Network Homes

Annual Report and Financial Statements

For The Year Ended 31 March 2016

Because good homes
make everything possible

Contents

The Board, Executive Officers and advisors

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

Board
Andrew Watson, Chair (resigned 21 May 2015)
Helen Evans, Group Chief Executive (resigned 21 May 2015)
Alan Head, Chair – Group Investment Committee (resigned 21 May 2015)
Christopher Lyons, Chair – Group Audit Committee (resigned 1 April 2015)
Charmian Boyd (resigned 21 May 2015)
Chris Kane (resigned 21 May 2015)
Linda Walton, Chair – Group Finance Committee (resigned 1 September 2014) (already recorded at year ended 31 March 2015)
Anne Turner (appointed 1 September 2014, resigned 21 May 2015)
Nick Sharman (resigned 21 May 2015)
Peter Stredder, Chair – Audit and Risk Committee (appointed 25 July 2014, resigned 21 May 2015)
Trevor Morley (resigned 21 May 2015)

This Board was replaced on 21 May 2015 with the Common Board.

Common Board
Andrew Watson, Chair (appointed 21 May 2015, resigned 29 April 2016)
Trevor Morley (appointed 21 May 2015, resigned 29 April 2016)
Anne Turner (appointed 21 May 2015, resigned 29 April 2016)
Peter Stredder (appointed 21 May 2015, resigned 29 April 2016)
Helen Evans (appointed 21 May 2015, resigned 29 April 2016)
Chris Kane (appointed 21 May 2015, resigned 29 April 2016)
Charmian Boyd (appointed 21 May 2015, resigned 29 April 2016)
Valerie Vaughan-Dick (appointed 21 May 2015, resigned 29 April 2016)
Alan Hall (appointed 21 May 2015, resigned 29 April 2016)
Alan Head (appointed 30 June 2015, resigned 29 April 2016)
Nick Sharman (appointed 21 May 2015, resigned 29 April 2016)
Peter Fiddeman (appointed 21 May 2015, resigned 29 April 2016)

Common Board was replaced on 29 April 2016 at the time of amalgamation with the Network Homes Board:

Network Homes Board
Andrew Watson, Chair (appointed 29 April 2016, resigned 28 July 2016)
Bernadette Conroy, Chair (appointed 28 July 2016)
Peter Fiddeman (appointed 29 April 2016)
Anne Turner (appointed 29 April 2016)
Peter Stredder (appointed 29 April 2016)
Helen Evans, Group Chief Executive (appointed 29 April 2016)
Chris Kane (appointed 29 April 2016)
Charmian Boyd (appointed 29 April 2016)
Alan Head (appointed 29 April 2016, resigned 28 July 2016)
Trevor Morley (appointed 29 April 2016)
Nick Sharman (appointed 29 April 2016)
Alan Hall (appointed 29 April 2016)
Valerie Vaughan-Dick (appointed 29 April 2016)

Company secretary
Richard Reger (resigned 2 February 2016)
Ibi Eso (appointed 2 February 2016, resigned 8 June 2016)
Tabitha Kassem (appointed 9 June 2016)

Executive officers
Helen Evans – Group Chief Executive
Trudi Kleanthous – Corporate Business Director (resigned 30 October 2015)
Barry Nethercott – Executive Director of Finance and Governance
Gerry Doherty – Executive Director of Asset Management
Vicky Savage – Executive Director of Development
Jon Dawson – Executive Director of Integration
Fiona Deal – Executive Director of People and Culture (appointed 1 October 2015)
Darren Levy – Executive Director of Customer Services (appointed 1 October 2015)

Registered office Olympic Office Centre, 8 Fulton Road, Wembley Middlesex HA9 0NU

Independent auditors PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH

Solicitors Trowers & Hamlins, 3 Bunhill Row, London EC1Y 8YZ

Bankers Barclays Bank PLC, 27th Floor, 1 Churchill Place, London E14 5HP

Registrations Registered Provider No. L4373, Community Benefit Societies No. 29543R

Report of the Board

Report of the Board

The Board presents its report and the audited consolidated financial statements for Network Homes Limited ('the Group', 'NHG Ltd', 'the Association') and its subsidiary undertakings for the year ended 31 March 2016.

The consolidated Statement of Comprehensive Income, Statement of Changes in Reserves, Statement of Financial Position and Statement of Cash Flow for Network Homes Limited are set out on pages 38 to 41.

The Group's principal accounting policies are set out on pages 43 to 47 and these policies have been consistently applied across the Group.

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

The Group now owns and/or manages 19,865 units for a wide range of customers.

Chair's review

These are our last Financial Statements as Network Housing Group and my final year review as Chair. I am delighted to be reporting an excellent year of results, which will provide a strong platform for our newly amalgamated organisation, Network Homes, going forward.

This year, on a like for like basis, we doubled our underlying surplus to £103m (2015: £49m), another record for the Group. Taking into account the new FRS 102 standards, the net surplus was over £155m after taking account of accounting adjustments including a net £52m benefit of restructuring financial instruments. The like for like surplus for 2015/16 is more than four times higher than just two years ago.

Our operating margin increased further to 39.24% (2015: 35.51%), again a record and ten percentage points above the margin in 2013/14. Turnover grew a remarkable 64% to £311m (2015: £189m), and again is double the size of two years ago. Interest cover (excluding sales) rose to 412% (2015: 294%) and gearing fell to 49% (2015: 57%)

One of our four guiding strategic objectives as a business is 'increasing financial strength'. I think we can genuinely say we are meeting this objective.

The purpose of financial strength is that it delivers the capacity for us to meet our objective around 'maximising growth within our resources', enables investment in our business to improve customer service, and provides the extra resilience prudent for all large businesses in uncertain times. The Brexit vote in June showed how quickly things can change.

The key financial metrics were driven powerfully this year by the strength of the housing market for sale, particularly in London. During 2015/16 we completed 945 homes, with 381 for social and affordable rent, five for market rent, 320 for shared ownership and 239 for market sale. The profits from this substantial increase in sales activity benefited the bottom line significantly.

However, it is important to note that Network created a healthy surplus before sales and will continue to do so. It is also important to note, in these uncertain times, that 2015/16 marked the high point of our exposure to the outright sale market within our current committed pipeline.

Elsewhere in the business, overall customer satisfaction rose slightly to just over 80%, while satisfaction with first response from our Customer Service Centre was 88%.

We are investing substantial sums in IT, our people, repairs, customer contact and digital customer service over the coming years to support the drive to meet our 90% overall customer satisfaction target by 2021.

The quality of our operations continues to be recognised. We won three further Evening Standard new homes awards, two of them for our major regeneration project at Stockwell Park in Lambeth, adding to the six major development awards we won last year.

Our customer service centre was named one of the top ten in the UK, beating 370 private and public sector competitors at the UK Customer Contact Awards, and Network was named Treasury Team of the Year at the National Housing Federation National Accounting awards for its work with lenders on the amalgamation of Network Housing Group and on the trading out of our LOBOs optionality with Barclays.

I am proud, as I leave Network, of the immense progress we have made as a business during recent years and the superb results we have produced this year. The new Network Homes is in a strong position for the future and for that I pay tribute to my fellow Board members, the Executive Leadership Team, and our committed staff.

Andrew Watson, Chair
Network Homes

"I am proud, as I leave Network, of the immense progress we have made as a business during recent years and the superb results we have produced this year."

Chief Executive's review

A prime focus for the Board and senior management during 2015/16 was delivering the amalgamation of Network Housing Group. The legal amalgamation completed in April 2016, bringing the four operating housing associations and parent body of Network Housing Group into a new single housing association, Network Homes.

Simultaneously, at Stockwell Park, where we are regenerating a 1,500 home estate, we established a pioneering fully owned local subsidiary, SW9 Community Housing, to manage these homes under a management contract, in line with the results of our resident consultations.

The consolidation of the old Group structure will have a number of benefits to the business for the future. We now have a single Board and smaller Executive Leadership Team. This allows us to make decisions more quickly in an increasingly fast-paced, competitive operating environment. It also reduces our administrative costs and increases the time Executive Directors can spend focusing on business improvement.

Consolidation will allow us to drive consistent standards and performance quality through the entire business more easily. Our development performance for a housing association of our size is already exceptional, and we want to be known as one of the best customer service providers in our sector too. We have an ambitious customer satisfaction target of 90% and we will be pushing hard to achieve it.

Amalgamation will support improvements in our value for money. Eliminating duplication and minimising waste will help with customer satisfaction, but also deliver additional capacity that we can spend more usefully in building new homes or investing in existing homes. More widely, we can procure single, bigger contracts as a whole organisation, driving economies of scale.

For the first time, all of our assets are now held in one place, giving us better flexibility and room for manoeuvre in how assets are used and adding to our capacity. And we have been able to harmonise terms and conditions for all staff, removing longstanding anomalies and making the administration of contracts, pensions and recruitment simpler.

As one organisation we will have greater strategic clarity for our staff and external stakeholders. By the date of the Group consolidation we had put in place a revised Five Year Strategy for Network Homes, a new Growth Strategy, new Asset Management Strategy, new Value for Money Strategy, and new IT Strategy. A new Customer Services Strategy will follow this year.

Coinciding with the amalgamation we rebranded the organisation. Because of our strategic clarity we can promote Network Homes more effectively, supporting our ability to win new business. The new Network Homes brand is fresh, modern and visually appealing.

Our new strapline ('Because good homes make everything possible'), mission and strategic objectives provide the vision all of our staff can get behind as we build a new organisational culture through a three year People & Culture agenda. Our aim over that period is to be a Sunday Times Top 100 Company to Work For.

As our results for 2015/16 attest, through a three year period of major organisational change we have performed better and better. The move to Network Homes will facilitate further improvement over time, as our investment in the future of the business comes to fruition.

I would like to place on record my thanks to Andy Watson, who has guided Network to increasing success during his seven year term as Chair. He leaves a strong legacy, which I know will be safe in the hands of our excellent new Chair from July 2016, Bernadette Conroy.

Helen Evans, Chief Executive
Network Homes

"We have an ambitious customer satisfaction target of 90% and we will be pushing hard to achieve it."

Report of the Board

Development Performance

945 new homes were handed over into management across the Group in 2015/16.

The development programme is made up of an Affordable Housing Programme (AHP) and the Mayor's Housing Covenant (MHC). The table to the right summarises the development programme to 2018.

Additionally there were 11 affordable rented homes and 3 social rented homes deemed practically complete for funding programme purposes which will hand over into management early 2016/17.

