at increasing tenants income and reducing tenants debts including rent arrears.

Pound Advice has secured £1.7 million funding from the Foundation until 2018. It is the largest external project funded by the Foundation. We estimate that our financial inclusion work helped tenants gain £8.1 million of extra income and that Pound Advice interventions have positively impacted rent balances by £2.3 million in 2015/16.

During last year we made significant service improvements to our tenancy sustainment team known as KIT. The team helped 548 tenants sustain their tenancies, which is a 66% success rate.

We also saw the launch of L&Q's Personal Support Fund. This new fund replaces our previous Hardship and Employment Support Funds, and creates a simpler and more effective process. This fund now includes employment support grants for those seeking work. The fund is only accessible to those who can not access external alternatives such as the local authorities Essential Living Fund.

We believe that 35% of our tenants are digitally excluded and lack the basic digital skills to use online services. L&Q Reimagined has committed us to make our most used services to customers 'digital by default'. We have two significant interventions to help tenants that are digitally excluded to get online: Digital Champions and Digital 400.

Digital Champions will deliver 3,000 learning sessions in public places with tenants across all L&Q neighbourhoods. Digital 400 provides basic computer skills, equipment and internet access for 400 residents of working age that are claiming benefits. Each successful resident will receive recycled IT equipment and 12 months free internet access.

Schools, like charitable housing associations, have an ongoing stake in the communities they serve. We work in partnerships with 14 schools in areas where we have large concentrations of our homes. We have consulted these schools about how they think we can add value to the lives of pupils from L&Q homes. Last year we delivered a range of activities: enterprise and maths workshops, mock interviews, diversity and employability sessions. Groups of students developed projects to meet the needs of their local communities. These included environmental, homelessness and mental health focussed projects.

Our relationship with our school partners has enabled us to create flexible options for L&Q and our supply chain staff to volunteer in support of them. We engaged with over 2,500 students last year and generated 1,017 volunteering hours for staff from L&Q and our supply chain.

We have worked with Greggs the bakers to establish 15 new breakfast clubs in some of the most deprived parts of London. One of these Breakfast clubs, Lathom Infant School Newham, won our internal 'Creating Places Awards' for community project of the year. These clubs have helped 1,020 children get a good start to the day.

One of the first community associated activities that housing associations supported was holiday activities for young people and children living on their estates. The Foundation has enabled us to do this on an unprecedented scale. Our holiday programme, called One Goal, provided multi-sports and arts activities across London to over 8,000 children and young people. These activities which would otherwise be unaffordable to most of our tenants were provided free of charge and delivered in partnership with nine football club's community foundations.

Strategic report

Year ended 31 March 2016

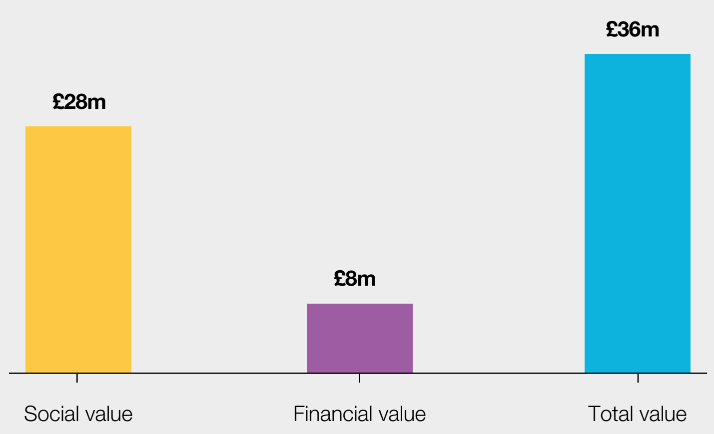
L&Q uses HACT's Value Calculator tool to calculate the social value generated by community investment projects funded by the L&Q Foundation. The Value Calculator allows users to measure the success of interventions by how much it has increased the wellbeing of participants. Using this methodology HACT has developed a 'social value bank', a list of the most common outcomes of community investment activity along with their associated values.

This includes the number of people who have found employment or undertaken training and those who have been helped financially (either with debt relief or assistance with benefit claims). The social value figure for 2015/16 is £28 million a rise of almost £10 million on the previous year.

L&Q moved up in this year's Business in the Community (BitC) social responsibility index. The highly-regarded index lists us achieving a score of 84%, a two percent increase on our score last year. The index tests and rates Britain's leading companies across a broad range of areas, such as sustainability, community investment, corporate strategy, staff/workplace initiatives and marketplace management.

We have made significant strides over the last year, particularly around sustainability, apprenticeships, HR and integrating social responsibility right across the business and we can still do more. Social responsibility sits at the heart of our long-term strategy, and our proposed merger with The Hyde Group and East Thames will take this even further.

Social and financial value generated by the L&Q Foundation



Through the proposed merger, we will set aside £250 million for community investment. There will also be a new training academy with £5 million a year extra investment on top of our existing training budgets.

This will provide greater career development opportunities for staff, as well as nationally accredited apprenticeship schemes and training and employment options for residents.

As part of this, we will fund like-minded charities and groups to deliver projects that make London and the South East a better place to live.

As part of our charitable mission we are committed to meeting the housing needs of all client groups, including the most vulnerable and those least served by the market.

In the year L&Q agreed a ground-breaking deal with the Thames Reach charity to transform housing options for vulnerable people in Lambeth. We will be lending Thames Reach £4.2 million over ten years to acquire 20 properties on the open market through the Brokerage and Re-settlement project in Lambeth. These properties will be used to re-settle people with severe mental health issues who are currently living in registered care homes funded by the London Borough of Lambeth.

The project will be particularly valuable for people who would otherwise find it difficult to move from registered care services, because of the degree to which personal preference and choice can be built in to the offer. It will give these people an improved quality of life, the ability to participate in society, greater control over their lives and surroundings and the maintenance of their independence.

Our Environmental Policy, which commits us to a number of measurable targets up to 2020, was launched in spring 2014 as part of our broader social responsibility commitment. Here are just some of the improvements we have made since:

- Launched an Environmental Management System, detailing some of the actions key departments need to take if we are going to meet our targets. This has included a review of the projects we are going to concentrate on in order to cut our office carbon emissions to 85kgCO2/m2/year by 2020 (down from our current emissions of 94kgCO2/m2/year), minimise waste and divert 0% of our waste to landfill
- Improved the energy efficiency of our homes - by giving energy-saving advice and support through the award-winning EnergySave project, and by investing in insulation and energy efficiency measures
- Embarking on a new £10 million project to improve the energy efficiency of our worst-performing stock between now and 2020
- We are investing in renewable energy: we now have solar photovoltaics at over 500 sites, as well as our first Air Source Heat Pump at Barking Riverside.

We have just launched a new £5 million energy efficiency programme that will help residents in our 2,500 least efficient homes to save money. Through a combination of energy saving advice for residents and practical improvements to make these homes more energy efficient, our new EnergySave Plus programme will reduce energy bills. It should also help reduce rent arrears and mould and damp problems as well as generally improving comfort.

The programme supports our commitment to becoming a more socially responsible business. It builds upon the achievements of our existing EnergySave project, which has already supported over 21,000 residents. Residents have saved an average £416 per household thanks to EnergySave's home energy assessment, free energy saving products, advice and ongoing support.

Our people

Our people are the key to delivering L&Q 2020. Doubling our development capacity, delivering 50,000 homes over the next ten years and enhancing and improving our customers' experience all need our people. By 2020, our workforce will grow to more than 2,000. We plan to attract and retain talented people. We will also shape our culture and behaviours, engage our people and develop their skills. We intend to reward them appropriately for delivering great performance.

We will make sure we have the right people in place to deliver our services to the highest possible standards, enhance our customers' experiences and contribute to L&Q's future success. To do this, we will work to position L&Q as an employer of choice in the marketplace and be clear with people internally and externally what it means to work for L&Q. We will have transparent recruitment and resourcing approaches which make talented, customer-focused people eager to work and stay with L&Q.

We want to retain great people by helping them to discover and develop their skills and capabilities. Our managers will believe coaching, facilitating learning and encouraging cross-functional development of their people are key elements of their role.

We will work towards a pay and reward structure which is simpler, more transparent and motivational. It will recognise individuals' contributions and performance and minimise difference based on status.

A healthy employee relations climate will be at the heart of our business. We will ensure that we maintain engagement levels in the upper quartile range.

We have been named by Great Places to Work as one of the UK's Best Workplaces in the annual Best Workplaces list (large organisation category). This year we ranked as the 23rd best big company moving up from 27th last year. This is the 12th consecutive year we have received this honour and demonstrates a successful high trust/high engagement workplace culture that attracts and retains talent and helps drive our business success. The award also recognises the strength of our leadership and the range of innovative, creative and effective HR policies that help support our workplace culture and reinforces the 'Our People' strategy at L&Q.

Stonewall placed us 64th in their Top 100 Employers 2016 Workplace Equality Index.

Under our latest Facilities 2020 accommodation strategy, our Corporate Facilities Management team are looking to improve our workplace experience and further improve the efficiency of our offices by changing the way we work, making better use of underutilised

Strategic report

Year ended 31 March 2016

spaces and creating a flexible, vibrant and barrier-free workplace.

We will also be focusing on our service delivery and environmental impact to ensure that we continue to create a great place for people to work which contributes to attracting and retaining a great workforce. We will continue to meet our environmental objectives and improve on our 77% staff satisfaction with the office environment.

Our recent reassessment for Investors in People was successful and we retained our gold accreditation. We have held the Investors in People standard since 1996 achieving gold for the first time in 2013. Investors in People specialises in transforming business performance through people and continuous improvement. It benchmarks our performance against world-class standards, and it gives potential employees, investors and customers confidence through an independent measure that our people and culture objective is all about creating value for our customers by investing in our people to develop everyone's full potential.

We were shortlisted for the Employee Engagement award in the large company category at the HR Personnel Today awards. The ceremony is the highlight of the year for many HR teams from organisations big and small, as it celebrates their successes.

Earlier in November, we were also shortlisted for a Career Progression award from workingmums.co.uk.

These awards recognise organisations that are committed to offering the very best in family friendly working. This category was for employers who can demonstrate initiatives aimed at developing women's leadership potential, including women's networks, mentoring initiatives and return to work programmes.

Risk management

Risks to a business like ours come from a variety of sources, including economic reasons, government policy or social change. Monitoring them helps us to remain successful and viable. We have embedded enterprise risk management within the L&Q Group, with staff throughout the organisation taking responsibility for identifying and then managing risks and opportunities.

The recent government budget announced changes that will bring clear organisational challenges for L&Q. Added to recent regulatory changes it has never been more important to ensure we have robust and effective processes in place to help us manage risk.

Our risk management software, which we launched last year, gives us an overview of all of our risks right across the business and prompts us to review these quarterly. This helps us to see the bigger picture, report to the Board accordingly, and keep us on track. The system also helps us save time and avoid duplicating work. For example, if similar risk issues are coming up in different parts of the business there may be action we can take more centrally or at a higher level in order to deal with these.

The Audit and Risk Committee and Group Board receive an annual report on risk. In addition the Chief Risk Officer presents a report on the key strategic risks and any emerging risks at every audit and risk committee. The committee also considered department activity risk reports throughout the year as part of an effective challenge and review mechanism.

The Executive Group and Group Board considered the risks described here as the group's key risks and how the organisation addresses these:

Relevance to strategy (for the 2015/16 period)

1 Financial strength and growth

2 Business excellence

3 Customer experience

4 People and culture

Risk	Comments and risk mitigation
Uncertainty over rent formula threatens growth plans and service quality 1 3	The first year of rent reductions, announced in the 2015 budget, have now been introduced to applicable tenancies and our response to mitigate the financial impact of this, by introducing a balanced package of savings, efficiency measures and income generation, is now complete. Plans to re-align our strategic objectives, to help manage the impact of future rent reductions were finalised in March 2016, with Group Board approving the L&Q Reimaged plan. This new plan sets out a series of key initiatives, which remain set out under the established quadrants of our balanced scorecard, namely; customer experience; financial strength and growth; business excellence; and people and culture. Each initiative is accompanied by a robust target and clear set of measures and each aligns with the key set of principles or 'stakes on the ground' agreed by our Group Board as intrinsic to shaping L&Q and its future. So, new plans yes, but plans that re-affirm our commitments to: • Stay focussed on quality homes and quality services • Deliver 50,000 new homes • Maintain a minimum output of truly affordable homes • Keep our geographical focus in London and the South East • Retain our present charitable status, vision and values.
Utilising our capacity to grow and maximising development opportunities leads to unmanageable growth 1	Our capacity model for growth is linked to cash flows and our risk appetite, with development approvals scored against our agreed capacity limit. If risks materialise we can adjust our capacity limit accordingly as well as considering other risk mitigation techniques, such as switching tenure, reducing discretionary spend and mothballing developments.
Dilution of the organisational culture from a change in leadership at Group Board and lack of succession planning 4	The organisational values and culture serve to reinforce L&Q as a market leader. A robust appraisal and review process is in place which ensures that Group Board members have the appropriate skill sets required. These are proactively reviewed and monitored by our Governance and Remuneration Committee (GARC). A recruitment policy has also been approved by GARC and they also consider succession planning as part of their role, for both Group Board and the Executive Group. We have a good track record in managing change. The opportunity afforded through the merger with Hyde and East Thames highlights the importance of ensuring a strong and healthy organisation culture. This is transformational change on a scale that our sector has never seen and ensuring our culture is values led is critical. We are currently working to develop a joined up approach to align our people behind a clear vision and values and importantly translate these into behaviours for the new organisation and ensure that these are role modelled from the top of the organisation. Evidence points to this being a key success factor in M&A and will ensure that we deliver the change at an accelerated rate to reduce the loss of key talent and keep productivity and customer service at the highest possible levels.

Strategic report

Year ended 31 March 2016

Risk	Comments and risk mitigation
Impact of Welfare Reform on income collection 1	We have allocated additional funding to deal with the impact of welfare reform from the L&Q Foundation, which has already worked to mitigate some of the impact for our residents. Meanwhile, our modelling work and stakeholder engagement with the DWP and local authorities has helped us to improve our knowledge of those affected and enables targeting of our interventions. We have also been conducting a live trial of direct payment of benefits to understand payment behaviours of our residents in advance of the roll out of Universal Credit. Whilst rent arrears amongst affected households have increased, the overall rate of rent arrears has not been significantly affected. Following announcements in July 2015 and the subsequent passing into law of the Welfare Reform and Work Act the current focus is on residents affected by the lowered benefit cap and the impact of the decision to cap Housing Benefit at the level of local housing allowance from April 2018 (for tenancies created from 1 April 2016). This largely affects under 35s and those in sheltered and supported housing. Intervention projects and proposed changes to our business processes are currently being developed to address these issues. Our work continues to evaluate our direct payment trial and support the roll out of Universal Credit.
Land availability/land cost inflation in London and the South East 1	Our development strategy gives us the flexibility to adapt in a fluid marketplace. Returns from private sale and rent portfolios reduce the impact of increased land costs on our affordable housing pipeline. L&Q has adopted a shared risk approach, where appropriate, through joint ventures to counter the impact of land cost inflation. Currently we continue to attract a good supply of land and opportunity but the market remains very hot and competitive. That said cooling in house prices may alleviate some of the land pressure although to date this has not yet manifested itself. Our own activity is also expanding to look at a broader portfolio of opportunity which now includes taking positions on strategic land. The rent reduction arising from the budget has had an immediate impact on the S.106 market and we are running a number of scenarios to understand where this may lead. That said the likelihood is that modestly continued sales value rises will offset any impact relatively quickly or lead to viability review and so the underlying impact may prove modest. In addition we will need to review the impact of the Starter Home Initiative once sufficient detail is available to assess any likely impact. The likelihood is that this will impact on the quantum of traditional affordable housing rather than land availability or pricing.

Risk	Comments and risk mitigation
Sales market/mortgage availability leads to inability to meet sales targets and provide investment in affordable housing 1	All our outlets remain busy and we have not yet seen any slowing of demand or any notable price pressure. In fact we continue to outperform RICS valuations on all our sites suggesting our markets remain strong. We do however recognise that responses to the vote to leave the EU are yet to crystallise and we are monitoring both activity and sentiment closely. The mortgage market review has seen mortgage applications taking longer to process but no material change in outcome in our limited experience. We continue to see a strong range and supply of mortgage products. Additionally we will pay close attention not just to the availability of mortgages but to the approach to lending and the stress tests and other rationing that banks may introduce to applicants. We are also monitoring the possibility of any controls that the Bank of England may put in place to moderate the housing market, particularly in London, and now specifically in respect of the vote to leave the EU. We continue to adopt a bespoke marketing and sales strategy for each new development and undertake scenario modelling based on revenue and cost fluctuation. We work with mortgage lenders to ensure potential customers have access to advice on how much they can borrow and the range of products available. We also undertake market research to ensure the products offered meet market requirements. We have additionally modelled a further house value drop without recovery, and looked at moving sale products into our rented portfolios recognising the impact of this strategy. We are alive to the Starter Home Initiative, although to date there is not enough detail on how this might work to assess its impact and so this remains a work in progress. We have also applied for and will be rolling out Help to Buy. We will keep our response to this period of uncertainty and volatility under weekly review until further notice.
Major or serious Health & Safety incident(s) causing injury or death event(s) 1 2 3 4	We have undertaken a detailed review of our Health & Safety governance arrangements and will be implementing changes during 2016 to strengthen our approach to the management of Health & Safety. We already have detailed health and safety policies and procedures in place to minimise such risks and these are reviewed and monitored by management and our Health & Safety Committee. We have a robust estate management regime in place and monthly KPIs to monitor the quality grading of our estates. We also undertake routine scheme checks picking up a number of health & safety issues, such as fire safety and legionella management. We also have clearly defined defect intervention standards which are embedded into our estate grading criteria. This is all supported by e-learning to raise awareness of our obligations and ensure that our defect intervention standards are applied consistently. In addition, we have a specialist in-house Health & Safety function providing advice and guidance to the business. This includes experienced health & safety professionals embedded within our in-house maintenance and construction divisions who provide advice and support and undertake regular reviews.