Having secured one of the largest grant funded development programmes for the 2015-18 programme, we are continuing to increase our development capabilities, including establishing joint venture partnerships for larger schemes with more private sale units. Other growth initiatives include the tightly monitored, unconditional purchase of a small number of sites when circumstances are right, and successfully selling new properties off-plan in advance of completion.

Grant Arrangements 2016-2018

The Group has grant programmes under AHP 2015-18 and MHC 2015-18. The total grant allocation is £34.4m, including Recycled Capital Grant Fund (RCGF), to deliver 1,190 new homes in the London and Eastern regions. It is expected that the total grant allocation will reduce across both programmes due to the proportion of homes not requiring grant ("nil grant S106 homes") increasing in both programmes, resulting in a lower grant requirement. Delivery overall is expected to be in line with original forecasts.

Tenure	Units	Funding Programme
Social Rent	81	AHP 11-15, MHC 15-18
Affordable Rent	300	AHP 11-15, AHP 15-18, MHC 15-18
Shared Ownership	175	AHP 11-15, AHP 15-18, MHC 15-18
Flexible Affordable Home Ownership	130	MHC Homes For Working Londoners
Shared Equity / Equity Loan	15	AHP 11-15
Market Rent	5	None
Private Sale	239	None
Total	**945**	

Financial Review

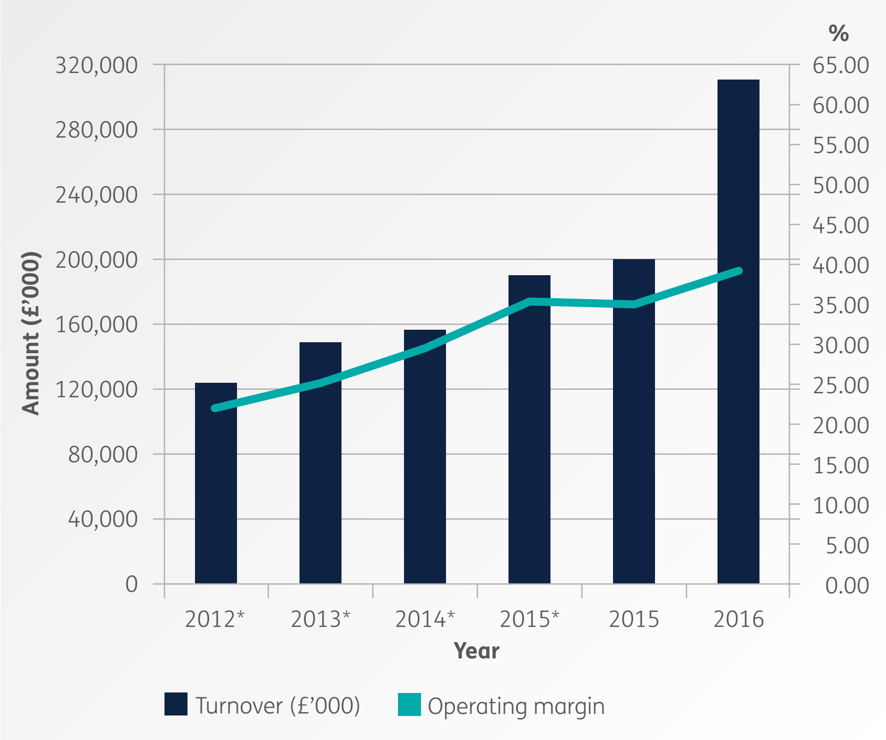
This has been an extremely positive year for Network Homes. We achieved a record net surplus of £155.3m (2015: £9.6m), more than double last year's reported net surplus (under previous UK GAAP) of £49.2m (itself a record). Our operating margin has grown from 35.01% in 2015 to 39.24% and turnover has increased by 64% to over £311.0m (2015: £199m).

During the year, the surplus in relation to property sales contributed to our improved performance and it was £92.1m (2015: £29.6m) in total. £85.7m was from first tranche sales which was reported under turnover and £7.5m reported under property sales. The results were better than anticipated in terms of both volume and value.

This growth in turnover and operating margin is a continuing trend as shown by the graph to the right.

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

Network Housing Group Turnover and Operating Margin



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

Statement of Comprehensive Income summaries

	2016 £'000	2015 £'000	2015* £'000	2014* £'000	2013* £'000	2012* £'000
Turnover	311,012	199,100	189,516	156,170	149,068	124,218
Operating costs	(188,958)	(129,386)	(122,213)	(109,886)	(111,459)	(96,839)
Operating surplus	**122,054**	**69,714**	**67,303**	**46,284**	**37,609**	**27,379**
Surplus on sale of assets	7,465	8,066	8,066	2,977	2,694	1,356
Revaluation surplus on investment properties	2,594	-	-	-	-	-
Net interest and other financial income	(29,139)	(26,785)	(26,134)	(25,958)	(22,449)	(19,943)
Restructuring of financial instruments	62,335	-	-	-	-	-
Fair value element of LOBO loans	(9,979)	(41,382)	-	-	-	-
Tax	(7)	(1)	(1)	(6)	4	(1)
Surplus for the year	**155,323**	**9,612**	**49,234**	**23,297**	**17,858**	**8,791**
Operating margin	39.24%	35.01%	35.51%	29.64%	25.20%	22.04%

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

The Group has produced a strong financial result for the year resulting in a surplus of £155,323k (2015: £9,612k) on turnover of £311,012k (2015: £199,100k). The underlying surplus excluding restructuring financial instruments is £102,967k.

The surplus of £155,323k comprises of operating surplus of £122,054k (2015: £69,714k), plus property sales of £7,465k (2015: £8,066k), revaluation surplus on investment properties £2,594k (2015: nil), net impact of accounting for LOBO £52,356k (2015: £41,382k costs), less net interest charges and tax of £29,146k (2015: £26,786k).

The margins in social housing activity area remained broadly the same as last year (31.74%) and in non-social housing increased from 48.99% to 52.82%.

Under FRS 102, LOBO loans are carried at fair value through the comprehensive income. Under the previous UK GAAP, LOBO loans were carried at amortised cost for instruments as they were classified as financial instruments held to maturity. The carrying of LOBOs loans at fair value through the statement of comprehensive income had an impact on the reported surplus in both 2015 and 2016. The fair value elements on LOBO loans in 2015 resulted in a £41.4m net increase in financing costs. In 2016, LOBO loans were extinguished or derecognised due to the loan repayment. As a result, the fair value elements were also extinguished. These resulted in a net financing income in 2016 in amount of £52.4m.

Operating margins 2016 and 2015

Under FRS 102	Social housing activity	Non-social housing activity	Total 2016
Turnover (£k)	200,358	110,654	311,012
Surplus (£k)	63,602	58,452	122,054
Operating margins (%)	**31.74%**	**52.82%**	**39.24%**

Under FRS 102	Social housing activity	Non-social housing activity	Total 2015
Turnover (£k)	162,650	36,450	199,100
Surplus (£k)	51,857	17,857	69,714
Operating margins (%)	**31.88%**	**48.99%**	**35.01%**

Under previous UK GAAP	Social housing activity	Non-social housing activity	Total 2015
Turnover (£k)	153,091	36,425	189,516
Surplus (£k)	49,507	17,796	67,303
Operating margins (%)	**32.34%**	**48.86%**	**35.51%**

Statement of financial position summaries

	2016 £'000	2015 £'000	2015* £'000	2014* £'000	2013* £'000	2012* £'000
Total fixed assets	1,489,907	1,471,430	864,809	749,681	652,700	654,022
Net current assets	127,424	61,176	56,429	55,451	95,785	38,834
Total	**1,617,331**	**1,532,606**	**921,238**	**805,132**	**748,485**	**692,856**
Creditors due in more than one year and pension liability	1,326,205	1,396,306	736,111	667,875	620,357	578,508
Provisions for liabilities and charges	14,544	16,358	8,541	9,891	22,978	26,599
Reserves	276,582	119,942	176,586	127,366	105,150	87,749
Total	**1,617,331**	**1,532,606**	**921,238**	**805,132**	**748,485**	**692,856**

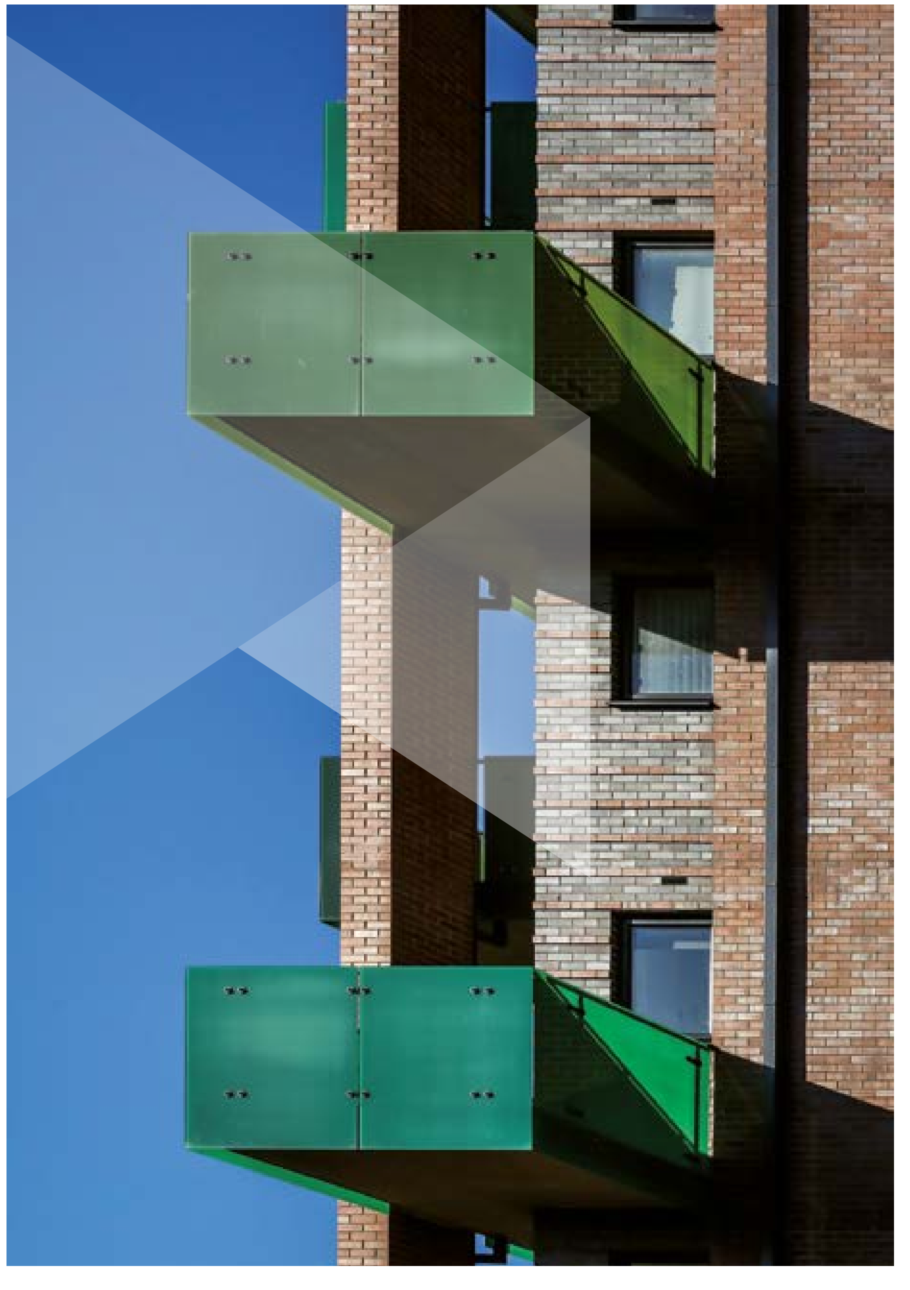
**The comparatives are based on the previous UK GAAP which was replaced by FRS 102.*

At the end of the year, the Group's housing properties at cost less depreciation and impairment totalled £1,417m (2015: £1,404m). This value is reflected in the consolidated Statement of Financial Position.

During the year, the Group undertook a professional revaluation of some of its housing stock by external valuers. The value of the Group's housing stock is as follows:

- Existing Use Value for Social Housing (EUV-SH) £1,248.7m (2015: £1,176.5m)
- Market value, tenanted (MV-T) £2,159.6m (2015: £2,010.7m)
- Vacant possession market value (VPMV) £3,859.1m (2015: £3,432.0m)

The Group continues to borrow to fund its affordable housing development programme. Housing loans decreased from £751m to £711m. The Group's reserves increased from £119.9m to £276.6m. As at 31 March 2016, gearing based on borrowings against historic cost of properties for the Group was 49% (2015: 57%). This fall is mainly due to repayment of loans and increase in investment in housing properties. The most common gearing covenant across the Group's bank facilities is 65%.



Events after the end of reporting period (note 45)

Brexit

The UK voted to leave the EU (Brexit) during the referendum on 23 June 2016. This event represents a significant change to the macro environment that the business operates in. Brexit is likely to cause market volatility in the short to medium term; however, Network Treasury Services Limited (NTSL) and the Group have stress tested themselves against extreme scenarios and as a result our judgement is that the impacts modelled can be contained. NTSL considers Brexit to be a non-adjusting event at the end of the reporting period so no adjustments have been made in the financial statements.

LOBO loans

In February 2016 the Group restructured loans in good faith which previously gave one of its lenders the unilateral right to amend interest rates at given dates. At the reporting date the loans were classified in the financial statements as basic loans as they had been restructured. The gains and costs incurred in restructuring these loans were recognised as a financing transaction using the effective interest rate. In July 2016, the Group reached an agreement with the lender to amend the interest rates and recover additional costs incurred since restructuring these loans.

The financial impact of reaching this agreement has not been adjusted because the Group deems this to be a non-adjusting event as this does not represent conditions that existed at the end of the reporting period. As a result, no adjustments have been made in the financial statements. The Group estimates the financial impact of this will be a credit to the statement of comprehensive income of approximately £22.3m in the 2016/17 financial year. This will also lead to the amortised cost of loans being reduced by £22.3m and will lead to a minimum of £0.4m annual interest for the duration of the loans.

Capital structure

The Group is financed by a combination of retained reserves, which are not distributable, long-term committed loan facilities from banks and other lending institutions and grants awarded by the HCA and other organisations to support the development activities of the Association. Some bank loans are arranged through Network Treasury Services Limited, the Group's treasury vehicle and on-lent to various associations within the Group. As detailed below, loans arranged at a Group level are secured upon assets of some associations within the Group. Some of these loans are cross collateralised where the assets of the one association have been used as security for loans made to other associations.

In 2008 the Group completed a £443 million debt facility in the name of Network Treasury Services Limited ('NTSL'), a wholly owned subsidiary of Network Housing Group Ltd. All borrowings of NTSL are on-lent to Group companies. Since 2008 further debt facilities have been procured for NTSL; the total facilities as at 31 March 2016 amounted to £595m, of which £410m had been drawn at 31 March 2016 (note 26).

In the year to 31 March 2016 Network Treasury Services Limited entered into one new facility with Clydesdale Bank PLC totalling £50m.

Brexit represents a significant change to the macro environment that the business operates in.

£50 million In the year to 31 March 2016 NTSL entered into one new facility with Clydesdale Bank plc totalling £50m.

Report of the Board

Treasury policy

Treasury services are provided to the Group by Network Housing Group.

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

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

The Group borrows at both fixed and variable rates, with fixed interest rates being hedged at not less than 50% of drawn borrowings. In accordance with treasury policy, variable rate borrowings are fixed for less than twelve months from the balance sheet date.

The Group's debt is a mixture of fixed and floating rate loans. As at 31 March 2016, 75% (2015: 75%) of the Group's debt was at fixed rates and 25% (2015: 25%) at floating rates.

Network Homes' treasury team monitors covenant compliance for the Group on a regular basis and is required to report on covenant compliance to the Group's lenders and the borrowers on a quarterly basis. At 31 March 2016 the Group complied with its loan covenants. Business plans demonstrate that it will continue to do so in the future. The borrowings summary and repayment schedule is at the nominal value. The fair value element of financial instruments is explained in note 26.

Investment policy

At 31 March 2016 the sinking funds were in place in respect of:

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

THFC 2043 Bond

A 4.5% gilt with a maturity date of 2042 and a carrying value of £6.5m with a nominal value of £5.2m is held in an Interest Service Reserve Fund. We plan to hold this until the maturity date.

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

A Sinking Fund of £1,180k is held by THFC as replacement for security to account for sales of shared ownership properties (2015: £415k).

Affordable Housing Finance 2042 Bond

There is currently a Liquidity Reserve Fund of £1,150,000 (2015: £1,140,000)

Affordable Housing Finance (EIB)

There is currently a Liquidity Reserve Fund of £750,000 (2015: nil)

Review

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

Cash flows

The statement of cash flow on page 41 shows that during the year the Group generated net cash inflow from operating activities of £126,074k (2015: £35,509k), made net interest payments of £32,273k (2015: £32,920k) and invested a net £25,542k (2015: £105,959k) in fixed assets.

Liquidity policy

The Group reviewed its liquidity policy in March 2015 and is to retain £100m as the minimum liquidity limit from April 2015, the next review is scheduled for July 2016. This is the amount of cash and facilities available to be drawn at any time. At least £25m must be held in liquid cash deposits. The Treasury Policy ensures loan facilities are in place to fund future requirements. At 31 March 2016, the Group had £65.1m (2015: £36.8m) in cash and bank, out of which £44.6m (2015: £27.1m) were held as money market cash deposits as part of the Group Treasury Policy.

Short-term cash balances are placed in AAA rated money market funds or short-term deposits at competitive rates with A1/P1 rated banks or main UK clearing banks. Please refer to notes 15 and 16 for investments in properties and share and investments held as collateral and creditors due after more than one year.

Security

As at 31 March 2016 all bank facilities with the exception of a £45.5m facility from Affordable Housing Finance signed in October 2014, were secured against the Group's properties. The EUV-SH for the units charged was £888.5m (2015: £751.2m) and the number of units charged was 10,879 (2015: 10,532).

Summary of borrowings

	2016 £'000	2015 £'000
Fixed	550,449	529,707
Variable	160,923	221,446
Total drawn	**711,372**	**751,153**
The debt falls due for repayment in:		
Less than one year	4,916	25,400
Between two and five years	113,688	198,187
After five years	592,768	527,566
Total drawn	**711,372**	**751,153**

£126.1 million (2015: £35.5m)
net cash inflow from operating activities.

At 31 March 2016,
the Group had £65.1m (2015: £36.8m) in cash and bank monies.

Value for money statement for 2015/16

Value for money statement for 2015/16

Introduction

Our industry regulator, the Homes and Communities Agency, requires all housing associations to publish an annual value for money self-assessment statement to our stakeholders. We are regulated partly against a value for money (VFM) Standard, with a specific expectation that we will report on:

- Our absolute and comparative costs for delivering specific services
- The value for money gains we have made or expect to make and how these have/will be realised over time
- The return on our assets, measured against our organisational objectives

The regulator also expects us to set out our approach to value for money comprehensively and clearly.

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

2015/16 was our final year operating under the Network Housing Group structure of four separate operating housing associations and a parent company. In April 2016 we amalgamated the group structure into a single housing association, Network Homes, with a single wholly-owned subsidiary, SW9, managing our homes at Stockwell Park in Lambeth through a management agreement. This is important context for this year's value for money self-assessment.

Our strategic approach to value for money

Network has improved its financial performance and service quality in each of the last five years. For 2015/16, on a like for like basis with last year's accounts, we made an underlying surplus of £103m (2015: £49.2m), with an operating margin of 39.2% (2015: 35.5%). Under the new FRS102 accounting standard our surplus for 2015/16 was £155m (the £52m increase was due mainly to mark to market adjustments relating to elimination of the optionality in loans with Barclays plc). In 2011/12 our net operating surplus was £8.8m and our operating margin was 22%. So in five years we have increased our annual surplus more than tenfold and almost doubled our operating margins.

In the light of changes in government policy during 2015/16, our revised financial model ensures we will maintain strong margins each year, with a minimum 32% operating margin by 2021. Our plans will be geared towards exceeding this if we possibly can.

Increasing financial strength is one of our four strategic objectives. It allows us to invest more in new homes, in our existing homes and in driving up the quality of our customer service. It also provides resilience during times of economic or political uncertainty, such as we have seen this year. Financial strength underpins our overall organisational strategy therefore and is crucial to value for money.