Strategic report

Year ended 31 March 2016

Risk	Comments and risk mitigation
Ability to attract and retain the best staff within L&Q 1 2 3 4	It is likely that we will encounter more difficulties in certain parts of our business as the housing market continues to improve. In response to these challenges our recruitment process ensures we employ staff who are well skilled and hold relevant qualifications. Our recruitment focuses on our values and behaviours and there are a number of schemes to attract new talent, which include a Management Training Programme, Technical Trainees and Apprentices which will help to secure new talent. To ensure we are competitive with regard to terms and conditions of employment, we actively conduct benchmarking and seek to achieve external accreditation, i.e. Great Place To Work 'Best Workplaces' and Investors in People. As part of our on-going development and embedding of our values we proactively focus on maintaining L&Q's psychological contract through our 'Workplace Pledge' and will aim to keep all our people motivated and engaged and to promote L&Q's culture. We are also undertaking more focussed pieces of work in relation to pay and benefits in areas of our business that are more at risk.
Major or series of fraud incidents 1 2 3 4	We have added all existing Fraud Risk Assessments (FRA) onto our risk software system. All departments who had an existing FRA have since reviewed their fraud risks and re-assessed the probability and impact in line with our standard scoring matrix. We have also completed a gap analysis and are now in the process of ensuring that all operational teams have considered their exposure to fraud and completed a FRA where necessary. A new compulsory e-learning refresher module to ensure continuous knowledge and awareness on Fraud Bribery and Corruption related risks was launched earlier in 2015.
Brexit leads to prolonged period of uncertainty and considerable financial market volatility 1 2 3 4	Our Treasury Strategy clearly sets out L&Q's intention to increase the 'Liquidity Buffer'. In order to do this we issued £300 million of new bonds in the window up to the EU referendum and have sought to complete our PRS financing objectives. Whilst continued market volatility will impact upon the funding of our future growth objectives, we have existing funding in place to cover operations for a period significantly greater than our conservative Treasury Policy requirement. We therefore have no immediate need for additional funding and can monitor developments, wait for markets to stabilise and exploit any opportunities that arise. We remain committed to tackling the housing crisis, providing quality homes and services and driving efficiency. We believe that investors looking for a "safe haven" will therefore find L&Q an attractive proposition given our strong balance sheet.

Risk	Comments and risk mitigation
Reduced access to capital finance 1	We have an effective Treasury strategy in place linked to our business planning process. Utilising our capacity to grow requires us to consider opportunities for new and possibly increased finance. Our Treasury Strategy and funding options are regularly reviewed. Whilst changes in government policy have given concerns to investors evidenced by an increase in spreads on the secondary markets we have maintained effective dialogue to provide strong assurance. In October 2015 we successfully issued a Bond achieving significant demand from investors, signalling strong investor confidence in L&Q.
Merger does not deliver expected outcomes in terms of governance, viability and service delivery 1 2 3 4	Our combined business plan sets out the efficiency targets we are aiming for and is supported by strong governance arrangements and a clear communications strategy that is regularly reviewed. We have also placed five stakes in the ground which will guide us and these are: • Our commitment to creating a great place to work • Our commitment to the quality of our homes and service • Our ambition to build as many homes as we can with as many as possible being affordable to people on lower incomes • Our commitment to remaining amongst the most efficient in the sector • Our social purpose.
Serious loss of IT infrastructure 1 2 3 4	We have invested heavily in IT and recognise the significant impact that downtime could have on our business. We have implemented a number of robust back-up arrangements and are continuously reviewing and improving this. We have recently implemented a new resilient network and new security systems. Our plans include delivering far more online services to customers and we are alive to the cyber risks that this can entail. We have resilient IT security in place and constantly monitor threats to our IT environment.

Strategic report

Year ended 31 March 2016

The Board

The Group Board is committed to achieving the highest standards of corporate governance in its oversight of the delivery of the organisation's strategies, risk management, values and ethics.

During the year L&Q continued to follow best practice with regard to corporate governance and, where appropriate, used all reasonable endeavours to comply with the National Housing Federation's Excellence in Governance – Code for Members 2015. During the year the current and former Group Chair also served as Chair of the Governance and Remuneration Committee, which is a divergence from full compliance as set out in paragraph E5 of the code. Plans to comply with this provision will be completed in the year ending 31 March 2017.

A board of nine non-executive members plus the Chief Executive currently governs the Trust, with day-to-day management delegated to the Executive Group. The Group Board members and Executive Group of the Trust are listed on page six. Each non-executive member of the Group Board holds one fully paid share of £1 in the Trust, which is cancelled on cessation as a member.

Executive Group members hold no interest in the Trust's share capital, and, with the exception of the Chief Executive, are not members of the Group Board.

Delegation

The focus of the Group Board is on L&Q's strategy, though it also has responsibility for overseeing performance. The Board delegates certain governance responsibilities to Group committees, which have their own approved terms of reference. Day-to-day performance management is delegated to the Executive Group.

The major committees supporting the Group Board and governance arrangements during the year under review were:

- **Audit and Risk Committee** – responsible for overseeing internal audit, external audit, the effectiveness of internal controls, monitoring and challenging management on its identification and mitigation of risk, and reviewing the financial statements and financial performance
- **Development Committee** – responsible for reviewing major development and investment schemes
- **Resident Board** – responsible for overseeing the provision of housing management services and the work of a number of local neighbourhood committees
- **Governance and Remuneration Committee** – responsible for advising the Board on governance, remuneration, and Board or committee appointments.

The Resident Board and all committees report back to the Group Board at each Board meeting.

Group Board membership details at year end, remuneration and meeting attendance

Name and remuneration details	Group Board	Audit and Risk Committee	Governance and Remuneration Committee	Development Committee	Resident Board	Group Board Meeting Attendance
Aubrey Adams £31,670	Chair		Chair	■		7 out of 7
Anne Elizabeth Bassis £12,670	■		■			7 out of 7
Frank Chersky £17,950	■	■			Chair	7 out of 7
Robert Cooper £17,950	■	Chair	■			6 out of 7
Tracey Fletcher-Ray £7,295	■	■				4 out of 5
Samantha Hyde £12,670	■			■		7 out of 7
David Montague £nil	■					7 out of 7
Michael More £10,335	■	■				5 out of 5
Trevor Moross £12,670	■			■		6 out of 7
Simon Rubinsohn £17,580	■			Chair		6 out of 7

Notes:
The total number of Group Board meetings held in the year was seven
The Chief Executive receives no remuneration in respect of being a member of the Group Board
Remuneration is pro-rated from date of appointment to Board or committee chair
Joanna Killian resigned from the Group Board on 18 May 2015 having attended 1 meeting in the year and received a remuneration of £2,351 in the year
Turlogh O'Brien stepped down as Group Chairman on 3 September 2015 having attended 2 meetings and received a remuneration of £13,556 in the year
Aubrey Adams was appointed as Group Chairman on 3 September 2015
Michael More was appointed to Group Board on 3 September 2015
Anne Elizabeth Bassis was appointed to Group Board on 3 September 2015
Tracey Fletcher-Ray was appointed to Group Board on 3 September 2015

Strategic report

Year ended 31 March 2016

Statement of responsibilities of the Board

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

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards.

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

In preparing those 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
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Board is responsible for keeping proper 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. The Board 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.

Financial statements are published on L&Q's website, **www.lqgroup.org.uk**, in accordance with UK legislation governing the preparation and dissemination of financial statements. This may vary from legislation in other jurisdictions. The Group Board's responsibilities extend to the maintenance and integrity of the corporate and financial information on the website.

The Board is committed to ensuring that we comply with our legal and regulatory responsibilities, including the Modern Slavery Act 2015 to ensure that slavery and human trafficking does not exist in any part of L&Q's business or supply chain. L&Q's statement on modern slavery 2016 will also be made available on the above website.

Internal control and risk management

The Board has overall responsibility for the system of internal control and risk management across the Group and for reviewing its effectiveness. The Board also takes steps to ensure L&Q adhere to the regulator's Governance and Financial Viability standard and its associated code of practice that includes adhering to all relevant law.

Review of internal controls

The internal control framework is designed to manage and reduce, rather than eliminate, the risk of failing to achieving business objectives. It can only provide the Board with reasonable, and not absolute, assurance against material mis-statement or loss.

The key features of the Group's system of internal control include:

- An established management structure operating across L&Q, with clearly defined levels of responsibility and delegated authorities
- A Group-wide risk management system (including health and safety) – the Board has established a process for identifying, evaluating, and managing the significant risks faced by L&Q
- Adopting and complying with the principal recommendations of the National Housing Federation's 2015 Code of Governance and accepting this as the Group's code of good practice
- Audit and Risk Committee assurance – the Audit and Risk Committee meets regularly with members of the Executive Group and the internal and external auditors to review specific reporting and internal control matters, and to satisfy themselves that the internal control systems are operating effectively. The Audit and Risk Committee also reviews any follow up action to correct identified weaknesses. All Board members receive the minutes of all Audit and Risk Committee meetings
- Internal audit assurance – the Group's internal audit function is managed through a corporate assurance unit, which has a direct reporting line to the Audit and Risk Committee. The internal audit programme is designed to review key areas of risk and adherence to relevant law. The head of internal audit meets regularly with the L&Q Chairman and the Chairman of the Audit and Risk Committee
- External audit assurance – the work of the external auditors provides some further independent assurance of the internal control environment, as described in their audit report. The Group also receives a letter from the external auditors identifying any internal control weaknesses. In accordance with best practice guidance, the Audit and Risk Committee and the Board consider this letter
- Procedures to ensure the employment, retention, training and development of suitably qualified staff to manage activities
- The preparation and monitoring of budgets and long-term business plans – the Board, Audit and Risk Committee and the Executive Group review Group and subsidiary performance throughout the year. The reports ensure variances are investigated and acted upon
- A process for approving all investment decisions – all major investment decisions are subject to appraisal and approval by the Development Committee, the Executive Group, and, where appropriate, the Board
- Treasury activity and strategy are subject to regular Board review and approval.

The Board confirms it has an approved fraud policy that has been distributed to all staff. The policy covers the prevention, detection and reporting of fraud. Details of identified frauds are maintained in the fraud register, which is reviewed annually by the Audit and Risk Committee on behalf of the Board. The Group has also appointed a Money Laundering Reporting Officer as part of its compliance with anti-money laundering legislation.

Review of risk management

The principal risks and uncertainties and how they are mitigated are summarised earlier in this report.

L&Q has embedded a culture of risk management and this ongoing process to identify, evaluate, and manage risks faced by the Group has been in place throughout the year and up to the date of the approval of the financial statements. The principal risks are scored in terms of probability and impact (including to our reputation). The process also provides a hierarchical assurance to successive levels of management, and material risks can be escalated up to Board level reports.

The risk management system requires staff to keep detailed risk registers for all key business areas and for regular reporting to the Audit and Risk Committee (on behalf of the Board). In addition, the Executive Group compile and manage a strategic risk register. The Chief Risk Officer, reports these risks to the Audit and Risk Committee. The Board receive updates on risk management and strategic risks during the year, together with an annual risk report.

The Board has delegated authority to the Audit and Risk Committee to regularly review the effectiveness of internal control, including risk management, and has received regular reports from this committee throughout the year under review. The Audit and Risk Committee has received the Chief Executive's annual report on the effectiveness of internal control systems, together with the annual report from the head of internal audit, and reported its findings to the Board.

Strategic report

Year ended 31 March 2016

The Board has reviewed the effectiveness of the system of internal control, including risk management, for the year to 31 March 2016, and up to the date of signing these financial statements. It has not identified any weaknesses sufficient to cause material mis-statement or loss, which require disclosure in the financial statements.

Employee involvement
Our aim is to recruit, retain and develop employees who share their passion, experience, skills and knowledge with their colleagues and customers. There is an embedded culture of shared leadership and collaborative learning across L&Q. We pride ourselves on nurturing internal talent through our talent management schemes. We promote learning not only through learning and development, but through the wealth of opportunities we create within our organisation for our people to develop. This ensures that L&Q employees remain engaged, motivated and are committed to providing excellent service for our customers.

The strength of the Our People brand and our work on organisational culture has brought a number of benefits to L&Q. Firstly, these come in terms of our ability to attract, retain and develop talent within the organisation. They also help to raise the profile of the social housing sector as an employment proposition for talented people and to grow our business.

L&Q has won numerous accolades, including Investors in People Gold status. In 2015, L&Q became a Master of the Great Workplaces and was ranked as one of Stonewall's top 100 employers for lesbian, gay, bisexual and transgender staff.

Our recent work on recruitment was recognised in November 2015 when L&Q won the Youth Employment Initiative Award at the Personnel Today Awards. We have a long-term commitment to creating a great, high-trust workplace as one of the UK's Best Workplaces.

The Group has a number of initiatives to develop and support our employees. For example:

- We have introduced a more effective induction programme to assimilate staff quickly into L&Q culture and values and ensure we put customers at the heart of what we do
- We have developed our in-house e-learning training programme to deliver blended learning and development to support our people in developing their skills
- We have improved how we monitor courses taken in order to increase the completion of compulsory training modules
- We have revamped our Managing the L&Q Way suite of mandatory training courses for our people managers and aspiring managers. This is to help ensure that our people can transfer their learning from the classroom to the workplace, and this is supported through a blended learning approach
- We have revamped our employee engagement strategy and worked with our people to recruit a super champion and new engagement champions. This has ensured we sustain top-quartile levels of employee engagement. Our work on employee engagement resulted in our being shortlisted for a Personnel Today Award in 2015
- We are continuing to roll out our integrated talent management strategy. This comprises the development of a program of activity that maps onto L&Q's definition of potential which will feed into our succession planning process
- We continue to embed our service leadership pillars to reinforce our top-level vision and mission and to ensure we equip people to take responsibility for ensuring excellent customer service.

Equal opportunities
L&Q is committed to an active equal opportunities policy from recruitment and selection, through training and development, appraisal and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation. All decisions relating to employment practices will be objective, free from bias and based solely on work criteria and individual merit. We are responsive to the needs of our employees, residents and the community at large.

The Group will fairly consider any employment applications made by disabled people. We will also attempt to continue employing staff who become disabled during their employment.

L&Q were awarded the 2016 Diverse Company Award for housing at the Excellence in Diversity Awards, a recognition that fairness and equality is at the heart of our business.

Going concern
After making enquiries, Group Board has a reasonable expectation that L&Q has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Group's financial statements.

Group Board approves annually the L&Q Group financial plan and its output which are submitted annually to the Regulator in the form of a Financial Forecast Return (FFR) annual regulatory return. Group Board is satisfied that covenant compliance is maintained throughout the life of the plan on the basis that the financial plan has been stress tested to withstand significant composite risks materialising without breaching lender covenants confirming the future viability of the Group.

Statement of compliance
The strategic report has been prepared in accordance with applicable reporting standards and legislation. Group Board can also confirm that the Group has complied with the HCA's Governance and Financial Viability Standard.

Auditor
All of the current Board members have taken the steps that they ought to have taken to ensure they are aware of any information needed by the Group's auditor for the purposes of their audit, and to establish that the auditor is aware of that information. The Board members are not aware of any relevant audit information of which the auditor is not aware.

By order of the Board

Aubrey Adams
Group Chairman

Date: 30 June 2016

Resident Eddie Tebbutt discovered a whole new world of possibilities thanks to some free IT training from L&Q's Digital Champion scheme.

04 Independent auditor's report to the members

Independent auditor's report to the members

Year ended 31 March 2016

We have audited the financial statements of London & Quadrant Housing Trust for the year ended 31 March 2016 set out on pages 57 to 138. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of the Board and auditor

As more fully explained in the statement of responsibilities of the Board set out on page 49, the association's Board is responsible for the preparation of the financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and the association as at 31 March 2016 and of income and expenditure for the year then ended;
- Comply with the requirements of the Co-operative and Community Benefit Societies Act 2014, and
- Have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015

Matters on which we are required to report by exception

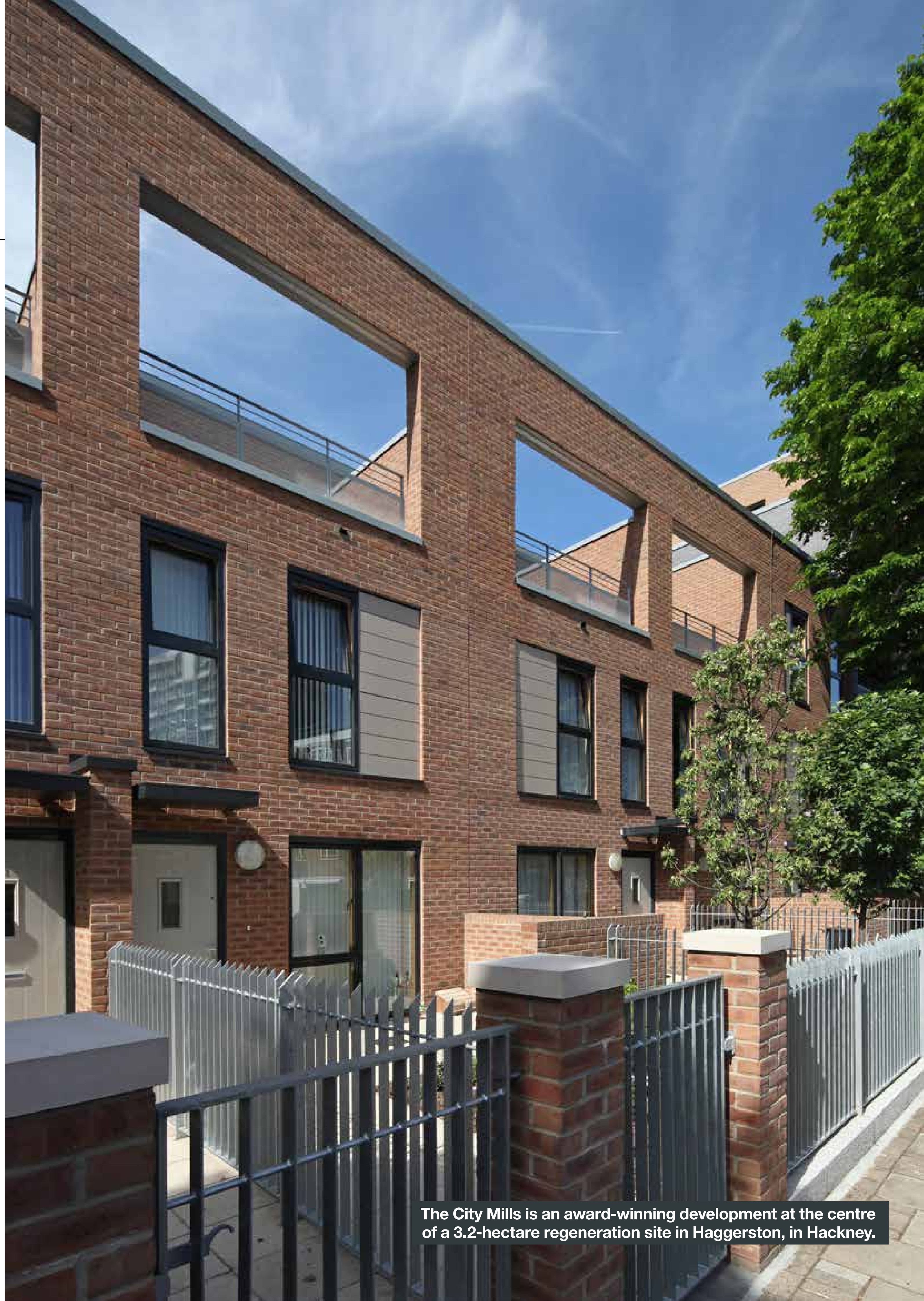
We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

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

Chris Wilson
For and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

Date: 1 July 2016

KPMG LLP is a limited liability partnership registered in England and Wales (with registered number OC301540)



The City Mills is an award-winning development at the centre of a 3.2-hectare regeneration site in Haggerston, in Hackney.