Organisational strategy

Our four strategic organisational objectives are:

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

Value for money statement for 2015/16

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

Each of our objectives has a linked ambition:

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

Our Board re-affirmed these objectives in a revised Five Year Strategy 2016-21, adopted for Network Homes this year, and these will therefore guide our business and value for money approach going forward. They are challenging ambitions and require us to ensure our value for money is strong.

These objectives and ambitions have a number of impacts on our approach to VfM.

Development approach

Because we aim to maximise growth, the Board takes a robust view of 'sweating our assets' to deliver new homes. We are prepared to take measured risks to ensure we make as strong a contribution as we can to meeting housing needs. During 2015/16, the Board reviewed its risk appetite and we updated our risk management framework.

For example, the government's decision to impose a reduction in social rents of 1% a year from 2016-2020 will reduce Network's income by around £45 million over the four years. We will absorb that fall in revenues by reducing operating costs and increasing efficiency to maintain our operating margins, so we can maintain our development programme unchanged from before the government's decision. This is indicative of our commitment to maximising growth, even in difficult circumstances. We completed 945 homes in 2015/16, producing a 6.3% increase in our overall portfolio of homes.

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

Our development programme for 2015-18 is split roughly one third market sale/rent, one third shared ownership, and one third homes for sub-market rent. We are also the second largest recipient of government housing grant in London and have a significant grant-funded programme in Hertfordshire, which supports our capacity to deliver homes for sub-market rent and shared ownership.

We are continually looking for ways to improve our development procurement and construction methods, and for partnerships that will allow us to get the right balance between risks and rewards, costs and benefits. We also focus on a relatively tight operational area, based around a number of 'core' boroughs that will enable our management services to operate in an efficient manner. This approach is outlined in detail in our new Growth Strategy 2016-21.

Customer service approach

Value for money is also crucial in helping us to achieve our customer service ambition. While our customer service performance has improved 7% since 2012/13 to 80% overall, we have a considerable distance to go to reach our 90% target and the Board is focused on continuing our improvement year on year.

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

During 2015/16, as part of our governance changes as we moved towards amalgamation, we created new resident-led Local Panels in each of our main operating areas, and a new organisation-wide Residents' Panel, comprising representatives from the Local Panels. These groups meet regularly with senior managers and directors to scrutinise performance and provide guidance on resident service priorities. They also provide a clear link into Board members and Network's formal governance structures.

We know that to meet our customer service ambition we need to invest more in key areas of our service. During 2015/16 we invested further in IT systems and infrastructure, repairs and maintenance and our customer service centre, established in 2014/15. Further significant investments are planned for the coming years. The ultimate purpose of these investments is to help us drive down costs in future while improving the quality of service.

The quality and approach of our staff is also vital to achieving our customer service goals. In 2015/16 we developed a three year People & Culture Agenda based around improving leadership and management quality, employee engagement, and our employer offer, geared to building a great organisation.

We are investing significantly to ensure our staff are enabled to deliver first class customer service. We have already harmonised terms and conditions for all staff and embarked on major training and engagement programmes.

Driving value for money by simplifying our structure

A key driver of our value for money approach in recent years has been concerted moves to simplify Network's management and governance structures. This feeds directly into our strategic objectives of increasing financial strength and building a great organisation.

In 2012/13 Mitali Housing left the Group and we disbanded Solon Community Network. In 2013/14 we implemented our 'Fit for the Future' change programme which unified our management structure and identified £6m of rolling operating cost savings. We realised £5m of those savings for the first time during 2014/15 and we instituted a fundamental governance review that year, acting on the Group Board's May 2014 'in principle' decision to consolidate the group structure.

In May 2015 we disbanded our five separate boards and established a single Common Board for Network. This led to an overall reduction of 17 board members within the Group and reduced board servicing costs. An immediate quantifiable financial benefit of moving to one board has been a reduction in overall board remuneration of £26,000 between 2013/14 and 2015/16, despite recruiting new high quality members and paying board members more in acknowledgement of their increased responsibilities and expertise.

The final push to amalgamate Network's four separate operating housing associations and the parent body has occupied a considerable amount of senior management and Board time during 2015/16.

The legal amalgamation was achieved in April 2016 with the establishment of Network Homes. We are now able to move forward as a single organisation with a single brand, which will have multiple value for money benefits.

We are implementing more consistent ways of working, our decision-making is faster, we have greater strategic and cultural clarity, and we expect to be able to reduce costs in a number of ways. Obvious examples include in design and marketing, board servicing and administration, accounting practice, legal costs, and organisation-wide procurement contracts.

But more fundamentally our structural change allows us to critically re-examine our overall management and maintenance costs and this process has already begun.

Importantly, a single balance sheet, with a (historical cost) value of £1.4bn, as well as providing a small increase in overall financial capacity, delivers much greater resilience in the event of financial shocks and therefore instils greater confidence for existing and future investors and other stakeholders.

Additional operating cost savings of £1.1m are in our business plan for 2016/17, building to £2m a year by 2020/21.

Our approach to mergers and acquisitions

We have considered the Government's and the HCA's statements about housing association efficiency and the potential benefits of sector consolidation, together with the increased momentum now clearly within the sector towards mergers.

Network has recognised the scale of policy change within our operating environment and the importance of ensuring we are able to deliver our core purpose of building homes and providing services efficiently and effectively. We amalgamated our group structure partly in response to these changes and conducted merger talks with Catalyst Housing during 2014/15, which we were unable to conclude successfully.

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

We have set out clear criteria for considering any merger opportunities within our new Growth Strategy 2016-21. These include strong geographic, cultural and operational synergies. The Network Board has not signed up to the National Housing Federation's 'merger code' as we believe it is too prescriptive. However, during 2016/17 we will develop a prospectus which sets out our position and appetite for merger.

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

Our focus following the end of the talks with Catalyst Housing has been on dealing with pressing strategic and operational issues and delivering the structural amalgamation so important to our future success.

The new Network Homes is financially strong and we have a sizeable development programme and pipeline. We are ambitious for our customers and we want to complete the process of delivering the first class customer service and great organisation central to our strategic objectives.

We remain committed to reducing our costs through internal efficiency and effective partnerships. This is essential for sound business reasons, because it creates the best outcome for our organisation, our customers, and will meet our regulatory requirement.

We have achieved very strong finances and development performance, and much improved governance. We are investing substantially in our business and have made a good start in improving asset management and customer services. Achieving the best possible standards for our customers is our top priority at present.

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

New Value for Money Strategy

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

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

Our progress will be reviewed by the Executive Leadership Team on a quarterly basis and by the Residents' Panel and Network Board every six months.

A new Growth Strategy, Asset Management Strategy, IT Strategy and annual planning framework are in place for Network Homes, and an updated Customer Service Strategy will follow this year.

With our Five Year Strategy providing the overall directional lead, these strategies will support our ability to meet our strategic objectives while delivering value for money from 2016/17.

Understanding the costs of providing our services

In June 2016 our regulator, the HCA, published an analysis of costs spent per property managed for each of the largest 350 housing associations in England. This was based on data provided through our regular standard reporting to the HCA between 2005 and 2015. As such it does not take into account data for 2015/16. However, it is an extremely useful additional source for helping Network to unlock where we may need to seek improvements in how we operate.

In the early months of 2016 we had begun, in any case, to analyse our costs in more detail as part of our preparations for operating as a single housing association from April 2016 and with a view to understanding where our consolidated organisation could make further value for money gains. Our work was primarily based on Housemark comparative data with our peer group of London's largest housing associations.

The HCA analysis indicated that about 50% of variable costs between housing associations were explainable. For example, high levels of supported and/or older people's housing, operating in expensive parts of the country, and a number of other factors, were all associated with justifiable additional costs.

Using the HCA analysis as a base, we have carried out further analysis which takes into account our own specific circumstances in relation to the factors that the HCA recognises as causing legitimate extra costs. For example, the majority of our homes, offices and staff are based in London, which is the most expensive part of the country to operate. Parts of the Group also manage above average numbers of supported and older people's homes.

We have linked our additional analysis to the HCA analysis to present a clearer picture of our costs relative to the rest of the sector. In the table below, the HCA's figures are shown first and our figures, incorporating our explainable extra costs, are shown next to them. These are colour coded according to whether we are above or below the sector median cost.

It can be seen from the table that London Strategic Housing (LSH) has a significant distorting impact on our costs. Adjusted for the initial costs of leasing temporary accommodation, shown within the LSH figures, Network's overall costs fall from £4,460 per home to £3,780 per home. This is still a little above the median for the sector but is well below the sector higher quartile cost of £4,300 per home.

	Homes managed in HCA assessment	Network headline social housing cost per home £000s	Network cost per home incorporating legitimate extra costs £000s	Sector median costs per home £000s
Network Stadium HA	8,940	4.93	4.46	3.55
Riversmead HA	4,552	3.12	2.92	3.55
London Strategic Housing	2,974	8.16	7.91*	3.55
Community Trust Housing	1,556	3.29	2.66	3.55
Network Housing Group	18,022	4.84	4.46	3.55

**NOTE: removing unavoidable initial leasing costs reduces the London Strategic Housing operating costs to £2,560 per home, well below median costs. See commentary above.*

Value for money statement for 2015/16

LSH focuses on homes for key workers and temporary housing for homeless people leased from private sector landlords. This is an important specialist service which we run for social purposes and in partnership with local authority partners who have a high need to find homes for homeless people in order to meet their statutory duties.

The HCA's analysis shows that £5,600 of the costs per home for LSH are 'other'. Our analysis has identified that these are the lease contract costs paid to the landlord to acquire their property for a period of time for letting. When these costs are stripped out of the equation, the headline cost per home for LSH falls to £2,560 per home on the HCA's analysis or £2,310 on our adjusted analysis – within the lower quartile of sector costs.

For social purposes and to support key local authority partners, we believe private sector leasing is a reasonable business for Network to undertake. This business is reviewed on an annual basis to consider its overall viability. Before allocation of corporate overheads LSH continues to make a surplus. However, we are currently assessing the financial strength and sustainability of the LSH business on a scheme by scheme basis to ensure this remains a sensible and viable business for Network to conduct. It is worth noting, however, that if we were to stop leasing temporary housing, a sizeable element of the corporate overhead currently allocated to LSH would be divided between other parts of the business, increasing per home costs in those areas.

Generally, what the HCA analysis tells us is that our management costs per home are relatively high, while our maintenance costs per home are relatively low compared to the sector. This is in line with our own previous benchmarking. During 2015/16, before exceptional items (explained below), we reduced our housing management costs per home, while our maintenance costs increased as we invested significantly in the service to improve customer satisfaction with repairs.

Overall, we intend to maintain the internal pressure on reducing costs, even though some parts of the business already have lower quartile costs. However, it is crucial that we understand areas of higher cost properly before taking action.

We have a clearly stated intention to invest in particular parts of our business to drive up customer satisfaction performance and these investments need to be made against an effective understanding of our cost base.

Latest performance benchmarking

The tables on page 21 sets out our relative performance in a number of key service areas, along with benchmarking data for key areas of cost and on our financial performance.

We have had an exceptionally strong year financially, with improvements in many of our key metrics. While much of this is driven by superb performance in property sales (£91m surplus on sales), it is important to emphasise that Network is not dependent on sales to make a surplus. Our operating surplus excluding all sales in 2015/16 was nearly £31m. Debt per property has reduced, interest cover and gearing have improved.

During the year, and after in-depth discussions with our benchmarking agency, Housemark, regarding how other housing associations allocate their costs, we took the decision to re-allocate certain costs between management and maintenance. Most notably, we re-allocated a proportion of our customer service centre costs to maintenance, as many enquiries are repairs related. This had the impact of increasing overall maintenance costs per property.

Even so, our management costs per property were impacted heavily by a one-off payment into the Social Housing Pension Scheme (SHPS) to reduce the defined benefit scheme deficit. Staff costs were also higher as we invested in improving our service. We go into more detail about investment to support future success in the next section of this report.

Customer satisfaction was 80%, a slight improvement on 2014/15. While this is reasonable performance for a largely London-based housing association, we have set a target for overall customer satisfaction this year of 82% as a stepping stone to our 90% ambition. For the first quarter of 2016/17, we were averaging 81% overall satisfaction. Satisfaction with our customer service centre performance is running at 88%, with resolution of enquiries at first contact of 79%. Our customer service centre was named as one of the top 10 in the UK from more than 370 organisations in the UK Contact Centre awards in May 2016.

We are reporting satisfaction with repairs as having decreased slightly year on year, though this masks a difficult first half of the year and much improved performance in the second half, with overall repairs satisfaction in March 2016 at 82%.

Our rent arrears performance is better than the peer group average and we have improved our position during the year. This included strong performance improvement in our CTH subsidiary, where we were shortlisted for a national award for our income collection improvements.

Average re-letting times for homes have increased slightly, though we are still performing at better than the G15 median. Void and bad debts have increased slightly, partly due to the loss of an income guarantee from one of our NHS partners.

The percentage of residents satisfied with the quality of new homes fell slightly in 2015/16. Basically, we have seen an increase in neutral ('neither satisfied nor dissatisfied') responses in our satisfaction surveys. However, dissatisfaction also fell. Just 1.5% of new residents in 2015/16 said they were dissatisfied/very dissatisfied compared to 3.2% in 2014/15.

Value for money statement for 2015/16

Competitive				
Indicator	2016*	2015*	NHG % change from 2015 – 2016	G15 % change from 2014 – 2015
Operating surplus before housing sales (£m)	30.8	42.3	-27	12
Surplus on housing sales (£m)	91.2	27.4	233	38
Interest payable (£m)	29.6	27.4	8	0
Operating margin on social housing letting (%)	25.0**	32.1	-22	1
Maintenance cost per home (£)	1,197	1,148	4	3
Management cost per home (£)	1,497	1,218	23	7
Voids and bad debts (£m)	2.3	2.1	10	0
Interest cover (incl. sales) (%)	437	284.1	54	24
Interest cover (exc. sales) (%)	412	254.6	62	24
Total debts per unit (£'000)	35.9	40.2	-11	-3

**NOTE: 2015/16 is a transition year in accounting from the UK GAAP method of stating accounts to the new FRS102 standard. The Group results above have been prepared on FRS 102 basis. The G15 results are for the previous year and not restated to FRS102, but based on the old UK GAAP. The figures are not directly comparable therefore, but are the best available currently.*

*** The reduction in social lettings operating margin for 2015/16 is largely explained by exceptional costs this year: A £3.95m one-off payment into the Social Housing Pension Scheme to help reduce the scheme deficit and a £2.66m impairment required under FRS102 as a result of the 1% cut in social housing rents from April 2016.*

Resident (Customer) Perspective				
Indicator	2016	2015	G15 bench mark	
			Upper quartile	Median
Overall customer satisfaction (%)	80.1	79.7	n/a	n/a
Resident satisfaction – with overall repairs (%)	77.9	79.7	90.1	84
Current rent arrears (%)	3.6	4.1	3.6	3.9
Average re-let time (standard re-lets) (days)	31.4	28.5	25.8	33.6
Percentage of residents very or fairly satisfied with quality of new home (new build only) (%)	87.2	91.1	88%	87%

Governance				
Indicator	2016 (based on units in management)	2016 (based on total no of units)	2015 (based on units in management)	2015 (based on total no of units)
Chief executive remuneration per home (£)	10.2	9.9	10.1	9.8
Board Chair's remuneration per home (£)	1.1	1.1	1.3	1.3
Total Board members remuneration per home (£)	6.4	6.1	7.4	7.25

£169 million
In the past two years we have invested £169m in new development activity and completed 1,500 homes.

£30.6 million
We completed 56,000 day to day repairs and, overall, invested £30.6m in our existing homes.

Getting the best out of our assets

Network now owns and manages over 20,650 homes. We are constantly considering ways to improve the management of these assets to ensure we can deliver the greatest number of new homes each year within our financial capacity and that our existing properties are well maintained and provide good homes for our customers.

Development performance

During 2015/16 we completed 945 homes, including 701 affordable homes for rent or shared ownership. We invested £46m in new homes.

In the past two years we have invested £169m in new development activity and completed 1,500 homes. We have the capacity and ambition to deliver 1,000 new homes a year consistently. This year we maintained our programmes and pipelines despite the 1% reduction in social rents for 2016-2020. This is a substantial commitment.

We have conducted comparative analysis between Network's scale of development and other G15 housing associations in London (our peer group of associations). We have also considered how our development performance stands up against the current and anticipated performance of several of the proposed big new mergers within the sector.

This work shows that, accounting for relative size, Network is developing at around the same rate or better than most of our larger peers, and this will be the case over the next five years even against the very large new merged associations, based on their published plans.

In 2014/15, according to Inside Housing magazine, pro-rata to our size, we delivered the biggest increase in stock of any housing association in England. We increased our stock in 2015/16 by a substantial 6.3%.

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

This year we completed 239 homes for market sale – by far our biggest ever market sale programme – and our first five homes for market rent. Our surplus from sales in 2015/16 (including shared ownership) was £91.2m and this is a huge sum now available to reinvest in new homes, existing homes and services.

Through the deals struck during 2015/16 with prestigious developers, Stanhope and Quintain, we will grow our market rent portfolio over the next three years and this should deliver additional money to reinvest in our social purpose.

Asset management

During 2015/16 the asset management team and our contractors completed more than 56,000 day to day repairs on our properties and we continued with our substantial planned maintenance programme on specific schemes. In total, we invested £30.6m in our existing homes, a 10% increase on 2014/15.

Following the creation of the new centralised asset management directorate at the start of 2014/15, the team has continued to consolidate improved performance during 2015/16.

Taking March 2015 performance compared to March 2016 figures, we have moved from 72.23% repairs satisfaction to 82.31% satisfaction, a 10% improvement. We had some difficult months during the first two thirds of the year as we took concerted action to tackle poor quality contractor services, but performance improved significantly in the later part of the year. The percentage of repairs completed within target time improved 7% during 2015/16 to over 93%.

A new repairs contract for Network Homes is being let during 2016/17 with much clearer requirements and performance measures. The contract terms are bespoke to Network Homes and specifically designed to ensure excellent performance is encouraged while delivering strong value for money. For example, the contractor will be charged for each missed appointment, for void rent losses beyond the agreed dates, and for 100% of the cost of engaging a third party to carry out remedial works where contractual performance is poor.

The estimated annual saving on voids repairs alone, compared to the current contract is £485,000. A major incentive for the contractor is the possibility of being awarded £5 million in planned works contracts if their performance is good.

The central asset management team, created in 2014/15, is now operating effectively with much stronger procedures and contract management in place and we expect performance to improve further during 2016/17. We have set a repairs satisfaction target for this year of 85%.

During the year we commissioned Savills to undertake a financial and sustainability analysis of our housing stock to inform our asset management strategy. This reported in May 2016 and showed that the vast majority of our homes have a strong financial performance. Just two properties had a negative Net Present Value (NPV). Around 13% of the stock had NPVs where the 1% reduction in rents over the next four years means we will need to monitor financial performance closely. Overall, however, Savills reported that Network's benchmark NPVs are above the regional benchmarks for London and the South East.

In the run up to the creation of Network Homes, we developed a new Asset Management Strategy 2016-21. Following that, a Strategic Asset Management Working Group, meeting quarterly, is now developing our approach to active asset management. The group has already set a clear framework of criteria for all future options appraisals and is examining our stock in a number of non-core localities to consider whether we wish to retain the homes or use the potential proceeds from these assets in a different way.

This work links closely with our new Growth Strategy 2016-21 and our strategic objectives of maximising growth, delivering first class customer service, and increasing financial strength.

Investing in improved performance

We have chosen to make substantial investments in our business to support our objective of achieving 90% customer satisfaction. We are investing strongly in asset management and repairs, digital service and customer contact, IT systems, infrastructure and processes, and developing our people to ensure quality of personal service to the customer is right. These investments totalled £1.95m in 2015/16, with a further £4m budgeted for 2016/17. This is about ensuring we are operating as a modern, dynamic business, delivering services in the way and to the quality our customers will expect from us.

These investments will reduce the number of calls taken by our contact centre (currently over 240,000 a year), reduce complaints, enable us to deliver more 'right first time' contacts, cutting down on unproductive repeated staff contacts, enable a level of digital self-service for customers, and reduce time spent on each interaction (for example, through the implementation of mobile working for housing managers).

These substantial 'invest to save' initiatives are indicative of our commitment to the 90% satisfaction ambition. Ultimately, they will lead to a need for fewer staff in certain parts of the business and reduced non-pay costs. However, in the short-term they will have an impact on our overall returns and costs.

Value for money statement for 2015/16

Return on capital employed

The tables below show our return on capital employed across the four operating associations within Network Housing Group and the turnover, surpluses and margins achieved within the different types of home we own and manage.