Abbey Road in Barking is due to complete soon and consists of one-, two- and three-bedroom contemporary apartments set in landscaped gardens.

05 Statement of comprehensive income

Statement of comprehensive income

Year ended 31 March 2016

	Note	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Turnover	3				
- Group		**628**	518	**506**	462
- Joint venture	14	**92**	147	**-**	-
		720	665	**506**	462
Cost of sales	3				
- Group		**(118)**	(56)	**(35)**	(22)
- Joint venture	14	**(69)**	(113)	**-**	-
		(187)	(169)	**(35)**	(22)
Operating costs	3	**(253)**	(243)	**(250)**	(241)
Surplus on disposal of fixed assets and other investments	6	**41**	24	**52**	24
Operating surplus	5	**321**	277	**273**	223
Interest receivable and similar income	7	**2**	1	**32**	21
Interest payable and similar charges	8	**(60)**	(67)	**(87)**	(83)
Gift aid receivable		**-**	-	**40**	45
Other finance costs		**(7)**	-	**(7)**	-
Change in value of investment property		**23**	4	**-**	(4)
Surplus on ordinary activities before tax		**279**	215	**251**	202
Tax on surplus on ordinary activities	11	**(5)**	-	**(1)**	-
Surplus for the year		**274**	215	**250**	202
Other comprehensive income					
Loss recognised on cash flow hedges		**(12)**	(76)	**(12)**	(76)
Actuarial loss on pension schemes	9	**(2)**	(8)	**(2)**	(8)
Total recognised surplus and gains relating to the year		**260**	131	**236**	118

- All amounts relate to continuing activities.
- The accompanying notes form part of these financial statements.

L&Q is keen to encourage more women into caretaking. Jane Clitheroe, Denise Couch and Maria Matei are part of the 125-strong team.

We have refurbished the Grade II listed art deco ‘Tote’ building at the former stadium in Walthamstow and are constructing 294 homes on the site.

06 Statement of financial position

Statement of financial position

As at 31 March 2016

	Note	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Fixed assets					
Housing properties	12	**7,024**	6,875	**6,955**	6,824
Other tangible fixed assets	13	**35**	31	**35**	31
		7,059	6,906	**6,990**	6,855
Investment in joint ventures					
- Share of gross assets	14	**526**	371	**-**	-
- Share of gross liabilities	14	**(238)**	(189)	**-**	-
Other investments	14				
HomeBuy equity loans		**123**	136	**123**	136
Market rented properties	14	**267**	171	**58**	163
On lending debtors due after more than 1 year		**-**	-	**875**	-
Real lettings property fund		**10**	10	**10**	10
		688	499	**1,066**	309
Current assets					
Properties for sale and work in progress	15	**388**	280	**51**	50
Debtors	16	**83**	40	**66**	496
Cash and cash equivalents	17	**110**	146	**108**	146
		581	466	**225**	692
Creditors:					
Amounts falling due within one year	18	**(294)**	(152)	**(287)**	(158)
Net current assets		**287**	314	**(62)**	534
Total assets less current liabilities		**8,034**	7,719	**7,994**	7,698

	Note	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Creditors:					
Amounts falling due after more than one year	19	**2,205**	2,135	**2,187**	2,105
Deferred grant income	20	**1,906**	1,909	**1,906**	1,909
Accumulated amortisation of deferred grant	20	**(245)**	(224)	**(245)**	(224)
Grant on homebuy equity loans		**105**	115	**105**	115
Derivative financial liabilities		**163**	151	**163**	151
Provisions for liabilities	24	**17**	13	**12**	13
Net pension liability	9	**27**	26	**27**	26
Capital and reserves					
Share capital	26	**-**	-	**-**	-
Revenue reserve	26	**2,126**	1,851	**2,109**	1,860
Cash flow hedge reserve	26	**(159)**	(147)	**(159)**	(147)
Revaluation reserve	26	**1,889**	1,890	**1,889**	1,890
		8,034	7,719	**7,994**	7,698

In view of the constitution of the Trust all shareholdings relate to non-equity interests, as disclosed in note 26. The accompanying notes form part of these financial statements. These financial statements were approved and authorised for issue by the Group Board and signed on its behalf by:

Aubrey Adams
Group Chairman

Robert Cooper
Chair of Audit and Risk Committee

Waqar Ahmed
Group Finance Director

Date of approval: 30 June 2016


The Schoolyard development. Over almost three years, we built 139 apartments on this site in central Wandsworth.

07 Statement of changes in equity

Statement of changes in equity

Year ended 31 March 2016

Group	Called up share capital £ m	Revaluation reserve £ m	Cash flow hedge reserve £ m	Revenue reserve £ m	Total equity £ m
Balance at 1 April 2014	-	1,892	(71)	1,643	3,464
Surplus for the year	-	-	-	215	215
Effective portion of changes in fair value of cash flow hedges	-	-	(76)	-	(76)
Reserves transfer	-	(2)	-	1	(1)
Actuarial losses	-	-	-	(8)	(8)
Balance at 31 March 2015	**-**	**1,890**	**(147)**	**1,851**	**3,594**
Surplus for the year	-	-	-	274	274
Effective portion of changes in fair value of cash flow hedges	-	-	(12)	-	(12)
Reserves transfer	-	(1)	-	1	-
Acquisition of jointly controlled entities	-	-	-	2	2
Actuarial losses	-	-	-	(2)	(2)
At the end of the year	**-**	**1,889**	**(159)**	**2,126**	**3,856**

Trust	Called up share capital £ m	Revaluation reserve £ m	Cash flow hedge reserve £ m	Revenue reserve £ m	Total equity £ m
Balance at 1 April 2014	-	1,892	(71)	1,664	3,485
Surplus for the year	-	-	-	202	202
Effective portion of changes in fair value of cash flow hedges	-	-	(76)	-	(76)
Reserves transfer	-	(2)	-	2	-
Actuarial losses	-	-	-	(8)	(8)
Balance at 31 March 2015	**-**	**1,890**	**(147)**	**1,860**	**3,603**
Surplus for the year	-	-	-	250	250
Effective portion of changes in fair value of cash flow hedges	-	-	(12)	-	(12)
Reserves transfer	-	(1)	-	1	-
Actuarial losses	-	-	-	(2)	(2)
At the end of the year	**-**	**1,889**	**(159)**	**2,109**	**3,839**

- The accompanying notes form part of these financial statements.

08 Consolidated statement of cash flows

Consolidated statement of cash flows

Year ended 31 March 2016

	Note	2016 £ m	2015 £ m
Cash flows from operating activities			
Surplus for the year		**274**	215
Adjustments for non cash items:			
Depreciation, amortisation and impairment		**60**	62
Deferred government grant		**(24)**	(18)
		36	44
Adjustments for investing or financing activities:			
Change in value of investment property		**(23)**	(4)
Interest receivable and similar income		**(2)**	(1)
Interest payable and similar charges (including capitalised interest)		**60**	67
Other finance costs		**7**	-
Gain on sale of fixed assets		**(35)**	(24)
Gain on sale of investment		**(6)**	-
Taxation		**5**	-
		6	38
Adjustments for working capital movement:			
(Increase)/decrease in trade and other debtors		**(43)**	30
(Increase)/decrease in stocks		**(108)**	(69)
(Decrease)/increase in trade and other creditors		**30**	(40)
(Decrease)/increase in provisions and employee benefits		**(1)**	(2)
		(122)	(81)
Tax paid		**-**	-
Net cash flow from operating activities		**194**	216

	Note	2016 £ m	2015 £ m
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets		**115**	80
Proceeds from sale of investments		**19**	3
Purchase of other fixed assets		**(8)**	-
Interest received		**2**	1
Interest paid		**(80)**	(100)
Other finance costs		**(6)**	-
Investments in jointly controlled entities		**(104)**	(68)
Acquisition of investment property		**(93)**	(70)
Proceeds from the receipt of government grant		**6**	71
Capitalised development expenditure		**(196)**	(202)
Capital expenditure on existing properties		**(46)**	(71)
Net cash from investing activities		**(391)**	(356)
Cash flows from financing activities			
Loans received		**465**	258
Loans repaid		**(304)**	(35)
Net cash from financing activities		**161**	223
Net increase/(decrease) in cash and cash equivalents		**(36)**	83
Cash and cash equivalents at 1 April		**146**	63
Cash and cash equivalents at 31 March	17	**110**	146

- The accompanying notes form part of these financial statements.

Acton Gardens in Ealing. This large regeneration project has won accolades for improving the look and feel of this part of west London.

09 Notes to the financial statements

Notes to the financial statements

Year ended 31 March 2016

1. Legal status

The parent company, London and Quadrant Housing Trust, is registered under the Cooperative and Community Benefit Societies Act 2014 and is a registered housing association.

2. Principal accounting policies

Basis of preparation
The financial statements of the Group and association are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS102) and the Housing SORP 2014: Statement of Recommended Practice for Registered Social Housing Providers and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

This is the second year in which the financial statements have been prepared under FRS102, the Group having early adopted the standard for the year ended 31 March 2015 in order to comply with the UK Listing Authority rules relating to the issue of a listed bond in October 2015.

The financial statements are presented in Million Sterling (£ m) to the nearest million except where specifically stated otherwise.

Adoption of FRS102 (transition date 1 April 2013)
On transition to FRS102, the Group chose to apply measurement adjustments as set out in FRS102 section 35.10 (c) by using fair value as deemed cost on a selection of its housing properties to reflect a cost basis that is in line with their existing use value for social housing. Any uplift from historic cost to fair value deemed cost has been fully attributed to land considering the age, location and composition of the stock re-valued. Leasehold interest properties with no freehold land component have not been re-valued. The valuation used to determine fair value as deemed cost is the existing use values for social housing (EUV-SH) properties calculated on a discounted cash flow basis as at 1 April 2013, obtained independently from a qualified RICS Chartered Surveyor.

The Group has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU), the disclosure requirements of Sections 11 and 12 and the presentation requirements, as appropriate, of 11.38A or 12.25B as permitted by paragraphs 11.2(b) and 12.2(b) of FRS102 in relation to recognising, derecognising, measuring and disclosing financial instruments.

Where the Group has entered into a hedging relationship as described in IAS 39 in the period between the date of transition and the reporting date for the first financial statements that comply with FRS102, it has elected to apply hedge accounting prospectively from the date all qualifying conditions for hedge accounting in IAS 39 are met.

A full explanation based on the Group restated financial statements for the year ended 31 March 2015 of how the transition to FRS102 has affected financial position and financial performance of the Group has been reproduced in note 32.

The principal accounting policies adopted in the preparation of these financial statements are set out in the relevant notes to these financial statements. Accounting policies not specifically attributed to a note are set out below.

Going concern
The Group's business activities, its current financial position and factors likely to affect its future development are set out within the Strategic Report. The Group has in place long-term borrowing 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 debt facilities whilst continuing to comply with lenders' covenants.

On this basis, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve 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.

Significant judgements and estimates
Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made are set out below.

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

The individual accounts of the Association have adopted the following disclosure exemptions:

- the requirement to present a statement of cash flows and related notes
- financial instrument disclosures, including:
  (a) categories of financial instruments
  (b) items of income, expenses, gains or losses relating to financial instruments, and Impairment
  (c) exposure to and management of financial risks.

From 1 April 2016, the Group has reduced social housing rents by one per cent per annum and will continue to do so in each year until 2019/20 in accordance with the Housing and Planning Act 2016. Despite cost efficiency savings and other changes to the business, compliance with the new rent regime has resulted in a loss of net income for certain social housing property. This is a trigger for impairment.
As a result, we estimated the recoverable amount of its housing properties as follows:

(a) determined the level at which recoverable amount is to be assessed (i.e. the asset level or cash generating unit (CGU) level). The CGU level was determined to be an individual scheme
(b) estimated the recoverable amount of the cash-generating unit
(c) calculated the carrying amount of the cash-generating unit and
(d) compared the carrying amount to the recoverable amount to determine if an impairment loss has occurred.

Based on this assessment, we calculated the Depreciated Replacement Cost (DRC) of each social housing property scheme, using appropriate construction costs and land prices. Comparing this to the carrying amount of each scheme, it was concluded that no impairment charge was required against its social housing properties.

Notes to the financial statements

Year ended 31 March 2016

Capitalisation of property development costs
Distinguishing the point at which a project is more likely than not to continue, allowing capitalisation of associated development costs requires judgement. After capitalisation management monitors the asset and considers whether subsequent changes may indicate that impairment is required.

Estimation uncertainty
Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Useful lives of depreciable assets
Management reviews its estimate of the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment and changes to circumstances which may require more frequent replacement of key components.

The key judgements and estimates applied in respect of housing properties are disclosed in note 12 and include:

- the useful economic life of property structure at 100 years; and
- that properties have no residual values at the end of useful life.

These are conservative assumptions that have been aligned with general practice followed by registered housing providers.

Defined benefit obligation (DBO)
Other judgement areas particularly in respect of financial and actuarial assumptions are based on best estimates derived from the Group's policies and practices which have been applied consistently across all pension schemes operated by the Group where appropriate and confirmed with actuaries where these are beyond management expertise, e.g. Mortality tables have been chosen based on published research by the Continuous Mortality Investigation Bureau of the Institute of Actuaries and Faculty of Actuaries.

Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses (as analysed in Note 9).

Fair value measurement
Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument.

Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices.
Fair value measurements were applied to fixed rate and hedged debt which carry a significant mark-to-market exposure year on year. The negative mark-to-market exposure (i.e. payable on close out) position reflects the current and implied forward looking low interest rate environment. All hedges conducted by the Group qualify for hedge accounting meaning that they are shown in Derivative Financial Instruments within the Statement of Financial Position with a corresponding entry in the Cash Flow Hedge Reserve.

Basis of consolidation
The group accounts consolidate the accounts of the association and all its subsidiaries at 31 March using the purchase method.

Investment in subsidiaries
The consolidated accounts comprise the financial statements of London & Quadrant Housing Trust, the parent company and its subsidiary undertakings, being Quadrant Housing Finance Limited, Quadrant Construction Services Limited, L&Q PRS Co Limited and L&Q New Homes Limited. Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group balances and transactions (including recognised gains arising from inter-group transactions) are eliminated in full on consolidation.

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

Jointly controlled entities
The Group participates in a number of joint ventures that involves the establishment of a corporation, partnership or other entity. As such, these are jointly controlled entities and accounted for using the equity method of accounting under which the equity investment is initially recognised at the transaction price and is subsequently adjusted to reflect the Group's share of the profit or loss.

The fully owned subsidiaries of London & Quadrant Housing Trust are shown below.

Subsidiary	Status	Activity
L&Q New Homes Limited	Limited company registered in England and Wales	Property development and housing for open market sales
Quadrant Construction Services Limited	Limited company registered in England and Wales	Construction and development services provided to Group members
Quadrant Housing Finance Limited	Registered in England and Wales under Co-operative and Community Societies Act 2014	Bond finance provided to Group members
L&Q PRS Co Limited	Limited company registered in England and Wales	Management and ownership of properties available for lettings in the Private Rental Market

Notes to the financial statements

Year ended 31 March 2016

L&Q Group structure

London & Quadrant Housing Trust
Provider of affordable housing and community investment through the L&Q Foundation

Quadrant Construction Services Limited
Construction and development services provided to Group Members

L&Q New Homes Limited
Housing for open market sale

L&Q PRS Co Limited
Private rented housing

Quadrant Housing Finance Limited
Bond finance provided to Group Members

Investment Partnerships
Barking Riverside Limited; Purfleet Centre Regeneration Limited; Erith Hills LLP; Academy Central LLP; Acton Gardens LLP; Countryside Zest (Beaulieu Park); Chobham Manor LLP; Ponton Road LLP; Countryside Zest (Five oaks)LLP; BDWZest LLP; ZestBDW LLP
BDWZest Developments LLP; Queensland Road LLP; Fulham Road LLP; Alie Street LLP; Nine Elms LLP

Value added tax
The Group charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT on expenditure to the extent that it is suffered by the Group and not recoverable from HM Revenue and Customs. Recoverable VAT arises from partially exempt activities and is credited to the income and expenditure account.

Turnover
Turnover represents rental and service charge income receivable (net of void losses), fees receivable, proceeds from first tranche sales of low-cost home ownership properties and from properties developed for open market sales at the point of sale completion and includes, in accordance with FRS102, the amortisation of Social Housing Grant (SHG). By applying the accrual model, deferred grant income is released as an income over the life of the asset structure. Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of any voids. Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale. Other income is recognised as receivable on the delivery of services provided.