During the year, Network had two major one-off expenses: £3.95m as a one-off payment into the Social Housing Pension Scheme to reduce the scheme deficit, and £2.66m as a required impairment under FRS102 relating to the introduction of the 1% real terms rent cut for social and affordable rented properties from 2016. Both of these items were accounted for under the social lettings area. Excluding these two items, the operating margin for social lettings increases from 25.0% to 30.6%. A £1.5m deficit (after corporate overhead allocation) on our temporary housing operations accounts for the remainder of the reduction in margin (excluding sales) compared to 2014/15. The position on temporary housing is covered in more detail in the 'understanding costs' section on pages 19 and 20.

Value for money gains made and expected

Delivering value for money gains is a continual process. There is more to it than simply making year on year cash savings. The potential benefit of savings to our business and to the customer has to be weighed against the risk of poorer service if costs are cut too aggressively. And, as we have indicated, we also want to invest to achieve improved service performance and support customers to fulfil their potential and aspirations.

The earlier sections of this self-assessment have already shown a range of value for money gains achieved during 2015/16 and anticipated, together with how we are planning to invest in the future of our business for the benefit of customers.

In this section, to go beyond these broader strategic gains, we have identified a number of the larger operational value for money gains we have achieved and which we expect to achieve in the coming years. We have aimed to show how these relate to our four strategic objectives.

Maximising growth within our resources

Our development directorate is using a range of mechanisms to improve value for money and ensure resources are focused productively and potential waste is eliminated.

Innovation in construction procurement is a key tool. We are looking to use modern methods of construction (MMC) on the redevelopment of Press House in Wembley and will analyse its effectiveness in reducing costs before potentially rolling this out on other schemes. We are involved in a G15 group assessing the benefits of MMC through collaborative working.

Our joint venture with Hills on the 441 home scheme at 243 Ealing Road in Alperton, detailed in a case study last year, completed fully in 2015/16, over a year ahead of our original schedule, with fixed construction costs and earlier than anticipated sales proceeds. Overall, we assess the benefit achieved through the nature of this procurement at £4.98m. We are actively pursuing other similar arrangements for pipeline schemes.

	Operating surplus			Capital deployed			ROCE			Variance
	2016	2015	2015*	2016 NBV	2015 NBV	2015* NBV	2016 By NBV	2015 By NBV	2015* By NBV	By NBV
		£'000			£'000					
CTH	611	1,444	1,514	83,574	73,609	49,682	0.7%	2.0%	3.0%	-1.3%
LSH	1,798	3,370	3,226	44,213	44,182	39,736	4.1%	7.6%	8.1%	-3.6%
RIV	11,334	11,054	10,850	183,464	173,195	140,229	6.2%	6.4%	7.7%	-0.2%
Stadium	20,453	27,575	25,883	1,094,521	1,100,324	581,712	1.9%	2.5%	4.4%	-0.6%
Group stats	**34,541**	**43,929**	**41,958**	**1,417,026**	**1,401,161**	**821,202**	**2.4%**	**3.1%**	**5.1%**	**-0.7%**

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

2015/16 Social housing letting	General rented £'000	Sheltered housing £'000	Shared ownership £'000	Hostels £'000	Short stay/ temporary £'000	Key workers £'000	Total £'000
Turnover	82,118	12,537	8,599	5,200	20,334	9,181	137,969
Operating surplus/(deficit)	22,035	5,405	3,719	1,680	(1,459)	3,161	34,541
Operating margin	26.8%	43.1%	43.2%	32.3%	-7.2%	34.4%	25.0%
Operating margin (2014/15)	37.7%	37.2%	46.3%	24.6%	0.2%	41.1%	32.1%
Operating margin (2014/15) previous UK GAAP	39.4%	39.3%	47.2%	25.4%	0.0%	40.7%	32.9%

Value for money statement for 2015/16

At Thrayle House in Stockwell, where we are redeveloping 177 homes, we are trialing Building Information Management (BIM Level 2) to help closely monitor the design and build and assess the ongoing benefit for building maintenance of a much closer understanding of component usage. Again, we will roll this out, if, as we expect, it proves successful.

This year we have made a range of specific efficiencies, which are detailed in the table below.

Looking ahead

A number of the types of gains achieved during 2015/16 will flow through to 2016/17, although the amounts are likely to be different, as indicated.

In addition, at the current time, further expected VFM gains for the year include:

- 243 Ealing Road ground rent sale – £1m in income generated
- Staff salary cost underspend of £325,000 against planned budget (one-off 8% benefit to development team cashflow)

We are exploring add-on deals from our relationships in the build to rent market with Stanhope and Quintain, which may provide substantial additional income gain for Network. We would expect to be able to report on these, next year, including the level of added value achieved.

Action	Value for money gain	Cashable/non-cashable
Improved purchasing deals, eg. with kitchen, tiling suppliers	£18,000	Cashable. Ongoing deals. £15,000 additional saving targeted for 2016/17
Lower valuation costs for bulk orders	£66,744 – despite large increase in sales volumes from 243 to 559	Cashable. Ongoing. £30,000 saving targeted for 2016/17
Re-using show house furniture in different schemes	£89,000	Cashable Ongoing. £30,000 savings targeted for 2016/17
Use of 8 procurement frameworks – fees from opening use to local authorities and other HAs	£51,000	Cashable. Ongoing. £55,000 saving targeted for 2016/17
Training/employment of 26 apprentices across 3 regeneration schemes and within development team	Unquantified	Non-cashable. Gain for customers. Many apprentices were Network residents

Delivering first class customer service

This is the area of our business where we are currently investing most heavily to deliver future gains, many of which will not be cashable but will offer considerable added value for our customers. Much of this is detailed elsewhere in this report and linked directly to our ambition to move overall customer satisfaction from the current 80% to 90% by 2021.

Better procurement
Through improved procurement of contracts as they come up for renewal, the rolling annual gains in value for money that have been secured this year are detailed in the table below.

A new cleaning and grounds maintenance contract for our Out of London homes will create annual savings of £100,000 a year from 2017.

As future contracts come up for renewal, wherever possible, these will be let on an organisation-wide basis following our amalgamation. This will allow us to drive greater economies of scale and added value to deliver both cashable and non-cashable benefits.

Corporate Social Responsibility
Our 'Network Cares' programme continues to produce a range of social, economic and environmental benefits for our residents and society. During 2015/16 these included:

- £800,000 in additional income from previously unclaimed benefits entitlements, where our welfare benefits advisors supported residents to make claims
- 32 residents supported into employment and 105 participating in employment training and support, delivering £208,000 of social value, measured through the HACT Social Value Tool
- £400,000 spent on environmental and wellbeing improvements on 35 estates through our '360' project, working to priorities agreed with residents. The social value was not measured in 2015/16 but we are using the HACT tool to do so in 2016/17.
- 75 home visits and 4 advice surgeries to help reduce fuel poverty, including provision of LED light bulbs, energy monitors, new radiator panels, and information packs
- Creating new partnerships and helping fund local agencies, including Brent Law Centre, Alperton Children's Centre, Hertford Community Voluntary Service, Healthwatch Lambeth, and Future Living
- Volunteering by Network staff, including raising over £20,000 for Sports Relief through acting as a call centre for 772 donations

Contract	Annual saving	Contract start & length	Cashable/non-cashable
Cleaning & grounds maintenance – older person's schemes	£35,000	Apr 2015 – 3 years	Cashable
SW9 Cleaning & grounds maintenance	£75,000	Oct 2015 – 3 years	Cashable
Utility – gas	£195,000	Apr 2015 – 2 years	Cashable – indicative. Based on actual usage
Out of Hours contact	£27,000	Sept 2015 – 4 years	Cashable
Fire risk assessment	£58,390	June 2015 – 4 years, extendable to 6 years	Cashable
Lifts	Unquantified	Nov 2015 – 5 years	Cashable, but undetermined. The new contract is comprehensive to avoid previous issue of additional charges being levied for certain jobs

Value for money statement for 2015/16

We are currently working to identify those of our residents at most risk from the introduction of Universal Credit and the latest plans for welfare cuts, which will come into operation over the next two years. This will allow us to target support effectively and, from a business point of view, help to protect our income.

Looking ahead
We have identified expected savings of £115,000 in non-staff asset management budgets for 2016/17 and a further £384,000 in asset management staffing and non-pay costs from 2017/18. On the housing management side, we are proposing target savings against planned budgets of £600,000 across 2016/17 and 2017/18.

Increasing financial strength

We have evidenced the very considerable gains in Network's financial strength in recent years elsewhere in this report, alongside the crucial value for money benefits this brings in our ability to fulfil our social objectives.

Specific value for money gains related to finance we can show this year are detailed in the table at the bottom of the page.

Looking ahead
We expect to deliver £1.1 million of additional savings this year, rising to £2 million a year by 2020/21. Many of this year's anticipated savings are identified elsewhere in this report.

The greater rigour we are introducing in our value for money processes and measurement during 2016/17, through our new VFM Strategy, should enable us to identify and capture additional savings and added value, with staff becoming more consistently focused on delivering better value for money. This should be evidenced by next year's self-assessment.

Building a great organisation

The consolidation of the group structure into a single organisation, Network Homes, is a strong step towards building a great organisation, and the potential value benefits of this are shown earlier in this report.

We are investing in our new brand and in our people to ensure that Network's profile and reputation grows within our marketplace and this will support new business winning, customer satisfaction and our attraction to high calibre people as an employer.

The reduction in Board membership and administration and servicing costs has delivered a productivity gain of approximately £250,000 – £300,000 a year. In particular, the executive and other senior managers now have more time to focus on operational management of the business, and this should begin to drive further benefits this year.

We have now moved the administration of all Board and committee meetings to BoardPad. This will reduce the resource and cost associated with meeting administration further going forward. Over time, we will look to extend BoardPad use to certain internal management meetings.

We achieved a freeze in insurance premium rates across all policies in 2015/16 and this has continued into 2016/17. We are managing risk better, resulting in fewer claims. As Insurance Premium Tax has risen from 6% to 9.5% this year, this represents a notional gain of a minimum £10,400.