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

Joint ventures
Turnover and costs of sales in relation to open market sales conducted through joint ventures, all of which are jointly controlled entities, are represented in Statement of Comprehensive Income by applying the Group's share of turnover and cost of sales in accordance to the gross equity method. For the purposes of transparency, the Group has chosen to apply the gross equity method as opposed to the equity method required under FRS102.

Disposals
Surplus on disposal of fixed assets and investments are recognised on sale completion.

Homes at Bolingbroke Park, in Enfield. Selling homes like these on the open market enables us to subsidise a range of other homes.

Notes to the financial statements

Year ended 31 March 2016

3a. Particulars of turnover, cost of sales, operating costs and operating surplus - Group

Group	2016 Turnover £ m	2016 Cost of sales £ m	2016 Operating costs £ m	2016 Surplus on disposal £ m	2016 Operating surplus £ m	2015 Turnover £ m	2015 Cost of sales £ m	2015 Operating costs £ m	2015 Surplus on disposal £ m	2015 Operating surplus £ m
Social housing lettings										
General needs	**317**	**-**	**(169)**	**-**	**148**	309	-	(174)	-	135
Supported housing	**26**	**-**	**(20)**	**-**	**6**	25	-	(20)	-	5
Intermediate market rent	**19**	**-**	**(9)**	**-**	**10**	18	-	(7)	-	11
Low-cost home ownership	**35**	**-**	**(9)**	**-**	**26**	33	-	(10)	-	23
Affordable rent	**26**	**-**	**(9)**	**-**	**17**	20	-	(11)	-	9
	423	**-**	**(216)**	**-**	**207**	405	-	(222)	-	183
Other social housing activities										
First tranche low-cost home ownership sales	**58**	**(29)**	**-**	**-**	**29**	33	(20)	-	-	13
Development and marketing	**-**	**-**	**(2)**	**-**	**(2)**	-	-	(3)	-	(3)
Community investment	**-**	**-**	**(7)**	**-**	**(7)**	-	-	(7)	-	(7)
Other	**1**	**-**	**(3)**	**-**	**(2)**	1	-	-	-	1
Surplus on disposal of fixed assets	**-**	**-**	**-**	**41**	**41**	-	-	-	24	24
	59	**(29)**	**(12)**	**41**	**59**	34	(20)	(10)	24	28

Group	2016 Turnover £ m	2016 Cost of sales £ m	2016 Operating costs £ m	2016 Surplus on disposal £ m	2016 Operating surplus £ m	2015 Turnover £ m	2015 Cost of sales £ m	2015 Operating costs £ m	2015 Surplus on disposal £ m	2015 Operating surplus £ m
Non-social housing lettings										
Student accommodation	**2**	**-**	**(2)**	**-**	**-**	2	-	(2)	-	-
Market rent	**12**	**-**	**(4)**	**-**	**8**	8	-	(3)	-	5
Non-social homeowners	**8**	**-**	**(8)**	**-**	**-**	6	-	(7)	-	(1)
Commercial	**1**	**-**	**(1)**	**-**	**-**	1	-	-	-	1
Garages, sheds, parking spaces	**1**	**-**	**-**	**-**	**1**	1	-	-	-	1
	24	**-**	**(15)**	**-**	**9**	18	-	(12)	-	6
Non-social housing activities										
Open market sales	**119**	**(89)**	**-**	**-**	**30**	57	(36)	-	-	21
Open market sales through Joint Ventures	**92**	**(69)**	**1**	**-**	**24**	147	(113)	-	-	34
Release on non-social housing assets	**-**	**-**	**-**	**-**	**-**	-	-	2	-	2
Resales	**1**	**-**	**(1)**	**-**	**-**	1	-	-	-	1
Other non-social housing activity	**2**	**-**	**(10)**	**-**	**(8)**	3	-	(1)	-	2
	214	**(158)**	**(10)**	**-**	**46**	208	(149)	1	-	60
	720	**(187)**	**(253)**	**41**	**321**	665	(169)	(243)	24	277
Change in property investment value					**23**					4
Interest receivable					**2**					1
Interest payable					**(60)**					(67)
Other finance costs					**(7)**					-
Tax on surplus on ordinary activities					**(5)**					-
Surplus for year					**274**					215

Note: Following the Accounting Direction for Private Registered Providers of Social Housing 2015, surplus on disposal of fixed assets now features as part of operating surplus. This was previously treated as a post operating surplus item.

Notes to the financial statements

Year ended 31 March 2016

3a. Particulars of turnover, cost of sales, operating costs and operating surplus - Trust

Trust	2016 Turnover £ m	2016 Cost of sales £ m	2016 Operating costs £ m	2016 Surplus on disposal £ m	2016 Operating surplus £ m	2015 Turnover £ m	2015 Cost of sales £ m	2015 Operating costs £ m	2015 Surplus on disposal £ m	2015 Operating surplus £ m
Social housing lettings										
General needs	**317**	**-**	**(169)**	**-**	**148**	309	-	(174)	-	135
Supported housing	**26**	**-**	**(20)**	**-**	**6**	25	-	(20)	-	5
Intermediate market rent	**19**	**-**	**(9)**	**-**	**10**	18	-	(7)	-	11
Low-cost home ownership	**35**	**-**	**(9)**	**-**	**26**	33	-	(10)	-	23
Affordable rent	**26**	**-**	**(9)**	**-**	**17**	20	-	(11)	-	9
	423	**-**	**(216)**	**-**	**207**	405	-	(222)	-	183
Other social housing activities										
First tranche low-cost home ownership sales	**58**	**(29)**	**-**	**-**	**29**	33	(20)	-	-	13
Development and marketing	**-**	**-**	**(2)**	**-**	**(2)**	-	-	(3)	-	(3)
Community investment	**-**	**-**	**(7)**	**-**	**(7)**	-	-	(7)	-	(7)
Other	**-**	**-**	**(3)**	**-**	**(3)**	-	-	-	-	-
Surplus on disposal of fixed assets	**-**	**-**	**-**	**52**	**52**	-	-	-	24	24
	58	**(29)**	**(12)**	**52**	**69**	33	(20)	(10)	24	27

Trust	2016 Turnover £ m	2016 Cost of sales £ m	2016 Operating costs £ m	2016 Surplus on disposal £ m	2016 Operating surplus £ m	2015 Turnover £ m	2015 Cost of sales £ m	2015 Operating costs £ m	2015 Surplus on disposal £ m	2015 Operating surplus £ m
Non-social housing lettings										
Student accommodation	**2**	**-**	**(2)**	**-**	**-**	2	-	(2)	-	-
Market rent	**3**	**-**	**(1)**	**-**	**2**	8	-	(3)	-	5
Non-social homeowners	**8**	**-**	**(8)**	**-**	**-**	6	-	(7)	-	(1)
Commercial	**1**	**-**	**(1)**	**-**	**-**	1	-	-	-	1
Garages, sheds, parking spaces	**1**	**-**	**-**	**-**	**1**	1	-	-	-	1
	15	**-**	**(12)**	**-**	**3**	18	-	(12)	-	6
Non-social housing activities										
Open market sales	**8**	**(6)**	**-**	**-**	**2**	3	(2)	-	-	1
Release on non-social housing assets	**-**	**-**	**-**	**-**	**-**	-	-	4	-	4
Resales	**1**	**-**	**(1)**	**-**	**-**	1	-	-	-	1
Other non-social housing activity	**1**	**-**	**(9)**	**-**	**(8)**	3	-	(1)	-	2
	10	**(6)**	**(10)**	**-**	**(6)**	7	(2)	3	-	8
	506	**(35)**	**(250)**	**52**	**273**	463	(22)	(241)	24	224
Change in property investment value					**-**					(4)
Interest receivable					**32**					20
Interest payable					**(87)**					(83)
Other finance costs					**(7)**					-
Gift Aid					**40**					45
Tax on surplus on ordinary activities					**(1)**					-
Surplus for year					**250**					202

Note: Following the Accounting Direction for Private Registered Providers of Social Housing 2015, surplus on disposal of fixed assets now features as part of operating surplus. This was previously treated as a post operating surplus item.

Notes to the financial statements

Year ended 31 March 2016

3b. Particulars of income and expenditure from social housing lettings – Group

Group	General needs £ m	Supported housing £ m	Intermediate market rent £ m	Low cost home ownership £ m	Affordable rent £ m	2016 Total £ m	2015 Total £ m
Income from lettings							
Rent receivable net of identifiable service charges	286	21	16	21	23	**367**	351
Service charges receivable	16	4	2	6	2	**30**	29
Net rents receivable	302	25	18	27	25	**397**	380
Amortised government grant	13	1	1	8	1	**24**	24
Other income	2	-	-	-	-	**2**	1
Total income from lettings	317	26	19	35	26	**423**	405
Expenditure on letting activities							
Management	25	2	2	3	2	**34**	33
Services	22	4	2	6	1	**35**	33
Routine maintenance	55	5	2	-	3	**65**	68
Planned maintenance and major repairs	16	3	1	-	1	**21**	26
Bad debts	2	-	-	-	-	**2**	2
Depreciation of housing properties	49	5	2	-	2	**58**	61
Impairment of housing properties	-	-	-	-	-	**-**	(1)
Other costs	-	1	-	-	-	**1**	-
Total expenditure on lettings	169	20	9	9	9	**216**	222
Operating surplus on lettings	148	6	10	26	17	**207**	183
Void losses	1	-	2	-	-	**3**	3

3b. Particulars of income and expenditure from social housing lettings – Trust

Trust	General needs £ m	Supported housing £ m	Intermediate market rent £ m	Low cost home ownership £ m	Affordable rent £ m	2016 Total £ m	2015 Total £ m
Income from lettings							
Rent receivable net of identifiable service charges	286	21	16	21	23	**367**	351
Service charges receivable	16	4	2	6	2	**30**	29
Net rents receivable	302	25	18	27	25	**397**	380
Amortised government grant	13	1	1	8	1	**24**	24
Other income	2	-	-	-	-	**2**	1
Total income from lettings	317	26	19	35	26	**423**	405
Expenditure on letting activities							
Management	25	2	2	3	2	**34**	33
Services	22	4	2	6	1	**35**	33
Routine maintenance	55	5	2	-	3	**65**	68
Planned maintenance and major repairs	16	3	1	-	1	**21**	26
Bad debts	2	-	-	-	-	**2**	2
Depreciation of housing properties	49	5	2	-	2	**58**	61
Impairment of housing properties	-	-	-	-	-	**-**	(1)
Other costs	-	1	-	-	-	**1**	-
Total expenditure on lettings	169	20	9	9	9	**216**	222
Operating surplus on lettings	148	6	10	26	17	**207**	183
Void losses	1	-	2	-	-	**3**	3

Notes to the financial statements

Year ended 31 March 2016

4. Housing stock

	Group 2016 No.	Group 2015 No.	Trust 2016 No.	Trust 2015 No.
Social housing accommodation				
General needs housing	**45,073**	44,737	**45,073**	44,737
Affordable rent	**3,212**	2,940	**3,212**	2,940
Supported housing and housing for older people	**4,774**	4,787	**4,774**	4,787
Key worker accommodation	**892**	932	**892**	932
Low-cost home ownership	**5,568**	5,528	**5,568**	5,528
Shared equity*	**2,697**	2,881	**2,697**	2,881
Intermediate market rent	**1,388**	1,380	**1,388**	1,380
Total social housing managed	**63,604**	63,185	**63,604**	63,185
Non-social housing accommodation				
Leaseholders	**6,883**	6,294	**6,883**	6,294
Market rent	**860**	648	**860**	648
Student accommodation	**636**	666	**636**	666
Other landlords	**925**	550	**925**	550
Commercial	**162**	154	**162**	154
Total non-social housing managed	**9,466**	8,312	**9,466**	8,312
Total housing stock	**73,070**	71,497	**73,070**	71,497
Other non-social lettings				
Garages, parking spaces and other non-habitable units	**5,665**	5,303	**5,665**	5,303
Total units managed	**78,735**	76,800	**78,735**	76,800
Housing units in development pipeline	**39,758**	13,500	**39,758**	13,500

*Prior year comparatives have been restated due to reclassifications between categories in the year. Shared Equity units have been reclassified as social housing accommodation in the year on the basis these are funded by grant.

5. Surplus on ordinary activities before tax

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Surplus on ordinary activities before tax is stated after charging/(crediting)				
Depreciation on housing properties	**60**	62	**60**	62
Depreciation on other fixed assets	**3**	2	**3**	2
Surplus on sale of fixed assets				
- Housing properties	**(41)**	(24)	**(52)**	(24)
Impairment charge on fixed assets housing properties	**-**	3	**-**	-
Impairment release on fixed assets housing properties	**-**	(5)	**-**	(5)
Operating lease rentals				
- Land and buildings	**1**	1	**1**	1
Change in fair value of investment properties	**23**	4	**-**	-
Change in fair value of derivatives through income and expenditure	**-**	1	**-**	1

During the year, the following services were provided by the Group auditor:

	Group 2016 £ 000	Group 2015 £ 000	Trust 2016 £ 000	Trust 2015 £ 000
Auditor's remuneration (excluding VAT):				
- In their capacity as auditor	**149**	130	**112**	96
- In respect of other services	**236**	11	**236**	29

6. Surplus on disposal of fixed assets and other investments

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Disposal proceeds	**120**	114	**348**	114
Grant recovered	**(2)**	(1)	**(2)**	(1)
Grant abated	**-**	1	**-**	1
Amortised Social Housing Grant written back	**(2)**	(5)	**(2)**	-
Cost of disposals	**(72)**	(79)	**(103)**	(84)
Cost of disposal of Market Rent properties to subsidiary	**-**	-	**(186)**	-
Incidental sale expenses	**(3)**	(6)	**(3)**	(6)
	41	24	**52**	24

Of the above disposal surplus for the Group, £35 million (2015: £19 million) relates to staircasing disposals with the remainder £6 million (2015: £5 million) being a combination of day to day asset management and right to buy disposals.

Notes to the financial statements

Year ended 31 March 2016

7. Interest receivable and similar income

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Bank interest receivable	**2**	1	**31**	21
Other interest receivable	**-**	-	**1**	-
	2	1	**32**	21

8. Interest payable and similar charges

Interest payable
Interest expense on liabilities at amortised cost is calculated using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount of the financial liability.

Interest capitalised
Interest on borrowings is capitalised to housing properties during the course of construction up to the date of completion of each scheme. The interest capitalised is either on borrowings specifically taken to finance a scheme or on net borrowings to the extent that they are deemed to be financing a scheme. This treatment applies irrespective of the original purpose for which the loan was raised. For the period ending 31 March 2016, interest has been capitalised at an average rate of 4.9 % (2015: 5.0%) that reflects the weighted average effective interest rate on the Group's borrowings required to finance housing property developments.

Release of loan fair values
Where loans have been fair valued on acquisition of another entity, the difference on fair value at the time of acquisition is released to profit and loss in line with the repayment profile of the specific loans.

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Interest expense on liabilities at amortised cost	**100**	98	**100**	97
Release of loan fair values on repayment and refinancing	**(1)**	(1)	**-**	-
	99	97	**100**	97
Effective losses on derivatives treated as fair value hedging instruments	**-**	1	**-**	1
Less: interest capitalised in housing properties	**(39)**	(31)	**(13)**	(15)
	60	67	**87**	83

9. Employee information

	Group 2016 No.	Group 2015 No.	Trust 2016 No.	Trust 2015 No.
The average full-time equivalent employees were:				
Chief Executive department	**23**	24	**23**	24
Development and Sales	**198**	160	**198**	160
Finance, Treasury, Insurance and Finance Systems	**94**	86	**94**	86
Human Resources, Facilities and Learning and Development	**53**	47	**53**	47
Neighbourhoods	**369**	349	**369**	349
Strategy and Operations and Information Technology	**495**	583	**495**	583
Customer Services and Direct Maintenance	**348**	147	**348**	147
	1,580	1,396	**1,580**	1,396

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Staff costs (for the above persons)				
Wages and salaries	**63**	53	**63**	53
Social security costs	**7**	6	**7**	6
Other pension costs	**10**	8	**10**	8
	80	67	**80**	67

Notes to the financial statements

Year ended 31 March 2016

9. Employee information (continued)

The full time equivalent number of staff who received remuneration (including Directors), earning over £60,000 (including salaries, performance related pay, loss of office payments and benefits in kind, but excluding pension contributions paid by the employer). The 2015 figures have been restated to include full time equivalents and compensation for loss of office as required by the Accounting Direction for Private Registered Providers of Social Housing 2015 – Part 2.

Bands	Group 2016 No.	Group 2015 No. (restated)	Trust 2016 No.	Trust 2015 No. (restated)
£60,001 to £70,000	**55**	52	**55**	52
£70,001 to £80,000	**51**	28	**51**	28
£80,001 to £90,000	**25**	15	**25**	15
£90,001 to £100,000	**5**	8	**5**	8
£100,001 to £110,000	**9**	6	**9**	6
£110,001 to £120,000	**2**	3	**2**	3
£120,001 to £130,000	**3**	1	**3**	1
£130,001 to £140,000	**2**	-	**2**	-
£140,001 to £150,000	**1**	2	**1**	2
£150,001 to £160,000	**-**	1	**-**	1
£160,001 to £170,000	**1**	-	**1**	-
£170,001 to £180,000	**1**	1	**1**	1
£180,001 to £190,000	**2**	-	**2**	-
£190,001 to £200,000	**1**	2	**1**	2
£200,001 to £210,000	**-**	-	**-**	-
£210,001 to £220,000	**-**	-	**-**	-
£220,001 to £230,000	**-**	-	**-**	-
£230,001 to £240,000	**-**	-	**-**	-
£240,001 to £250,000	**2**	-	**2**	-
£250,001 to £260,000	**-**	-	**-**	-
£260,001 to £270,000	**-**	-	**-**	-
£270,001 to £280,000	**-**	1	**-**	1
£280,001 to £290,000	**-**	-	**-**	-
£290,001 to £300,000	**-**	-	**-**	-
£300,001 to £310,000	**-**	-	**-**	-
£310,001 to £320,000	**-**	-	**-**	-
£320,001 to £330,000	**-**	-	**-**	-
£330,001 to £340,000	**-**	-	**-**	-
£340,001 to £350,000	**-**	-	**-**	-
£350,001 to £360,000	**1**	-	**1**	-
	161	120	**161**	120

Pension contributions

Defined benefit schemes

The Group operates a pension scheme, the London & Quadrant Housing Trust scheme (the Trust scheme), providing benefits based on final pensionable pay. The Trust scheme has 76 active members (2015: 86). The assets of the scheme are held separately from those of the Group. This scheme has been closed to new entrants since 2001.

The pension cost is assessed in accordance with the advice of an independent professionally qualified actuary using the projected accrued benefit method and is not materially different from that arising from the current employer's contribution rate. There was no deficiency within the schemes on the Statutory Minimum Funding Requirement as at the date of the last review.

The pension contributions payable by the Group to the Trust scheme during the accounting period were equal to 20.9% of pensionable salary as recommended by the actuary. Surpluses and deficits are spread over employees' future service lives, and the pensions charge recorded by the Group during the accounting period was equal to the contributions payable

The Group also participates in three defined benefit pension schemes which are administered by:

- London Borough of Waltham Forest scheme with four active members (2015: 4);
- Buckinghamshire County Council scheme with one active member (2015: 1); and
- London Borough of Bexley scheme with two active members (2015: 2).

The pension contributions paid during the year for these schemes were:

- London Borough of Waltham Forest scheme 14.5% (2015: 12.9%);
- Buckinghamshire County Council scheme 21.6% (2015: 22.4%); and
- London Borough of Bexley Scheme 24.6% (2015: 19.8%).

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Pension scheme surpluses (to the extent that they are recoverable) or deficits are recognised in full. The results of the schemes as set out below have been prepared by the Trust scheme actuary using the best estimate chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice

The movement in the scheme surpluses/deficits other than cash contributed by the Group are split between operating charges, finance items and actuarial gains or losses in the statement of other comprehensive income.

The carrying value of any resulting pension scheme asset is restricted to the extent that the Group is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

The Social Housing Pension Scheme

The Group participates in the Social Housing Pension Scheme (SHPS) which provides benefits based on final pensionable pay. The scheme is funded and is contracted out of the state pension scheme and the assets of the scheme are held separately from those of the Group.

Notes to the financial statements

Year ended 31 March 2016

9. Employee information (continued)

The Group is unable to obtain sufficient information to identify, on a consistent and reasonable basis, the share of underlying assets and liabilities belonging to individual participating employers and thus does not apply defined benefit accounting for this multi-employer plan but accounts for the scheme as if it were a defined contribution scheme. This is because the scheme is a multi-employer scheme where the scheme assets are co-mingled for investment purposes and benefits are paid from total scheme assets. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. To the extent that payments plans relate to funding a deficit, the contributions are recognised as a liability payable arising from the agreement with the multi-employer plan and results in a charge to the profit and loss account. Where these payments are not expected to be settled within 12 months the liability is measured at the present value of the contributions payable.

The last formal valuation of the scheme was performed as at 30 September 2014 by a professionally qualified actuary using the projected unit method. The market value of the scheme's assets at the valuation date was £3,123 million. The valuation revealed a shortfall of assets compared to the value of liabilities of £1,323 million, equivalent to a past service funding level of 70%.

Money purchase scheme
The Group also participates in two defined contribution schemes where the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Summary of Pension Liability	2016 £ m	2015 £ m
Defined benefit scheme	**(21)**	(23)
SHPS scheme	**(6)**	(3)
Net pension liability	**(27)**	(26)

Defined Benefit Scheme

Financial assumptions	2016	2015
Discount rate	**3.4%**	3.3%
Inflation (RPI)	**3.3%**	3.3%
Inflation (CPI)	**2.3%**	2.3%
Salary growth	**3.3%**	3.3%
Mortality		
• Base table	**S2PXA**	S2PXA
• Improvement method	**CMI2015 with 1.25% LTR**	CMI2014 with 1.2% LTR
• Projection	**Year of birth**	Year of birth

Note: the mortality tables have been chosen based on published research by the Continuous Mortality Investigation Bureau of the Institute of Actuaries and Faculty of Actuaries.

Net defined benefit asset/(liability)	2016 £ m	2015 £ m
Present value of the defined benefit obligation	**(142)**	(143)
Fair value of plan assets	**121**	120
Unregognised past service cost	**-**	-
	(21)	(23)

Analysis of the amount recognised in comprehensive income	2016 £ m	2015 £ m
Current service cost	**(1)**	(1)
Past service cost	**-**	-
Effects of settlements	**-**	-
Net interest on the defined liability	**(1)**	(1)
	(2)	(2)

Analysis of amount recognised in other comprehensive income	2016 £ m	2015 £ m
Actual return less expected return on plan assets	**(2)**	15
Amount included in net interest on net defined benefit liability	**(4)**	(4)
Remeasurements gains/(loss) - return on plan assets exclusing interest income	**(6)**	11
Changes in assumptions underlying the present value of the plan liabilities	**4**	(19)
Actuarial (loss)/gain recognised	**(2)**	(8)

Movement in deficit during the year	2016 £ m	2015 £ m
Net deficit at the beginning of the year	**(23)**	(17)
Movement in year:		
Current service cost	**(1)**	(1)
Employer contributions	**6**	4
Past service costs	**-**	-
Other finance income/(costs)	**(1)**	(1)
Actuarial gain/(loss)	**(2)**	(8)
Net deficit at the end of the year	**(21)**	(23)

Notes to the financial statements

Year ended 31 March 2016

9. Employee information (continued)

Movement in liabilities during the year	2016 £ m	2015 £ m
Past service liability at the beginning of the year	**143**	120
Service cost	**2**	1
Interest cost	**5**	5
Plan participant contributions	**-**	-
Actuarial loss/(gain):		
- Due to changes in assumptions	**(4)**	18
- Due to experience	**-**	1
Liabilities extinguished on settlements	**-**	-
Benefits paid	**(4)**	(2)
Past service liability at the end of the year	**142**	143

Movement in fair value of plan assets	2016 £ m	2015 £ m
At the beginning of the year	**120**	103
Expected return on assets	**(5)**	11
Net interest income	**4**	4
Actuarial gain/(losses)	**-**	-
Assets distributed on settlements	**-**	-
Employer contributions	**6**	4
Plan participant contributions	**-**	-
Benefits paid	**(4)**	(2)
At the end of the year	**121**	120

Plan assets by class of asset (bid value)	2016 £ m	2016 %	2015 £ m	2015 %
Equities	**53**	**44%**	55	46%
Gilts	**19**	**16%**	19	16%
Corporate bonds	**32**	**26%**	32	26%
Property	**12**	**10%**	11	9%
Cash	**4**	**3%**	2	2%
Other assets	**1**	**1%**	1	1%
	121	**100%**	120	100%

Five-year history	2016 £ m	2015 £ m	2014 £ m	2013 £ m	2012 £ m
Present value of funded liabilities	**(142)**	(143)	(120)	(116)	(105)
Present value of unfunded liabilities	**-**	-	-	-	-
Total present value of liabilities	**(142)**	(143)	(120)	(116)	(105)
Fair value of plan assets	**121**	120	103	96	90
Net deficit	**(21)**	(23)	(17)	(20)	(15)

The plan's experience gains and losses over the year were as follows:	2016	2015	2014	2013	2012
Difference between the expected and actual return on plan assets (£ m)	**(6)**	11	2	7	(1)
Percentage of plan assets	**(5)%**	9%	2%	7%	(1)%
Experience gains/(losses) on plan liabilities (£ m)	**-**	(1)	(2)	-	-
Percentage of the present value of plan liabilities	**-%**	(1)%	(2)%	-%	-%

Notes to the financial statements

Year ended 31 March 2016

9. Employee information (continued)

Social Housing Pension Scheme

	2016 £ m	2015 £ m
Present value provision	**6**	4

Reconciliation of opening and closing provisions	2016 £ m	2015 £ m
Provision at start of the period	**4**	4
Unwinding of the discount factor (interest expense)	**-**	-
Deficit contribution paid	**-**	-
Remeasurements (change in assumptions/amendments to contribution schedule)	**2**	-
Provision at end of period	**6**	4

Income and expenditure impact	2016 £ m	2015 £ m
Interest expense	**-**	-
Remeasurements (change in assumptions/amendments to contribution schedule)	**2**	-
Contributions paid in respect of future service	**-**	-
Costs recognised in income and expenditure account	**2**	-

Assumptions	2016 %	2015 %
Rate of discount	**2.06**	1.86

The discount rates are the equivalent single discount rates which, when used to discount the future of recovery plan contributions due would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

Deficit contributions schedule Year ending:	2016 £ m	2015 £ m
Year 1	**1**	-
Year 2	**1**	-
Year 3	**1**	1
Year 4	**1**	1
Year 5	**1**	1
Year 6	**1**	1
Year 7	**1**	1
Year 8	**1**	1
Year 9	**-**	1
Year 10	**-**	1

The above schedule details the deficit contributions agreed between the Group and SHPS at each year end period. These have been used to derive the company's balance sheet liability.

Notes to the financial statements

Year ended 31 March 2016

10. Board members and executive directors

The directors are defined as the members of the Board, the Chief Executive and the Executive Group.

	Group 2016 £ 000	Group 2015 £ 000	Trust 2016 £ 000	Trust 2015 £ 000
Aggregate emoluments payable to directors (including benefits in kind)	**1,595**	1,250	**1,595**	1,250
Pension contributions in respect of services as directors	**242**	244	**242**	244
	1,837	1,494	**1,837**	1,494
Emoluments payable to the Chief Executive who was also the highest paid director (excluding pension contributions but including benefits in kind)	**356**	269	**356**	269

The Chief Executive received cash in lieu of pension payment of £59,740 (2015: £50,000). The Chief Executive has no individual pension arrangement (including a personal pension) to which the Trust or any of its subsidiaries makes a contribution.

Non-executive members of the Board received emoluments during the year totalling £156,696 (2015: £141,515). Board expenses of £699 (2015: £1,444) were incurred in the year.

During the year, the aggregate compensation for loss of office of key management personnel was £nil (2015: £nil).

The emoluments of all directors are reviewed and agreed on an annual basis by our Governance and Remuneration Committee. They are based on an individual assessment of pay scales prevailing in the market and an assessment of performance against our corporate objectives.

11. Tax on surplus on ordinary activities

Taxation
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 taxation
Deferred tax is recognised when income or expenses from a subsidiary or associate have been recognised, and will be assessed for tax in a future period, except where:
- the group is able to control the reversal of the timing difference; and
- it is probable that the timing difference will not reverse in the foreseeable future.
Deferred tax relating to investment property that is measured at fair value is measured using the tax rates and allowances that apply to the sale of the asset.

Current tax	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
UK corporation tax	**1**	-	**1**	-
	1	-	**1**	-
Deferred tax				
On change in value of investment properties	**4**	-	**-**	-
	4	-	**-**	-

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom at 20% (2015: 21%). The differences are explained as follows:

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Surplus on ordinary activities before tax	**274**	215	**250**	202
Surplus multiplied by 20% (2015: 21%) – standard rate of UK corporation tax	**55**	45	**50**	42
Effects of:				
Non taxable charitable activities	**(50)**	(45)	**(49)**	(42)
Total tax charge for the year	**5**	-	**1**	-

The UK government reduced the UK Corporation tax rate to 20% with effect from 1 April 2015. Further reductions to 19% (effective from 1 April 2017), 18% (effective from 1 April 2019) were substantially enacted on 26 October 2015.

Deferred tax has been provided in the year to reflect the timing difference between the accounting and taxable profits on the revaluation of our investment properties, Although a provision is made (see note 24) it is not expected that the tax charge will materialise in the foreseeable future as the underlying assets are held principally for lettings at market rates. When disposal profits do materialise these profits are gifted to the Trust, effectively creating a tax credit which offsets the current tax. Deferred tax has been calculated using an enacted rate of 18% effective from 1 April 2019.

Notes to the financial statements

Year ended 31 March 2016

12. Fixed assets – housing properties

Housing properties
Housing properties in the course of construction are stated at cost. Cost includes the cost of acquiring land and buildings, development costs, and interest charges incurred during the development period. Staff costs and overheads which are directly attributable to bringing housing properties into working condition for their intended use are capitalised.

Under low-cost home ownership arrangements, the Group disposes of a long lease on low-cost home ownership housing units to people who occupy them at a share equal to between 25% and 75% of value. The occupier has the right to purchase further proportions up to 100% at the then current valuation. Low-cost home ownership properties are split between current and fixed assets on initial recognition. The proceeds from the sale of the current asset element ('first tranche') are included in turnover and the related asset expensed through the profit and loss statement as a cost of sale. The remaining element of the property ("staircasing element") is accounted for as a fixed asset and any subsequent tranche sale treated as a part disposal of a fixed asset. Social housing grant in respect of low-cost home ownership properties is allocated against the retained element of the low-cost home ownership property and is treated as a deferred grant income, shown in note 20.

The Group operates two flexible intermediate products whereby the tenant can rent the property and then at a future point purchase a portion of the property in the same way that low-cost home ownership schemes operate. The future point of sales is determined by the Group or the tenant depending on the product. Tenants are able to purchase an undefined proportion of their property from day one. These properties have been classified as fixed assets within the housing properties note under the intermediate market rent category unless the tenant has indicated that they wish to purchase a proportion of the property from the outset. This will then be treated as a first tranche sale with the purchased proportion reclassified as a current asset and the associated sales costs taken to cost of sales. For those tenants who rented the property to begin with or wish to purchase further tranches, this will be treated as a part disposal of a fixed asset.

Where land has been acquired with the intention to develop as mixed tenure schemes but the precise mix is yet to be finalised, the land is treated as a fixed asset until certainty of tenure mix is established at which point the portion of land that relates to properties held for sale is transferred to current assets.

Non-component works to existing properties
Non-component works to existing housing properties are capitalised where they relate to stock transferred from local authorities or relate to large-scale regeneration projects and where those properties are below the standards set by Group policies as there is a clear enhancement of the property beyond the standard assessed when the property was first acquired or constructed.

Fixed assets and depreciation
Freehold land is not depreciated. Depreciation of housing property components is charged so as to write down the cost of the components to their estimated residual value, on a straight-line basis, over their estimated useful economic lives within the Group.

Housing property components are depreciated from the year following replacement year. Estimated useful economic lives are assumed as follows:

Major components

• Housing properties structure	100 years
• Kitchens	18 years
• Bathrooms, electrical, heating, windows and doors	30 years
• Boilers	15 years
• Roofs	30 to 50 years

All SHG is amortised to income over 100 years for social housing lettings and over 25 years for low cost home ownership. Accumulated grant amortisation is recorded as a contingent liability in the notes to the accounts.

Depreciation on other fixed assets is charged on a straight-line basis over the expected useful economic lives of the fixed assets to write down the cost less estimated residual values at the annual rates set out below:

• Freehold premises	1%
• Short leasehold premises	Shorter of 10 years or life of lease
• Furniture and equipment	12.5%
• Motor vehicles	25%
• Computer equipment	33.3%

Impairment of fixed assets
Social housing properties are held for their service potential and are not held solely for the cash inflows generated. As such, there is no requirement to perform an impairment assessment on initial recognition of those schemes that are developed or acquired and completed in accordance with approved Group policies and planned scheme appraisals.

At 31 March 2016 the Group housing properties were evaluated by a qualified RICS Chartered Surveyor to have an open market value in the region of £17.5 billion (2015: £16.3 billion) compared to a cost of £7.4 billion (2015: £7.2 billion restated under FRS102). The open market value is not used for accounting purposes and does not reflect the Group's intention to hold assets for social housing purposes but provides an indication of the worth of the housing property assets of the Group should these assets be made available for sale with vacant possession in the open property market.

Group additions to new housing properties during the year include capitalised interest of £39 million (2015: £31 million) and capitalised direct administration costs of £13 million (2015: £11 million). The amount of cumulative interest capitalised in housing properties is not separately identifiable.

Group expenditure on works to existing properties during the year amounted to £131 million (2015: £156 million) of which £45 million (2015: £49 million) was capitalised and included as additions to properties held for lettings.

A total funding value of £4,038 million secured against 38,782 properties has been pledge as security on debt.