Action	Value for money benefit	Cashable/non-cashable
Negotiation of amalgamation consent fees with lenders. Numerous fees negotiated down	The total cost of £150,000 to secure all consents was £100-150,000 below our estimate of costs	Cashable, one-off saving
Negotiation of reduced legal fees for amalgamation by requiring all lenders to use the same lawyers	£84,500	Cashable, one-off saving
Break cost negotiations to trade out of LOBOs for fixed rate lending resulted in reduction of 24 basis points in interest costs	£180,000 Further discussions underway in light of Barclays later decision to waive LOBO trade out costs	Cashable, annual savings
Reduction in margin negotiated on extension of a borrowing facility for two years	£300,000 interest cost reduction a year if fully drawn	Cashable, for two years
New £50m borrowing facility from Clydesdale Bank to support delivery of 3,000 new homes	Added value	Non-cashable. Gain for customers through provision of new homes

Value for money statement for 2015/16

Looking ahead

We are targeting net savings within the People & Culture directorate budget of £77,000 (1.3%) during 2016/17 and 2017/18. A further 10% of the budget during 2016/17 will be moved between headings to deliver improved value on the spend. Within our wider corporate services, we have identified savings for 2016/17 in pay and non-pay costs of £598,000 (6.8% of budget).

In addition, we are examining the value for money benefit of establishing an in-house legal team to reduce our expenditure on legal fees. While this would not obviate the need to take external advice on certain issues, we estimate the savings could be in the region of £100,000 in the first year, rising to £300,000 by the end of the second year. This takes into consideration the costs associated with establishing the team.

We are targeting a reduction in staff sickness per employee to seven days this year. We believe this is achievable as a result of the already improved One Network culture we are developing, with greater benefits expected to flow through our clearer strategy, brand and employee training and engagement programmes. Achieving the seven day goal would create an improved productivity benefit of £192,000, based on average salaries and additional staff time worked.

As a result of amalgamation, we have reduced staffing costs in the Marketing & Communications team by nearly £50,000, centralising the team and moving to more generic roles. The single operating association and brand has allowed us to reduce non-pay marketing & communications expenditure by £20,000 for 2016/17, at the same time as we intend to deliver a higher public profile and increased influence for Network Homes externally. This represents added value.

We have used the savings to help establish a new Strategy & Research team. In a more complex, unpredictable, risky and competitive marketplace this will help improve our market intelligence, support business cases and bidding processes, and provide the underpinning for more evidence based decision making. This will support our ability to win new business and increase our influence in the market.

Conclusion

Within this report we have outlined in considerable detail our strategic approach to value for money, our costs per property and comparative performance, how we are using our assets, and the value for money gains we have made and expect to make.

We have been clear about how our amalgamation as a single operating organisation will benefit us for the future and why we are investing significant sums now to ensure the future success of our business and specifically to meet our strategic objectives. We have highlighted areas for improvement, as well as showing our achievements.

We have made apparent our appetite for maximising development of new affordable homes to contribute as much as we can to new housing supply, in spite of the 1% cut in social and affordable rents, which will take £45m out of our income to 2020. And we have shown our commitment for driving customer satisfaction to new heights, despite performing better as an organisation now than we ever have before.

Network is immeasurably stronger than it was just three years ago, and we are clear about our future direction and strategy. Improving value for money will remain a vital part of that strategy, as our new VFM Strategy testifies. We have more to do, but we are making strong progress.

We publish a self-assessment statement of our value for money performance on our website each year: https://www.networkhomes.org.uk/about-us/providing-value-for-money/

£300,000

We estimate the savings from establishing an in-house legal team rising to around £300,000 by the end of the second year.

Statement of Group corporate governance

Statement of Group corporate governance

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

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

Group Board

During the year, the Group reviewed its governance arrangements and the Group Board made a decision to consolidate the Group's governance structures, moving towards a Common Board structure. As part of this work, the Group has reviewed and amended its committee structure and the committees' terms of reference.

This has included dividing the role of the former Group Finance Committee amongst the Group Board and Audit and Risk Committee; expanding the role of the Audit Committee to give more focus on risk; and expanding the role of the Group Investment Committee to include oversight of strategic asset management.

All registered provider members of the Group amended their rules at the beginning of the year to allow a Common Board to be formed. The membership of the Common Board consisted of six core members, who were members of all the registered provider Boards, and two members for each of Network Stadium Housing Association Limited, London Strategic Housing Limited, and Riversmead Housing Association Limited, making a total of 12 Board members in total.

Amalgamation

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

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

Network Homes Limited is a charitable Registered Society (no. 29543R) under the Co-operative and Community Benefit Societies Act 2014, a registered provider of social housing (Registered Provider no. L4373), a member of the National Housing Federation, regulated by the Housing and Communities Agency.

As the parent company, Network Homes Limited has overall control of the business of the Association and its members. It will assist and support all subsidiaries in achieving compliance with regulatory requirements. The Board's responsibilities are set out in detail in the Board's Terms of References. On 1 April 2016, SW9 Community Housing became a subsidiary of Network Housing Group (now Network Homes Limited) and since that date has taken over property management services that were previously provided by Community Trust Housing Limited. SW9 is a charitable company limited by guarantee (number 09574528).

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

Risk management

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

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

The Chairs of the committees report back to the Board as and when appropriate. The committees and their main roles and responsibilities are set out in written terms of reference and summarised below:

Group Audit and Risk Committee ("ARC")

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

Statement of Group corporate governance

The ARC assumed roles previously assigned to the Group Finance Committee ("GFC") in January 2015.

Group Investment Committee ("GIC")

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

Group Remuneration, Nominations and Governance Committee ("GRNGC") has changed its name to the People, Governance & Culture Committee on 29 September 2015 further to Committee and subsequent Board approval.

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

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

The Group has implemented two officer led risk panels. The Group Risk Panel, which comprises the Group Chief Executive, other executive members and the Head of Assurance, reviews the Group's risk map and the operational/functional risk maps for consistency and completeness and is responsible for ensuring that actions identified in the risk maps are followed through. The Scheme Risk Appraisal Panel reviews risks associated with development schemes.

Statement of Group corporate governance

Statement of compliance

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

Significant risks 2015/16

The Group has identified a list of strategic level risks, and the six detailed in the table on page 33 have been identified as having the highest priority.

Internal controls assurance statement

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

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

Assurance framework

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

Key elements of the control framework include:

Risk assessment

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

Executive responsibility has been clearly defined for the identification, evaluation and control of significant risks. The Group Executive Management Team (acting as the Group Risk Panel) and Board carry out evaluations of the risks which impact on the Group's ability to meet key business objectives. Risk assessments are generally carried out at two key stages in the year and are aligned to the business planning process. Business risk assessments are also carried out throughout the Group at departmental levels, for projects and for new business opportunities. This process is co-ordinated through a regular reporting framework by the Group Risk Panel. The Group Executive Management Team considers reports on significant risks facing the Group and the Group Chief Executive is responsible for reporting to the Board any significant changes affecting key risks or the breakdown of internal control. Each Association's most significant risks are further analysed and quantified, reported to their Board and reviewed by the Group Risk Panel.

Monitoring

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

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

Control environment and activities

The Board retains responsibility for a defined range of issues covering strategic, operational, financial and compliance issues. The Board has adopted the Code of Governance 'Excellence in Governance 2010'. This sets out the Group's policies with regards to the quality, integrity and ethics of its employees.

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

The Group complies with 'Excellence in Governance', except in the following respects:

The Chair of the Group Board has served more than nine years in aggregate in various non-executive roles within the Group. We had agreed with the HCA that this remains appropriate, to ensure a degree of stability and continuity during a period of significant change, particularly in relation to merger discussions with Catalyst. Now that these have ended the Group Board has considered the arrangements and has appointed a new Chair.

During the year, London Strategic Housing Ltd had only five Board Members at a time when its rules required a minimum of seven. This was a temporary situation which was resolved by changing the Association's Rules and moving to a common Board arrangement. The Association is now fully compliant.

Risk	Responsible Officer	Mitigating Action	Progress made in the Financial Year
Inability to attract and retain people of sufficient calibre to **deliver the Group's objectives**.	Executive Director of People & Culture.	Established biannual appraisals, target setting and personal development plan processes. Training and induction programme.	Organisational People & Culture Agenda and rollout of development training. Network-wide harmonisation of terms and conditions. Market testing of salaries and benefits. Recruitment managed by HR team.
Poor data integrity, use of systems, information management and KPIs impacts on operational and strategic planning and achievement of key ambitions thereby increasing the risk of service failures, governance downgrade and impairment.	Executive Director of Integration. All Executive Directors.	Data Integrity Team including 2 WTE Data Quality officers. Independent performance team produce KPI reports for Boards and ELT. Ownership of key data sources assigned to ELT members. Handover procedure and Development Control Manual. Exception and anomaly reporting and analysis	Revised project management process. Understanding Our Customers project. Executive Directors Assurance Self-certification statements. CRM to One View Shared drive project.
Health and safety failure causes **death or harm to residents** resulting in serious detriment, regulatory and statutory non-compliance causing negative operational and reputation impact. (Consumer Standard).	Executive Director of Asset Management.	Centralised Asset Management Directorate. Effective control and monitoring of contractors. Revised handover process for all properties ensures valid LGSR in place when property occupied and new LGSRs obtained within one year.	Comprehensive monitoring of Mechanical & Engineering contracts to ensure statutory requirements. Funded asset management strategy. Stock condition survey. Recruitment of centralised Health and Safety team and implementation of new Health and Safety processes. Independent scrutiny of gas servicing data by the Data Integrity team.
Changes in the **economic and political environment** results in new properties not being affordable and uncertain potential long-term impact of welfare reform.	Executive Directors of Development, Customer Services and Finance & Governance.	Stress testing with multiple scenarios. Varied stock, tenures and outright sales. Tracking income impacts of welfare reform. Tracking income levels required for shared ownership homes and adapting the product if necessary. Welfare reform officers ensure residents maximise potential income.	Affordable rent review. Review of the financial inclusion strategy. Nudge project reviewing 'can't pay/ won't'. Triggers and actions to mitigate sales risk developed VFM strategy updated to address rent loss approved
Achieving the Board's expectations to **diversify our development products**, including PRS and deliver AHP2.	Executive Director of Development.	Experienced and award winning Development Directorate with a proven track record of delivery. Stress testing.	New land acquisitions, land contacts and S106 partners.
Business interruption due to long-term loss of key building, IT or people results in lost productivity, inadequate service to residents, failure to pay staff and suppliers and reputational damage.	Executive Director of Integration.	Business Continuity Plans (BCPs) in place with google site. Split sites giving capacity/ flexibility. Regular, routine backup of IT systems to off-site location. IT BCP on-call processes.	Business Continuity Working Group. Revised Business Continuity Plans.