Notes to the financial statements

Year ended 31 March 2016

12. Fixed assets – housing properties (continued)

Housing properties - Group	Properties under construction			Properties held for lettings			
	Social housing lettings £ m	Low-cost home ownership £ m	Non-social housing lettings £ m	Social housing lettings £ m	Low-cost home ownership £ m	Non-social housing lettings £ m	Total £ m
Cost							
At 1 April 2015	327	52	65	6,272	482	53	**7,251**
Reclassifications and transfers to investment properties	-	(3)	(30)	35	4	(64)	**(58)**
Schemes completed in the year	(121)	(53)	(30)	119	55	30	**-**
Additions	151	43	83	45	-	-	**322**
Transfer to current assets	-	-	(3)	-	-	-	**(3)**
Disposals	(1)	-	(12)	(23)	(30)	1	**(65)**
At 31 March 2016	**356**	**39**	**73**	**6,448**	**511**	**20**	**7,447**
Depreciation							
At 1 April 2015	-	-	-	364	4	2	**370**
Reclassification	-	-	-	(3)	-	-	**(3)**
Charge for year	-	-	-	59	-	1	**60**
Eliminated in respect of disposals	-	-	-	(8)	-	(2)	**(10)**
At 31 March 2016	-	-	-	**412**	**4**	**1**	**417**
Impairment							
At 1 April 2015	3	-	-	3	-	-	**6**
Reclassification	-	-	-	-	-	-	**-**
Charge for year	-	-	-	-	-	-	**-**
Release for year	-	-	-	-	-	-	**-**
At 31 March 2016	**3**	**-**	**-**	**3**	**-**	**-**	**6**
Net book value:							
At 31 March 2016	**353**	**39**	**73**	**6,033**	**507**	**19**	**7,024**
At 31 March 2015	324	52	65	5,905	478	51	6,875

Housing properties - Trust	Properties under construction			Properties held for lettings			
	Social housing lettings £ m	Low-cost home ownership £ m	Non-social housing lettings £ m	Social housing lettings £ m	Low-cost home ownership £ m	Non-social housing lettings £ m	Total £ m
Cost							
At 1 April 2015	299	58	65	6,241	478	53	**7,194**
Reclassifications	-	(3)	2	(6)	4	2	**(1)**
Schemes completed in the year	(192)	(59)	(30)	192	59	30	**-**
Additions	172	48	83	45	-	-	**348**
Transfer from current assets	-	-	(3)	-	-	-	**(3)**
Disposals	(1)	-	(45)	(23)	(30)	(64)	**(163)**
At 31 March 2016	**278**	**44**	**72**	**6,449**	**511**	**21**	**7,375**
Depreciation							
At 1 April 2015	-	-	-	361	4	2	**367**
Charge for year	-	-	-	59	-	1	**60**
Eliminated in respect of disposals	-	-	-	(8)	-	(2)	**(10)**
At 31 March 2016	-	-	-	**412**	**4**	**1**	**417**
Impairment							
At 1 April 2015	-	-	-	3	-	-	**3**
Reclassification	-	-	-	-	-	-	**-**
Charge for year	-	-	-	-	-	-	**-**
Release for year	-	-	-	-	-	-	**-**
At 31 March 2016	**-**	**-**	**-**	**3**	**-**	**-**	**3**
Net book value:							
At 31 March 2016	**278**	**44**	**72**	**6,034**	**507**	**20**	**6,955**
At 31 March 2015	299	58	65	5,877	474	51	6,824

Notes to the financial statements

Year ended 31 March 2016

13. Other fixed assets

Group	Freehold office premises £ m	Leasehold office premises £ m	Office furniture and equipment £ m	Computer equipment £ m	Total £ m
Cost					
At 1 April 2015	22	1	5	21	**49**
Additions	-	-	-	8	**8**
Disposals	-	-	(2)	(8)	**(10)**
At 31 March 2016	**22**	**1**	**3**	**21**	**47**
Depreciation					
At 1 April 2015	4	1	3	10	**18**
Charge for year	-	-	1	3	**4**
Eliminated in respect of disposals	-	-	(2)	(8)	**(10)**
At 31 March 2016	**4**	**1**	**2**	**5**	**12**
Net book value:					
At 31 March 2016	**18**	**-**	**1**	**16**	**35**
At 31 March 2015	18	-	2	11	31

Trust	Freehold office premises £ m	Leasehold office premises £ m	Office furniture and equipment £ m	Computer equipment £ m	Total £ m
Cost					
At 1 April 2015	22	1	5	21	**49**
Additions	-	-	-	8	**8**
Disposals	-	-	(2)	(9)	**(10)**
At 31 March 2016	**22**	**1**	**3**	**20**	**47**
Depreciation					
At 1 April 2015	4	1	3	10	**18**
Charge for year	-	-	1	3	**4**
Eliminated in respect of disposals	-	-	(2)	(8)	**(10)**
At 31 March 2016	**4**	**1**	**2**	**5**	**12**
Net book value:					
At 31 March 2016	**18**	**-**	**1**	**16**	**35**
At 31 March 2015	18	-	2	11	31

Notes to the financial statements

Year ended 31 March 2016

14. Investments

Investment in joint ventures
Joint ventures are classified as contractual arrangement undertakings in which the Group exercises joint control over the operating and financial policies of the entity. Where the joint venture is carried out through an entity, it is treated as a jointly controlled entity and accounted for in the financial statements using the gross equity method. Joint venture investments are held as fixed asset investments, shown at cost, less any amounts written off in the financial statements of subsidiary undertakings.

In accordance with the Group's accounting policy, the Group's share of the joint venture gross assets are adjusted to capitalise interest costs and those costs incurred and directly attributed to the development of joint venture properties.

The amount included in respect of joint ventures comprises the following:

Group	Barking Riverside Ltd £ m	Purfleet Centre Regeneration Ltd £ m	Limited Liability Partnerships £ m	Total £ m
Turnover	-	-	103	**103**
- adjusted for sale to Group	-	-	(11)	**(11)**
			92	**92**
Cost of sales	-	-	(79)	**(79)**
- adjusted for sale to Group			10	**10**
	-	-	(69)	**(69)**
Operating surplus	**-**	**-**	**23**	**23**
Administration costs	-	-	1	**1**
Interest payable capitalised	-	-	11	**11**
Surplus	**-**	**-**	**35**	**35**
Share of:				
Current assets	53	9	464	**526**
Liabilities due within one year	(1)	(1)	(89)	**(91)**
Liabilities due in more than one year	(34)	(2)	(111)	**(147)**
Net assets	**18**	**6**	**264**	**288**

Active trading joint ventures, all establised in the UK, as at 31 March 2016 were as follows:

Joint venture	Partner	Group interest	Group voting rights	Total investment £ m
Barking Riverside Limited	Greater London Authority	51%	50%	**16**
Purfleet Centre Regeneration Ltd	Regeneration Investment Ltd	50%	50%	**6**
BDWZest Developments LLP	BDW Trading Limited	50%	50%	**2**
Alie Street	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**-**
Queensland Road	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**2**
Fulham Wharf	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**51**
Nine Elms	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**38**
Academy Central LLP	George Wimpey East London Ltd	38%	50%	**1**
Chobham Manor LLP	George Wimpey East London Ltd	50%	50%	**20**
Countryside Zest (Greater Beaulieu Park) LLP	Countryside Properties (Joint Venture) Ltd	50%	50%	**83**
Countryside Zest (Five Oaks) LLP	Countryside Properties (Joint Venture) Ltd	50%	50%	**29**
Acton Gardens LLP	Countryside Properties (Joint Venture) Ltd	50%	50%	**18**
Ponton Road LLP	Bellway Homes (Thames Gateway) Ltd	50%	50%	**4**
Erith Hills LLP	Anderson Design Ltd	50%	50%	**18**
Total				**288**

Notes to the financial statements

Year ended 31 March 2016

14. Investments (continued)

The balance sheets of joint ventures are consolidated, on the basis of the Group's share as at the balance sheet date, within the Group financial statements.

During the year, the final sales in Queensland Road and Academy Central were completed, and we entered into new agreements for Erith Hills, Purfleet Centre Regeneration & Barking Riverside.

The Group has 50% voting rights in all jointly controlled entities, all of which are limited liability partnerships, therefore not limited by share. All LLPs have a March year end except for Academy Central LLP which has a 31 December year end, Countryside Zest (Beaulieu) LLP, Countryside Zest (Five Oaks) LLP and Acton Gardens LLP which have a 30 September year end, and Ponton Road LLP which has a 31 July year end.

The Group has a 50% interest through partnership agreements in BDWZest LLP and Zest BDW LLP which in turn each have a 50% interest in BDWZest Development LLP and a 0.5% interest in Alie Street LLP, Fulham Wharf LLP, Queensland Road LLP and Nine Elms LLP. BDWZest Development LLP has a 99% interest in Alie Street LLP, Fulham Wharf LLP, Queensland Road LLP and Nine Elms LLP.

Investments in HomeBuy
HomeBuy is a term used to describe a program of low cost home ownership products where a loan is provided by the group to the purchaser of a property at a nil interest rate. The program is funded through a combination of government grant and the groups own funds. The loan made to the purchaser has no fixed repayment date and there are no monthly repayment requirements. The group shares in any future capital gain realised on redemption of the loan, which will be when the property is sold or if the purchaser chooses to repay the loan without selling the property. In the circumstances where the purchaser chooses to repay the loan without selling the property, the value of the loan to be repaid is based on the property market value at that date. Any future capital loss realised on redemption of the loan is offset initially against the government grant.

In the accounting of the HomeBuy investment, the group has opted to adopt paragraphs PBE34.90 to PBE 34.97 of FRS102. All are non-current loans, as they are not redeemable on demand.

The scheme is now closed to new entrants, and there were no commitments taken up at the year end.

Market rented properties
Market rented properties (Private Rented Sector, "PRS") are treated as investment properties. They are valued externally on an annual basis by a qualified RICS Chartered Surveyor. Changes in the value of market rented properties are taken to the income statement. PRS properties under construction are stated at cost and all commitments in respect of these are included as capital commitments (see note 27).

Investment properties - market rented	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
At 1 April 2015	**171**	100	**163**	100
Additions	**19**	67	**-**	67
Transfer from fixed assets	**58**	-	**22**	-
Revaluation	**23**	4	**-**	(4)
Disposal	**(4)**	-	**(185)**	-
Investment in subsidiary shares	**-**	-	**58**	-
At 31 March 2016	**267**	171	**58**	163
At historical cost	**244**	167	**-**	167

Debtors due after more than one year
During the year, on-lending loans made to subsidiaries by London and Quadrant Housing Trust were re-classified as a long term investments as formal agreements deem them not to be repayable within one year. As such, these are shown within Investments at cost with interest charged at arm's length.

Real Lettings property fund
The Real Lettings property fund is a residential property fund providing move-on accommodation for homeless individuals and families in London. The investment was made in instalments with the final instalment made in 2015, bringing the total amount invested to £10 million. The fund is managed by Resonance Impact Investment Limited (RIIL).

Notes to the financial statements

Year ended 31 March 2016

15. Properties held for sale and work in progress

Completed properties and properties under construction for open market sales are recognised at the lower of cost and net realisable value. Cost comprises of materials and direct overheads attributable to the development. Interest incurred is capitalised from the point of first obtaining planning permission, throughout work in progress and up to the point of practical completion of the development scheme. Net realisable value is assessed using publicly available information and internal forecasts on future sales price after allowing for all further costs of completion and disposal.

Group	Properties under construction		Completed properties for sale		
	Low-cost home ownership £ m	Open market sales £ m	Low-cost home ownership £ m	Open market sales £ m	Total £ m
At 1 April 2015	47	225	8	-	**280**
Completed in the year	(41)	(5)	41	5	**-**
Additions	128	17	-	-	**145**
Reclassification	(9)	5	-	-	**(4)**
Cost of properties sold	-	-	(28)	(5)	**(33)**
At 31 March 2016	**125**	**242**	**21**	**-**	**388**

Trust	Properties under construction		Completed properties for sale		
	Low-cost home ownership £ m	Open market sales £ m	Low-cost home ownership £ m	Open market sales £ m	Total £ m
At 1 April 2015	42	-	8	-	**50**
Completed in the year	(41)	(5)	41	5	**-**
Additions	31	-	-	-	**31**
Reclassification	(2)	5	-	-	**3**
Cost of properties sold	-	-	(28)	(5)	**(33)**
At 31 March 2016	**30**	**-**	**21**	**-**	**51**

16. Debtors

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Amounts receivable within one year:				
Former tenant arrears	**7**	6	**7**	6
Less: provision for bad and doubtful debts	**(7)**	(6)	**(7)**	(6)
	-	-	**-**	-
Current tenant arrears	**24**	22	**25**	22
Less: provision for bad and doubtful debts	**(7)**	(6)	**(7)**	(6)
	17	16	**18**	16
Social housing grant receivable	**1**	5	**1**	5
Other debtors and prepayments	**65**	19	**21**	20
Amount owing from subsidiaries	**-**	-	**26**	455
	83	40	**66**	496

During the year the agreement for on-lending established that loans to subsidiaries are not repayable within one year. The amounts were therefore reclassified as long term investments and are shown in Note 14.

17. Cash and cash equivalents

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Cash and cash equivalents	**110**	146	**108**	146
Bank overdrafts	**-**	-	**-**	-
	110	146	**108**	146

Restrictions on cash and cash equivalents include £15 million (2015: £19 million) held in debt service reserve, £10 million (2015: £3 million) as held funds and £33 million (2015: £18 million) as collateral against fair value positions of interest rate swaps. All cash and cash equivalents mature in three months or less. Financial assets pledged as collateral can be replaced subject to negotiations.

Notes to the financial statements

Year ended 31 March 2016

18. Creditors: amounts falling due within one year

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Debenture loans (see note 23)	**19**	2	**19**	2
Secured bank loans and overdrafts (see note 23)	**91**	12	**91**	12
Trade creditors	**32**	42	**9**	12
Other taxation and social security	**2**	2	**2**	2
Accruals	**42**	37	**40**	32
Amounts due to subsidiaries	**-**	-	**40**	24
Other creditors	**109**	57	**86**	74
	295	152	**287**	158

Other creditors comprises mainly of development creditor (£50 million) and land creditor (£25 million).

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

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Debenture loans (see note 23)	**1,071**	819	**1,071**	819
Secured bank loans and overdrafts (see note 23)	**1,027**	1,214	**1,027**	1,214
Total housing loans	**2,098**	2,033	**2,098**	2,033
Net issue premium	**3**	(1)	**(6)**	(1)
Loan fair value adjustments	**9**	10	**3**	3
Total loans measured at amortised cost	**2,110**	2,042	**2,095**	2,035
Deferred income	**15**	11	**15**	11
Other creditors	**5**	26	**2**	3
Recycled capital grant fund	**70**	51	**70**	51
Disposal proceeds fund	**5**	5	**5**	5
	2,205	2,135	**2,187**	2,105

Social Housing Grant

Social Housing Grant (SHG) is initially recognised at fair value as a long term liability, specifically as deferred government grant income and released through the profit and loss as turnover income over the life of the structure of housing properties in accordance with the accrual method applicable to registered providers of social housing accounting for housing properties at cost, except for grant received in respect of Homebuy investments, shown in note 14.

For items where on transition to FRS102, an election has been taken to treat fair value as deemed cost, the performance method for accounting for grant has been applied as the fair value application as deemed cost is treated as a revaluation at the transition date and SHG in respect of those items has been taken to revenue reserves. An amount equivalent to SHG taken to revenue reserves is disclosed as a contingent liability reflecting the potential future obligation to repay SHG where properties are disposed.

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

20. Social Housing Grant - Group and Trust

	Properties under construction			Properties held for lettings			
	Social housing lettings £ m	Low cost home ownership £ m	Non-social housing lettings £ m	Social housing lettings £ m	Low-cost home ownership £ m	Non-social housing lettings £ m	Total £ m
Cost							
At 1 April 2015	132	14	-	1,563	200	-	**1,909**
Schemes completed in the year	(55)	(5)	-	55	5	-	**-**
Received during the year	12	2	-	-	-	-	**14**
Recycled on disposal	-	(1)	-	(4)	(12)	-	**(17)**
At 31 March 2016	**89**	**10**	**-**	**1,614**	**193**	**-**	**1,906**
Amortisation							
At 1 April 2015	-	-	-	159	65	-	**224**
Release in the year	-	-	-	16	8	-	**24**
Estimated in respect of disposals		-	-	-	(3)	-	**(3)**
At 31 March 2016	**-**	**-**	**-**	**175**	**70**	**-**	**245**

SHG received in the year amounted to £14 million (2015: £66 million)

Notes to the financial statements

Year ended 31 March 2016

21. Recycled capital grant fund

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
At beginning of the year	**51**	49	**51**	49
Net HomeBuy grant abated	**-**	-	**-**	-
Net SHG recovered	**11**	13	**11**	13
Transferred to fund during year	**17**	13	**17**	13
Interest credited to fund	**-**	1	**-**	1
Utilised during the year against new build	**(9)**	(25)	**(9)**	(25)
At end of the year	**70**	51	**70**	51

There are no amounts 3 years old or older where repayment may be required.

22. Disposal proceeds fund

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
At the beginning of the year	**5**	3	**5**	3
Transferred to fund during the year	**1**	3	**1**	3
Utilised during the year against new build	**(1)**	(1)	**(1)**	(1)
At the end of the year	**5**	5	**5**	5

There are no amounts 3 years old or older where repayment may be required.

23. Debt analysis - on loans measured at amortised cost

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. All loans and borrowings are measured at amortised cost, including those that have embedded derivative financial instruments attached to them whereby the embedded derivative is deemed to be closely related to the host contract.

Debenture and secured bank loans are secured by way of a first fixed charge over housing properties and include an asset cover test based on the ratio on the value of properties secured to the carrying value of the loan. Secured bank loans include interest cover and gearing covenants each of which is tested on an annually against relevant disclosures within the profit and loss and balance sheet of the financial statements.

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Creditors falling due within one year				
Debenture loans	**19**	2	**19**	2
Secured bank loans and overdrafts	**91**	12	**91**	12
	110	14	**110**	14
Creditors falling due after more than one year				
Debenture loans	**1,071**	819	**1,071**	819
Secured bank loans and overdrafts	**1,027**	1,214	**1,027**	1,214
	2,098	2,033	**2,098**	2,033
Total loans measured at amortised cost	**2,208**	2,047	**2,208**	2,047

The following is an analysis of the anticipated contractual cash flows for the Group's loans measured at amortised cost and derivative financial instruments held as at the balance sheet date excluding deferred finance, capitalised costs and fair value adjustments.

Interest is calculated on an undiscounted basis whereby floating rate loans are determined using the prevailing implied forward rates as at the balance sheet date.

Where loans measured at amortised cost include embedded derivative financial instruments that have the ability to cancel the underlying loan, the loan is treated as maturing on the first available date that the loan may become callable, irrespective of the probability of that loan being cancelled.

Notes to the financial statements

Year ended 31 March 2016

23. Debt analysis - on loans measured at amortised cost (continued)

	Loans at amortised cost £ m	Interest on loans amortised cost £ m	Interest on derivative financial instruments £ m	Total £ m
As at 31 March 2016				
Due less than one year	(110)	(93)	(12)	**(215)**
Between one and two years	(129)	(89)	(11)	**(229)**
Between two and three years	(53)	(83)	(11)	**(147)**
Between three and five years	(148)	(156)	(20)	**(324)**
In five years or more	(1,768)	(1,189)	(137)	**(3,094)**
Gross contractual cash flows	**(2,208)**	**(1,610)**	**(191)**	**(4,009)**
As at 31 March 2015				
Due less than one year	(14)	(87)	(12)	**(113)**
Between one and two years	(110)	(91)	(10)	**(211)**
Between two and three years	(129)	(89)	(9)	**(227)**
Between three and five years	(249)	(161)	(16)	**(426)**
In five years or more	(1,545)	(1,013)	(119)	**(2,677)**
Gross contractual cash flows	**(2,047)**	**(1,441)**	**(166)**	**(3,654)**

	Loans at amortised cost £ m	Floating rate £ m	Fixed rate £ m	Weighted average interest rate %	Weighted average life of loans Years
As at 31 March 2016	**2,208**	**352**	**1,856**	**4.8**	**17**
As at 31 March 2015	2,047	435	1,612	4.7	18

The weighted average cost of fixed rate loans measured at amortised cost was 4.54% (2015: 5.63%), and variable rate loans measured at amortised cost was 1.21% (2015: 1.22%) inclusive of lending margins. 84% of the Group's debt, including the use of financial instruments (see note 30) was fixed (2015: 79%). Interest rates on fixed rate debt measured at amortised cost ranges from 3.75% to 12.25% (2015: 4.22% to 12.25%).

24. Provisions for liabilities and charges

The Group only provides for legal or constructive obligations that exist at the balance sheet date.

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
At the beginning of the year	**13**	26	**13**	26
Increase in provision	**10**	4	**5**	4
Release of provision	**(6)**	(17)	**(6)**	(17)
At end of the year	**17**	13	**12**	13

An analysis of the movement in each specific provision is set out below. Included in the provisions are major works provisions of £2 million (2015: £8 million) for works remaining to be undertaken to improve the housing stock transferred from the London Borough of Lewisham. These provisions are reassessed at each balance sheet date to reflect the fair value of the remaining works to be completed. An amount of £6 million (2015: £14 million) was spent in the year. An equivalent amount is shown in other debtors and prepayments in note 16.

Refurbishment obligation				
At beginning of the year	**8**	22	**8**	22
Release of provision	**(6)**	(14)	**(6)**	(14)
At end of the year	**2**	8	**2**	8

Also included in the provisions is a self insurance amount of £5 million with an increase of £1 million in the year.

Self insurance reserve provision:				
At beginning of the year	**4**	4	**4**	4
Increase in provision	**1**	3	**1**	3
Release of provision	**-**	(3)	**-**	(3)
At end of the year	**5**	4	**5**	4

Warranties are provided for completed development units from date of sale completion for a period of two years and charged to the scheme costs.

Warranties on newbuild:				
At beginning of the year	**1**	-	**1**	-
Increase in provision	**2**	1	**2**	1
At end of the year	**3**	1	**3**	1

A restructuring provision has been made for announced and ongoing team specific restructuring plans.

Restructuring provision:				
At beginning of the year	**-**	-	**-**	-
Increase in provision	**2**	-	**2**	-
At end of the year	**2**	-	**2**	-

A deferred tax provision has been made for changes in valuation of the Group's PRS portfolio.

Deferred tax:				
At beginning of the year	**-**	-	**-**	-
Increase in provision	**5**	-	**-**	-
At end of the year	**5**	-	**-**	-

Notes to the financial statements

Year ended 31 March 2016

25. Contingent liabilities

The group has disclosed contingent liabilities where there is a possible but uncertain obligation to repay social housing grant in the future. Actual payment is contingent upon future disposal of housing properties for which the grant was received.

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Contingent liability	**1,029**	1,010	**1,029**	1,010
At end of the year	**1,029**	1,010	**1,029**	1,010

26. Share capital

	Group 2016 £	Group 2015 £	Trust 2016 £	Trust 2015 £
Shares of £1 each issued and fully paid				
At the beginning of the year	**12**	13	**7**	8
Issued during the year	**2**	-	**2**	-
Cancelled during the year	**-**	(1)	**-**	(1)
At end of the year	**14**	12	**9**	7

27. Capital commitments

These are commitments towards fixed assets which have been contracted and predominantly relate to developments where known contractors have been appointed and which have started on site.

	Group 2016 £ m	Group 2015 £ m	Trust 2016 £ m	Trust 2015 £ m
Expenditure that has been contracted for but has not been provided for in these financial statements	**1,027**	848	**1,027**	848
Expenditure that has been authorised by the governing Board but has not yet been contracted for	**595**	243	**595**	243
	1,622	1,091	**1,622**	1,091
The Group expects to finance contracted commitments through:				
Social housing grant	**112**	196	**112**	196
Surpluses and borrowings	**915**	652	**915**	652
	1,027	848	**1,027**	848

The development pipeline as at 31 March 2016 had an estimated cost of £4 billion (2015: £3 billion). This included fixed and current assets relating to ongoing constructions as well as developments not yet on site which will be funded primarily through accumulated reserves and borrowings. In addition, there is £7 million committed capital expenditure in relation to maintenance works already approved.

Our approved development pipeline has the following projections:

	Group 2016	Group 2015
Units in the development pipeline	**39,758**	13,500
	£ m	**£ m**
Projected pipeline cost	**3,975**	3,345
Projected source of funding:		
Social housing grant	**223**	235
Surpluses and borrowings	**3,752**	3,110
	3,975	3,345

Notes to the financial statements

Year ended 31 March 2016

28. Commitments under operating leases

	Group and Trust 2016		Group and Trust 2015	
	Land and buildings £ m	Other £ m	Land and buildings £ m	Other £ m
Annual commitments under operating leases are as set out below:				
Operating leases which expire:				
In less than one year	-	-	-	-
Between one and five years	-	-	1	1
After five years	1	-	1	-
	1	-	2	1

29. Related parties

All transactions in respect of tenant board members and other related public or commercial entities have been carried out at arm's length and under normal commercial terms.
The Group has taken advantage of the exemption contained in FRS 102 33.1(A) Related Party Disclosures and has therefore not disclosed transactions or balances with entities which are 100% owned.

We have one resident board member – Frank Chersky. During the year the total rent charged and collected was £5,901. The account was in the required one month's credit of £433 at the year end.

During the year, Chobham Manor LLP, Greater Beaulieu Park LLP, and South Acton LLP sold units to the Trust to the extent of £2 million, £1 million, and £5 million respectively. There was also a land sale of £3 million from Erith Hills LLP to Quadrant Construction Services Limited.

Development and marketing costs are recharged from the Trust to L&Q New Homes Limited based on staff full time equivalent gross salary costs and directly attributable overheads in respect of those full time equivalents and units sold.

Quadrant Construction Services Limited operates on a cost-plus basis in recharging all of its direct costs to the Trust currently using a 2% mark up.

Management costs are recharged from the Trust to L&Q PRS Co Limited based on full time equivalent gross salary costs and directly attributable overheads in respect of those full time equivalents.

30. Financial instruments

Initial measurement
Initially, financial assets and liabilities are measured at fair value (including transaction costs, for assets and liabilities not measured at fair value through profit or loss).

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

- Loans and receivables, held-to-maturity investments, and non-derivative financial liabilities which are measured at amortised cost using the effective interest method.
- Financial assets and liabilities that are designated as a hedged item or hedging instrument are subject to measurement under the hedge accounting requirements of the IAS 39.

Fair value is determined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. To calculate fair value, the Group uses:

- Where they exist, quoted market prices in an active market to measure the financial instrument.
- If a market for a financial instrument is not active, the Group will use a valuation technique that makes maximum use of market inputs and includes recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models where in each case it is an acceptable valuation technique that incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

Amortised cost is calculated using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. Financial assets that are not carried at fair value though profit and loss are subject to an impairment test. If expected life cannot be determined reliably, then the contractual life is used.

Hedge Accounting
The following table indicates the periods in which cash flows associated with cash flow hedging instruments are expected to occur. Interest on financial instruments is calculated on an undiscounted basis using the prevailing implied forward rates as at the balance sheet date for the floating rate leg and the fixed rate for the fixed rate leg.

	Group 2016 £ m	Group 2015 £ m
Interest Rate Swaps:		
Due within one year	**12**	12
Between one and two years	**11**	10
Between two and three years	**11**	9
Between three and five years	**20**	16
In five years or more	**137**	119
Gross contractual cash flows	**191**	166
Nominal values of the above		
Cash flow hedge	**290**	290
Fair value	**-**	-
Total	**290**	290

Hedge accounting is applied to financial assets and financial liabilities of the Group where a hedging relationship qualifies for hedge accounting and if, and only if, all of the following conditions are met:

Notes to the financial statements

Year ended 31 March 2016

30. Financial instruments (continued)

- At the inception of the hedge, or at the point of transition, formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge is in place. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship, and effectiveness can be reliably measured; and
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated. Under IAS 39 for financial instruments: recognition and measurement, it is necessary to comply with the criteria of 80% to 125% for hedge effectiveness.

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

Hedged items
A hedged item is an item that exposes the Group to risk of changes in fair value or future cash flows and is designated as being hedged. A hedged item may include a single or group of recognised assets or liabilities, a firm commitment or a highly probable transaction.

Hedged effectiveness
The Group assesses hedge effectiveness both prospectively and retrospectively. To qualify for hedge accounting at the inception of a hedge and, at a minimum, at each reporting date, the cumulative changes in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the cumulative changes in the fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%.

Accounting treatment - Cash flow hedges
Where the Group hedges its exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss, the hedging relationship is designated of a cash flow hedge.

A cash flow hedge is accounted for as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised in other comprehensive income and accumulated in the cash flow hedge reserve; and
- the ineffective portion of the gain or loss on the hedging instrument (including ineffectiveness within the 80% to 125% window) shall be recognised in profit or loss and disclosed separately in interest payable and similar charges. Ineffectiveness in this context represents over-effectiveness when the cumulative change in the fair value of the hedging instrument is higher than the cumulative change in the hedged item.

If the Group closes out early a cash flow hedge that has a designated hedging relationship, the cumulative gains and losses recognised in other comprehensive income are frozen and reclassified from the cash flow hedge reserve to revenue reserve using the effective interest method.

Accounting treatment – Financial instruments measured at fair value through profit and loss
Some contracts that themselves are not financial instruments may nonetheless have financial instruments embedded in them. An embedded derivative is a feature within a contract, such that the cash flows associated with that feature behave in a similar fashion to a stand-alone derivative.

The Group will separate an embedded derivative from its host contract when:

- the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the entire instrument is not measured at fair value with changes in fair value recognised in the profit and loss statement

If an embedded derivative is separated, the host contract is accounted for at amortised cost using the effective rate method and the fair value of the embedded derivative is recognised in profit and loss and disclosed separately in interest payable and similar charges. If the Group is unable to measure the embedded derivative separately, the entire combined contract will be designated at fair value through profit or loss.

Where an embedded derivate is closely related to the host contract, the entire contract shall be accounted for at amortised cost using the effective rate method. All of the Group's embedded derivatives are closely related to the host contract and accounted for at amortised cost.

	Group 2016 £ m	Group 2015 £ m
Financial instruments measured at fair value through profit and loss	**4**	4
Effective portion of change in fair value of cash flow hedges recognised in other comprehensive income	**159**	147
Total loans measured at amortised cost	**2,208**	2,047
At end of the year	**2,371**	2,198

Risk
The main risk arising from the Group's financial instruments are interest rate risk and liquidity risk.

Interest rate risk
The Group finances its operations through a mixture of retained surpluses, government grant and loan borrowings. The Group manages its exposure to fluctuations in interest rates with a view to achieving a level of certainty in its net interest costs. The Group's interest rate strategy is focused on achieving the prescribed balance between fixed and floating rate debt at an acceptable level of risk and cost.

Cash flow hedges are entered into to hedge exposure to the variability in cash flows attributable to movements in GBP interest rates using GBP interest rate swap contracts whereby the Group agrees to pay interest at a fixed rate and receive interest at a floating rate. The interest rate swaps are designated as a hedge of the variability in the debt interest payments due to changes in the benchmark interest rate (LIBOR). This method reflects the risk

Notes to the financial statements

Year ended 31 March 2016

30. Financial instruments (continued)

management objective of the hedging relationship that is to swap a series of future variable cash flows to a fixed rate. The periods in which the hedged variable rates of interest payments are expected to occur are set out in the maturity analysis in note 23. The movement through the cash flow reserve for the year ended 31 March 2016 was £12 million.

The Group's cash flow interest rate risk exposure is managed monthly and based on sensitivity analysis simulation demonstrates that on variable rate financial instruments which are subject to rate changes. A 0.5% increase in interest rates would result in an additional charge to the profit and loss account of £1 million (2015: £1 million). On fixed rate financial instruments a 0.5% rate reduction in interest rates would result in a potential lost benefit of £9 million (2015: £8 million).

Liquidity risk
The Group has a policy to maintain sufficient liquidity in cash and undrawn lending facilities to cover 12 months of operational activity. At the year-end 80% of the Group's borrowings were due to mature in more than five years. The liquidity risk of each Group entity is managed centrally by the Group treasury function in accordance with the Group Board approved Treasury Policy and Treasury Strategy.

31. Financial assets and liabilities

Financial assets
The Group classifies its financial assets into one of the following categories depending on the purpose for which the asset was acquired.

Fair value through profit and loss
Other than derivative financial instruments which are not designated as hedging instruments, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit and loss.

Loans and receivables
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method.

Provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms. The amount of such a provision is disclosed as the difference between the net carrying amount and the present value of the future expected cash flows associated with the receivable item.

A summary of the financial instruments held by category is provided below:

Financial assets	Financial assets at fair value 2016 £ m	Financial assets at fair value 2015 £ m	Financial assets at amortised cost 2016 £ m	Financial assets at amortised cost 2015 £ m
Investments	**277**	181	**411**	318
Cash and cash equivalents	**-**	-	**110**	146
Debtors	**-**	-	**83**	40
	277	181	**604**	504

Financial liabilities	Financial liabilities at fair value 2016 £ m	Financial liabilities at fair value 2015 £ m	Financial liabilities at amortised costs 2016 £ m	Financial liabilities at amortised costs 2015 £ m
Trade and other payables	**-**	-	**324**	253
Loans and borrowings	**-**	-	**2,208**	2,047
Derivatives				
• Designated hedges	**159**	147	**-**	-
• Fair value through profit and loss	**4**	4	**-**	-
	163	151	**2,532**	2,300

A total funding value of £4,038 million secured against 38,782 properties has been pledge as security on loans and borrowings.

Valuation
All financial assets or liabilities at fair value are calculated using measurements based on inputs that are observable for the asset either directly or indirectly from prices. All other loans and receivables are shown at amortised cost.

Notes to the financial statements

Year ended 31 March 2016

31. Financial assets and liabilities (continued)

Credit risk

Credit risk applies to all debtor balances, the majority relating to tenant and other arrears which are reported monthly with dedicated teams assigned to manage recovery of those arrears. The Group fully provides for former tenant arrears except where recovery is assessed as likely. Provision against current tenant arrears is made based on the aged profile of the amounts due. So far, more than 70% of the arrears are collected directly from local authorities in the form of housing benefits therefore reducing the Group's exposure to individual tenants' credit risk.

Arrears provision	Group 2016 £ m	Group 2015 £ m
At the beginning of the year	**13**	15
Movement in provision	**1**	-
Amounts written off	**-**	(2)
At the end of the year	**14**	13

Arrears	Group 2016 £ m	Group 2015 £ m
Less than 30 days	**11**	10
30 to 60 days	**3**	3
60 to 90 days	**2**	2
More than 90 days	**16**	14
	32	29

Included in the above are £7 million (2015: £8 million) of former tenant arrears which are fully provided against.

32. Explanation of transition to FRS102 as previously reported

As stated in Note 1, these are the Group's second financial statements prepared in accordance with FRS 102 and SORP 2014, the Group having early adopted these standards with a transition date of 1 April 2013 to fulfil the listing requirements in securing new debentures in October 2015.

The accounting policies set out throughout the notes to the financial statements have been applied in preparing the financial statements for the year ended 31 March 2016, and the comparative information presented in these financial statements for the year ended 31 March 2015 and 2014.

In preparing its FRS102 and SORP 2014 financial statements 2015, the Group has adjusted amounts reported previously in the financial statements prepared in accordance with UK GAAP and SORP 2010. An explanation of how the transition from UK GAAP and SORP 2010 to FRS 102 and SORP 2014 has affected the Group's financial position and financial performance is set out in the following tables and the accompanying notes.

Ambitious plans are in place to develop the recently acquired land at Barking Riverside in Essex.

Notes to the financial statements

Year ended 31 March 2016

Reconciliation of consolidated statement of financial position	Note	Group 2015 UK GAAP £ m	Effect of transition to FRS102 £ m	FRS102 £ m	Note	Group 2014 UK GAAP £ m	Effect of transition to FRS102 £ m	FRS102 £ m
Fixed assets								
Housing properties								
- Cost	c/f	5,631	1,620	**7,251**	A	5,418	1,682	
					F		(22)	
					H		(40)	
							1,620	**7,038**
Accumulated depreciation and impairment	c/f	(436)	76		A	(406)	210	
	Q		(1)		E		(120)	
	S3		(15)		H		-	
	X		-		I		(1)	
					O		1	
					K3		(14)	
			60	**(376)**			76	**(330)**
Social housing grant	c/f	(2,695)	2,643	**-**	B	(2,643)	763	**-**
	U		52		D1		1,499	
					F		22	
					D2		341	
					L2		18	
			2,695	**-**			2,643	**-**
		2,500	4,375	**6,875**		2,369	4,339	**6,708**
Other tangible fixed assets	c/f	32	(1)	**31**	H	26	(1)	**25**
Investment in joint ventures								
- share of gross assets	c/f	193	31		N3	136	31	
	W		147					
			178	**371**			31	**167**
- share of gross liabilities	c/f	(108)	3		N3	(57)	3	
	W		(84)					
			(81)	**(189)**			3	**(54)**
		85	97	**182**		79	34	**113**

Reconciliation of consolidated statement of financial position	Note	Group 2015 UK GAAP £ m	Effect of transition to FRS102 £ m	FRS102 £ m	Note	Group 2014 UK GAAP £ m	Effect of transition to FRS102 £ m	FRS102 £ m
Other investments								
HomeBuy equity loans		136	-	**136**		152	-	**152**
Grant on HomeBuy equity loans	c/f	(115)	129	**-**	K4	(129)	129	
	S4		(14)					
			115	**-**			129	**-**
Market rented properties		171	-	**171**		100	-	**100**
Real Lettings property fund		10	-	**10**		8	-	**8**
		287	212	**499**		210	163	**373**
Current assets								
Properties for sale and work in progress	c/f	436	(83)		N3	294	(83)	
	W		(73)					
			(156)	**280**			(83)	**211**
Debtors	c/f	55	(2)		N3	88	(2)	
	W		(13)					
			(15)	**40**			(2)	**86**
Current investments	c/f	45	(38)	**-**	N3	38	(38)	**-**
	W		(7)					
			(45)	**-**			(38)	**-**
Cash and cash equivalents	c/f	107	36		N3	27	36	
	W		3					
			39	**146**			36	**63**
		643	(177)	**466**		447	(87)	**360**
Creditors: amounts falling due within one year	c/f	(218)	12		N3	(196)	12	
	W		54					
			66	**(152)**			12	**(184)**
Net current assets		425	(111)	**314**		251	(75)	**176**
Total assets less current liabilities		3,244	4,475	**7,719**		2,856	4,426	**7,282**

Notes to the financial statements

Year ended 31 March 2016

Reconciliation of consolidated statement of financial position	Note	Group 2015 UK GAAP £ m	Effect of transition to FRS102 £ m	FRS102 £ m	Note	Group 2014 UK GAAP £ m	Effect of transition to FRS102 £ m	FRS102 £ m
Creditors: amounts falling due after more than one year	c/f	2,300	(41)		N3	2,033	(41)	
	W		27					
			(14)	**2,286**			(41)	**1,992**
- Deferred grant income	c/f	-	1,858		D1	-	1,499	
	U		51		D2		341	
					L2		18	
			1,909	**1,909**			1,858	**1,858**
- Accumulated amortisation of deferred grant	c/f	-	(207)		D3		(130)	
	S1		(14)		D4		(67)	
	S2		(8)		K1		(14)	
	T		5		K2		(8)	
					L1		12	
			(224)	**(224)**		-	(207)	**(207)**
- Grant on HomeBuy equity loans	c/f	-	129		K4	-	129	
	S4		(14)					
			115	**115**			129	**129**
Provisions for liabilities		13	-	**13**		26	-	**26**
Net pension liability	c/f	22	4		G	17	4	
	V		-					
			4	**26**			4	**21**
Capital and reserves								
Share capital		-	-	**-**		-	-	**-**

Reconciliation of consolidated statement of financial position	Note	Group 2015 UK GAAP £ m	Effect of transition to FRS102 £ m	FRS102 £ m	Note	Group 2014 UK GAAP £ m	Effect of transition to FRS102 £ m	FRS102 £ m
Revenue reserve	c/f	1,043	800		B	843	763	
	Q		(1)					
	R		1		D3		130	
	S1		14		E		(120)	
	S2		8		D4		67	
	S3		(15)		G		(4)	
	T		(5)		H		(41)	
	V		2		I		(1)	
	Y		4		K3		(14)	
	X		-		J		1	
					K1		14	
					K2		8	
					L1		(12)	
					O		1	
					P		8	
			808	**1,851**			800	**1,643**
Cash flow hedge reserve		(147)	-	**(147)**		(71)	-	**(71)**
Revaluation		13	(8)		P	8	(8)	
- reserve on investment properties	c/f		(5)					
	Y		(13)	**-**			(8)	**-**
		-	1,891		A	-	1,892	
Revaluation reserve on housing property	c/f		(1)		J		(1)	
	R		1,890	**1,890**			1,891	**1,891**
		3,244	4,475	**7,719**		2,856	4,426	**7,282**

Note c/f denotes carried forward from the balance sheet adjustment as at 31 March 2014 as shown in the comparatives.

Notes to the financial statements

Year ended 31 March 2016

Reconciliation of consolidated statement of comprehensive income	Note	Group 2015 UK GAAP £ m	Group 2015 Effect of transition to FRS102 £ m	Group 2015 FRS102 £ m	Note	Group 2014 UK GAAP £ m	Group 2014 Effect of transition to FRS102 £ m	Group 2014 FRS102 £ m
Turnover								
- Group	S1	508	14		K1	524	14	
	S2		8		K2		8	
	U		1					
	W1		(13)				(21)	
			10	**518**			1	**525**
- Joint venture	W1	134	13	**147**	N1	55	21	**76**
		642	23	**665**		579	22	**601**
Cost of sales								
- Group	W2	(69)	13	**(56)**	N2	(103)	19	**(84)**
- Joint venture	W2	(100)	(13)	**(113)**	N2	(41)	(19)	**(60)**
		(169)	-	**(169)**		(144)	-	**(144)**
Operating costs	Q	(228)	(1)		I	(224)	(1)	
	X		1		O		1	
	S3		(15)	**(243)**	K3		(14)	**(238)**
		(228)	(15)	**(243)**		(224)	(14)	**(238)**
Operating surplus		245	8	**253**		211	8	**219**
Surplus on disposal of fixed assets and other investments	T	28	(4)	**24**		32	(12)	**20**
Interest receivable and similar income		1	-	**1**	L1	2	-	**2**
Interest payable and similar charges	V	(65)	(2)	**(67)**		(65)	(1)	**(66)**
Change in value of investment property	Y	-	4	**4**	M	-	8	**8**
Surplus on ordinary activities before tax		209	6	**215**	P	180	3	**183**
Tax on surplus on ordinary activities		-	-	**-**		(6)	-	**(6)**
Surplus for the year		209	6	**215**		174	3	**177**

Reconciliation of consolidated statement of comprehensive income	Note	Group 2015 UK GAAP £ m	Group 2015 Effect of transition to FRS102 £ m	Group 2015 FRS102 £ m	Note	Group 2014 UK GAAP £ m	Group 2014 Effect of transition to FRS102 £ m	Group 2014 FRS102 £ m
Other comprehensive income								
Gain/(loss) recognised on hedging instruments		(76)		**(76)**		22		**22**
Actuarial gain/(loss) on retirement benefits	V	(9)	1	**(8)**	M	1	1	**2**
Gain on revaluation of investment properties	Y	5	(5)	**-**	P	8	(8)	**-**
Total recognised surplus relating to the year		129	2	**131**		205	(4)	**201**

Notes to the financial statements

Year ended 31 March 2016

32. Explanation of transition to FRS102 as previously reported (continued)

Notes to reconciliation of consolidated statement of financial position and consolidated statement of comprehensive income

Transitional adjustments (on 1 April 2013, the transitional date for FRS102 adoption)

Fixed assets and grant under deemed cost – performance model

A. The Group opted to apply transitional arrangements under FRS102 35.10(C) for first time adopters to elect to measure an item of fixed assets at its fair value at the date of transition and use that fair value as its deemed cost at that date. SORP 2014 requires this to be treated as a revaluation carried out on the transition date. A revaluation reserve of £1,892 million has been established for the movement with a corresponding debit of £1,682 million to housing properties fixed asset cost and £210 million to accumulated depreciation respectively.
B. Under SORP2014, Government grant (SHG) relating to the re-valued items should be accounted for using the performance model as prescribed under FRS102 resulting in a £763 million credit to the revenue reserve and a corresponding debit to SHG.
C. Note that a contingent liability is created for all SHG taken to reserves to recognise a potential future liability should the assets for which the grant has been received be disposed in the future.

Fixed assets and grant under FRS102 – accrual model

D. All remaining SHG has been accounted for under the accruals method as prescribed under FRS102, where the capital grant is initially recognised as a creditor due in more than one year under deferred grant income and amortised over the life of the fixed asset structure as recommended by SORP 2014. On transition a total of £1,840 million (£1,499 million relating to social housing units (D1) and £341 million relating to low cost home ownership units (D2)) was credited to deferred grant income and debited from fixed assets. An amount of £197 million (£130 million relating to social housing units (D3) plus £67 million relating to low cost home ownership units (D4)) was recognised as amortised as at the transition date with an equivalent amount credited to the revenue reserve. A contingent liability is disclosed in respect of all the accumulated grants amounts amortised through reserves.
E. As a result of SHG no longer being treated as a credit against fixed assets as shown under old UK GAAP, historic depreciation has been recalculated to reflect a higher depreciation on the book value of the assets against which SHG was previously netted off. On the transition date the accumulated depreciation was credited with £120 million with an equivalent amount debited to revenue reserve to reflect the higher historical depreciation resulting from the adoption of SORP 2014.
F. For housing properties purchased from other social landlords SORP 2014 specifies that the associated SHG should not be recognised as deferred grant income on the balance sheet as shown under old UK GAAP and should instead be shown as a contingent liability with the assets recognised at the exchanged fair value. At transition date an amount of £22 million was debited to grant with an equivalent credited to fixed assets costs to reflect such stock swaps. A contingent liability of £22 million has also been reflected.

Retirement benefits

G. On transition an additional £4 million of pension liability has been recognised as required under SORP2014, to reflect agreed schedules of additional contributions towards reducing deficits on SHPS with an equivalent amount debited to revenue reserves. Where such contractual agreements are in place, the Group must recognise a liability for the contributions payable when under the old SORP these would have been accounted for in the year the payments fall due.

Fair values of housing properties and other fixed assets on amalgamation

H. SORP 2014 requires any combinations that are in substance a gift to be accounted so that any excess of fair value of assets received over the fair value of the liabilities assumed to be recognised as income within the Statement of Comprehensive Income. With the election to apply fair value as deemed costs, any remaining fair value adjustments on consolidation have been rendered unnecessary and previous fair value adjustments in respect of past amalgamations (gift) have been written back through reserves, with a credit of £40 million to housing fixed assets and £1 million to other fixed assets and a debit to reserves of £41 million.

2014 (adjustments in respect of the year ended 31 March 2014 being the comparative year)

Fixed assets and grant under deemed cost – performance model

I. To reflect increases in depreciation under SORP2014, as a result of housing properties no longer being depreciated net of grant, a £1 million additional depreciation has been charged in respect of assets which have been subject to deemed cost revaluation resulting in a debit of £1 million to depreciation charge and £1 million credit to accumulated depreciation.
J. A transfer of equity from the revaluation reserves to revenue reserves of £1 million is also reflected being the difference on historical cost depreciation.

Fixed assets and Grant under FRS102 – accrual model

K. Under FRS102, the accrual method of accounting for fixed assets and SHG requires the amortisation of SHG to be included as Turnover to show £22 million (£14 million in respect of social housing lettings units (K1) and £8m in respect of low cost home ownership units (K2)) whilst debiting accumulated amortisation of deferred grant on the balance sheet. Also a debit of £14 million to administrative expenditure has been put into effect to reflect additional depreciation for the year under SORP 2014 with a corresponding credit of £14 million to accumulated depreciation (K3). Under SORP 2014 Grant on Homebuy loans of £129 million was reclassified as a liability (K4). Under the old UK GAAP this would have been shown as a credit in other investments.
L. Under FRS102, the cost of disposals should reflect the write back of previously amortised grant as the related properties are disposed. A £12 million debit to cost of disposals has been posted to reflect this and an equivalent credited to accumulated amortisation of deferred grant to reflect disposals in the year (L1). Contingent liabilities have also been reduced by that same amount to reflect the disposals. A total of £18 million of SHG movement on disposals and handovers has also been re-categorised as deferred grant income (L2).

Retirement benefits

M. A net credit of £0.4 million to total comprehensive income with an equivalent reduction in pensions obligations to reflect unwinding of item G. Other finance cost in respect of defined benefit schemes was also adjusted for through a debit of £1 million.

Notes to the financial statements

Year ended 31 March 2016

Jointly controlled entities

N. Entries in respect of presenting what was under previous UK GAAP known as Joint Arrangements Not an Entity (JANE) to show these as Joint Controlled Entities under FRS102. The equity method being applied has been reflected through aggregating the line items previously included in the Group income and expenditure and balance sheet under the headings of Joint venture (Turnover and cost of sales) on the income statement, and under Investment – share of joint venture gross assets and share of joint venture gross liabilities on the balance sheet. In this respect £21 million of Group turnover (N1) and £19 million of cost of sales (N2) has been reclassified as Joint Venture activities. On the balance sheet, £34 million of Group net assets (N3) have been reclassified as Joint venture assets being the Group share of the jointly controlled entities, specifically debiting share of joint venture gross assets by £31 million and debiting share of gross liabilities by £3 million and crediting properties for sale and work in progress by £83 million, debtors by £2 million, current investment and cash and cash equivalents by a net £2 million, and debiting creditors falling due within one year by £12 million and creditors due after more than one year by £41 million respectively (N3).

Fair values of housing properties and other fixed assets on amalgamation

O. Entries in respect of reversing depreciation attributed to fair value adjustments to fixed assets rendered unnecessary following the restatement to deemed cost at fair value on properties. The effect is to credit administrative expenditure by £0.5 million with an equivalent amount debited to fixed assets accumulated depreciation.

Investment properties

P. Under FRS102 changes in value of investment property should be included within the income and expenditure account. A revaluation reserve was created in 2015 (under SORP 2010) and an adjustment has therefore been made to show the change in value through income and expenditure account, debiting the revaluation reserve on investment property by £8 million.

2015 (adjustments in respect of the year ended 31 March 2015 being the reporting year)

Fixed assets and grant under deemed cost – performance model

Q. £1 million additional depreciation is reflected in respect of assets which have been subject to deemed cost revaluation with a debit of £1 million to depreciation charge and £1 million credit to accumulated depreciation.
R. A transfer of equity from the revaluation reserve to revenue reserves of £1 million is also reflected being the difference on historical cost depreciation.

Fixed assets and Grant under FRS102 – accrual model

S. Under FRS102, the accrual method of accounting for fixed assets and SHG requires the amortisation of SHG to be included as Turnover to show £22 million (£14 million in respect of social housing lettings units (S1) and £8 million in respect of low cost home ownership units (S2)) whilst debiting accumulated amortisation of deferred grant on the balance sheet. Also a debit of £15 million to administrative expenditure has been put into effect to reflect additional depreciation for the year under SORP 2014 with a corresponding credit of £15 million to accumulated depreciation (S3). Also movements in the year of £14 million in respect of Homebuy loans have also been re-classified as a liability, creditors due after more than one year (S4).

T. Under FRS102, the cost of disposals should reflect the write back of previously amortised grant as the related properties are disposed. A £5 million debit to cost of disposals has been posted to reflect this and an equivalent credited to accumulated amortisation of deferred grant to reflect disposals in the year. Contingent liabilities have also been reduced by that same amount to reflect the disposals. Under the old UK GAAP no grant would have been taken to the revenue reserve and therefore would have been recycled directly on the balance sheet from a linked presentation to housing properties fixed assets to the recycled capital grant fund.
U. Adjustment in respect of handovers and work in progress in the year was to reclassify £51 million grant from fixed assets to Deferred grant income and taking a further £1 million to Turnover as grant on refurbishments not repayable. Under the old UK GAAP the grant would have been transacted as grant with a linked presentation to housing properties fixed assets.

Retirement benefits

V. A net credit of £0.1 million to total comprehensive income with an equivalent reduction in pensions obligations to reflect unwinding of item G. Also included is a presentational change to show £1.5 million as a finance charge which would have previously been presented as part of the statement of total recognised gains and losses under the old UK GAAP.

Jointly controlled entities

W. Entries in respect of presenting what was under previous UK GAAP known as Joint Arrangements Not an Entity (JANE) to show these as Joint Controlled Entities under FRS102. The equity method being applied will be reflected through aggregating the line items previously included in the Group income and expenditure and balance sheet under the headings of Joint venture (Turnover and cost of sales) on the income statement, and under Investment – share of joint venture gross assets and share of joint venture gross liabilities on the balance sheet. In this respect £13 million of Group turnover (W1) and £13 million of cost of sales (W2) has been reclassified as Joint Venture activities. On the balance sheet, £62 million of Group net assets have been reclassified as Joint venture assets being the Group share of the jointly controlled entities. The entries were to debit share of gross assets in joint ventures by £147 million, credit share of gross liabilities in joint ventures by £84 million, and credit properties for sale and work in progress by £73 million, debtors by £13 million, current investment and cash and cash equivalents by a net £4 million, and debit creditor falling due within one year by £54 million and credit creditors due after more than one year by £27 million.

Fair values of housing properties and other fixed assets on amalgamation

X. Entries in respect of reversing depreciation attributed to fair value adjustments to fixed assets rendered unnecessary following the restatement to deemed cost at fair value on properties. The effect is to credit administrative expenditure by £1 million with an equivalent amount debited to fixed assets accumulated depreciation.

Investment properties

Y. Under FRS102 changes in value of investment property should be included within the income and expenditure account. Under the old UK GAAP this would have been shown in the statement of total recognised gains and losses crediting a revaluation reserve for investment properties. An adjustment has therefore been made to show the change in value through income and expenditure account and debiting the revaluation reserve on investment property by £4.5 million

Notes to the financial statements

Year ended 31 March 2016

33. Ultimate holding entity

London & Quadrant Housing Trust is the ultimate holding entity of the Group.

34. Post balance sheet events

On the 6 April 2016, L&Q announced its intention to merge with Hyde Group and East Thames Housing Group.

We believe that together we can increase our capacity to build, house and help - delivering more new homes and better services than we could apart. Together, we will be aiming to build 100,000 new homes across London and the South East. We will also be able to create efficiency savings of £50 million a year within five years - far more than we could create alone.

On 5 May 2016, L&Q placed £300 million of 10 year secured bonds, due in 2026 with a semi-annual coupon payable at 2.625%. The demand for these bonds demonstrates strong support of our business from the institutional investor base.

Following Britain's vote to leave the EU on 27 June 2016, and the announcement that S&P's had downgraded its rating on the UK sovereign to 'AA' from 'AAA' with a negative long-term rating, whilst Moody's had changed the outlook on UK's sovereign rating to negative from stable (Aa1), L&Q's credit ratings have been impacted, but not on a material scale.

L&Q's ratings have changed from AA negative outlook to AA- stable outlook (S&P) and from A1 stable outlook to A1 negative outlook (Moody's). The change has no effect on the balance sheet as at 31 March 2016.

Financial statements
2016

Financial statements 2016
The report gives the annual accounts for the L&Q Group for the year 2015/16. It details our income and expenditure over the course of the year and explains our current priorities.

One Kings Hall Mews | Lewisham | London SE13 5JQ
Tel: 0844 406 9000 | Fax: 0800 619 0213
L&Q is an exempt charity

www.lqgroup.org.uk