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

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

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

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

Continuous Improvement Objectives

The following Group strategic and operational improvements, planned for 2015/16, were successfully implemented:

- Purchase order and commitments system – first stage
- Improvements to website, intranet and mobile technology platforms
- Customer relationship management system – second stage
- Growth in the non-regulated entity to undertake market and intermediate rent

The corporate strategic objectives are:

- Deliver First Class Customer Service
- Increase Financial Strength
- Maximise Growth Within Our Resources
- Build a Great Organisation

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

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

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

Statement of Group corporate governance

Statement of Board's responsibilities

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

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the registered provider of social housing (RPSH) and of the surplus or deficit for that period. In preparing these financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the RPSH will continue in business.

The Board is responsible for keeping adequate accounting records that are sufficient to show and explain the transactions and which disclose with reasonable accuracy at any time the financial position of the RPSH and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Social Housing in England from April 2015. It has general responsibility for taking reasonable steps to safeguard the assets of the RPSH and to prevent and detect fraud and other irregularities.

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

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

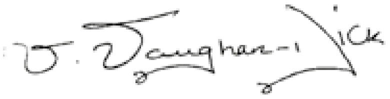
Disclosure of information to auditors

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

The Report of the Board was authorised for issue by the Board on 28 July 2016:

Andrew Watson,
Chair

Valerie Vaughan-Dick,
Board member



Independent Auditors' report

Independent Auditors' report
to the members of Network Homes Limited for the year ended 31 March 2016

Report on the financial statements

Our opinion
In our opinion, Network Housing Group Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the registered provider's affairs as at 31 March 2016 and of the Group's and the registered provider's result and cash flows for the year then ended; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing from April 2015.

What we have audited
The financial statements comprise:

- the Group and registered provider statements of financial position as at 31 March 2016;
- the Group and registered provider statements of comprehensive income for the year then ended;
- the Group and registered provider statements of changes in equity for the year then ended;
- the Group cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Other matters on which we are required to report by exception

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

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

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

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Board
As explained more fully in the Statement of Board's Responsibilities set out on page 35, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

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

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

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

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

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

Julian Rickett (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP,
Chartered Accountants and
Registered Auditors, London

Date: 17 August 2016

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

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

Consolidated statement of Comprehensive Income for the year ended 31 March 2016

	Note	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Turnover	3	311,012	199,100	25,023	20,501
Cost of sales	3	(75,056)	(28,458)	-	-
Operating costs	3	(113,902)	(100,928)	(25,188)	(20,052)
Operating surplus/(deficit)	**3**	**122,054**	**69,714**	**(165)**	**449**
Profit on sale of fixed assets	7	7,465	8,066	-	-
Gift aid receivable		-	-	332	254
Revaluation surplus on investment properties		2,594	-	-	-
Interest receivable and other income	8	477	594	-	-
Restructuring of financial instruments	8	62,335	-	-	-
Interest and financing costs	9	(29,616)	(27,379)	(66)	(109)
Fair value element of LOBO loans	9	(9,979)	(41,382)	-	-
Surplus on ordinary activities before taxation		**155,330**	**9,613**	**101**	**594**
Tax charge on surplus on ordinary activities	11	(7)	(1)	-	-
Surplus for the year		**155,323**	**9,612**	**101**	**594**
Actuarial gain on defined benefit pension scheme	37	1,317	7	-	-
Total comprehensive income for the year		**156,640**	**9,619**	**101**	**594**

All activities are classed as continuing. Notes on pages 43 to 89 form part of the financial statements

Statement of Changes in Reserves for the year ended 31 March 2016

	Note	Group £'000	Association £'000
At 1 April 2014 (Re-stated)	**43**	**110,323**	**(1,803)**
Surplus for the year		9,612	594
Actuarial loss on defined benefit pension scheme		7	-
At 31 March 2015 (Re-stated)	**43**	**119,942**	**(1,209)**
Surplus for the year		155,323	101
Pension re-measurement		1,317	-
At 31 March 2016		**276,582**	**(1,108)**

The Association have a share capital of £9 (2015: £10). The movement in share capital is disclosed in note 32.
Notes on pages 43 to 89 form part of the financial statements

Statement of Financial Position at 31 March 2016
Co-operative and Community Benefit Societies No. 29543R (Network Housing Group Limited)
Co-operative and Community Benefit Societies No. RS007326 (Network Homes Limited)

	Note	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Fixed assets					
Intangible assets					
Computer software	13	1,603	985	1,566	934
Tangible fixed assets					
Housing properties at cost less depreciation and impairment	12	1,417,026	1,404,161	-	-
Other fixed assets	13	23,298	22,613	1,681	1,503
Investment properties	15	29,387	25,621	-	-
Total tangible fixed assets		1,469,711	1,452,395	1,681	1,503
Investments (financial)	16	6,539	6,590	-	-
Shared equity loans	18	6,821	2,919	-	-
Debtors: amounts falling due after more than one year	19	5,233	8,541	-	-
Total fixed assets		**1,489,907**	**1,471,430**	**3,247**	**2,437**
Current assets					
Stock	20	87,108	77,541	-	-
Debtors: amounts falling due within one year	21	27,299	27,239	6,141	8,682
Cash and cash equivalents	22	65,106	36,813	136	-
		179,513	141,593	6,277	8,682
Less: creditors amounts falling due within one year	23	(52,089)	(80,417)	(6,939)	(8,961)
Net current (liabilities)/assets		127,424	61,176	(662)	(279)
Total assets less current liabilities		**1,617,331**	**1,532,606**	**2,585**	**2,158**
Creditors: amounts falling due after more than one year	24	(1,325,793)	(1,394,584)	(3,693)	(3,237)
Provisions for liabilities and charges	25	(14,544)	(16,358)	-	(130)
Pension liability	37	(412)	(1,722)	-	-
Total net assets		**276,582**	**119,942**	**(1,108)**	**(1,209)**
Capital and reserves					
Non-equity share capital	32	-	-	-	-
Revenue reserve (Re-stated)		276,582	119,942	(1,108)	(1,209)
Total reserves		**276,582**	**119,942**	**(1,108)**	**(1,209)**

Notes on pages 43 to 89 form part of the financial statements.
These financial statements on pages 38 to 89 were authorised for issue by the Board on 28 July 2016.

Andrew Watson, Chair

Valerie Vaughan-Dick, Board member

Tabitha Kassem, Company Secretary

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

Consolidated Cash Flow statement for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Net cash inflow from operating activities	36	126,074	35,509
Cash flow from investing activities			
Purchase of tangible fixed assets – housing properties		(34,461)	(121,388)
Purchase of tangible fixed assets – other fixed assets		(1,987)	(6,147)
Proceeds from disposal of tangible fixed assets		14,001	18,032
Grants received		4,573	15,526
Purchase of investments		(3,766)	(10,178)
Shared equity investments		(3,902)	(1,834)
Interest received		477	594
Net cash used in investing activities		**101,099**	**(69,886)**
Cash flow from financing activities			
Interest paid		(32,750)	(33,514)
New borrowings		69,650	130,921
Repayment of borrowings		(109,141)	(42,195)
Net cash received from financing activities		**(72,241)**	**55,212**
Net increase in cash and cash equivalents		**28,768**	**(14,674)**
Cash and cash equivalents at the beginning of the year		36,243	50,917
Cash and cash equivalents at the end of the year		**65,011**	**36,243**
Cash and cash equivalents consist of:			
Cash at bank and in hand		65,106	36,813
Bank overdraft		(95)	(570)
Cash and cash equivalents		**65,011**	**36,243**

Notes on pages 43 to 89 form part of the financial statements

Notes to the Financial Statements
for the year ended 31 March 2016

1. Accounting policies

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

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

The Group transitioned from previously extant UK GAAP to FRS 102 as at 1st April 2014. An explanation of how the transition to FRS 102 has affected the reported financial position and financial performance is given in note 43.

Basis of preparation and statement of compliance

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

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

The Group and Association's presentation currency is Great Britain Pounds. Amounts are presented in thousands.

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

Exemptions for qualifying entities under FRS 102

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

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

Basis of consolidation

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

The Group has chosen not to retrospectively apply FRS 102 to business combinations that occurred before the date of transition to FRS 102 (being 1 April 2014) as allowed by the transitional exemption available in FRS 102. All intra Group transactions, balances, income and expenses are eliminated on consolidation.

Turnover

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

Taxation

The Association has charitable status and is therefore not subject to corporation tax on its charitable activities.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for services rendered.

All income is recognised on a receivable basis as per specific criteria described below

a. Rents

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

b. Income from the sale of properties

Income from property sales such as outright sales, shared ownership staircasing (sale of subsequent tranches), right to buy and first tranche sales is recognised at the point of the legal completion of the sale. Receipts from the sale of the first tranche of shared ownership properties and proceeds from the sale of properties developed for the open market are recognised on legal completion within turnover. The staircasing of shared ownership properties and the sale of housing properties are recorded net of carrying value as a gain or loss on disposal.

c. Grants
Revenue grants are recognised when the conditions for receipt of agreed grant funding have been met. Income from deferred capital grants is recognised in a systematic basis over the useful economic life of the asset (usually the property's fabric) for which it was received. Government's grants are amortised systematically over the life of the build component which is 100 years.

d. Gift aid
Gift aid from the Association's wholly owned subsidiaries is recognised at year-end on receivable basis and is disclosed on the Statement of Comprehensive Income. Gift aid is eliminated on consolidation in the Group.

e. Service charge income
Service charge income is recognised on an accruals basis as it falls due. The Group operates both fixed and variable service charges on a scheme-by-scheme basis in full consultation with residents. The service charges on all schemes are set on the basis of budgeted spend. Where variable service charges are used the budget will include an allowance for the surplus or deficit from prior years, with a surplus being returned to residents in the form of a reduced charge for the year and a deficit being recovered via a higher service charge or by alternative methods if the contract allows.

f. Management fees
Management fees receivable (excluding VAT) for services provided to other entities are recorded when they fall due. Fees are charged to the subsidiaries for management and support services and are apportioned as a percentage of turnover. Intra group fees receivable and payable are eliminated on consolidation.

g. Supporting people contract income
Support service income for provision of extra care for residents with specific needs is recognised on an accruals basis as it falls due.

h. Commercial income
Income from the letting of commercial properties is recognised as it falls due on an accruals basis.

Interest payable and similar charges

Interest on borrowings is charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method, if the loan is a basic financial liability, to ensure that the amount charged is at a constant rate on the carrying amount. Other loans such as Lender Options Borrower Option (LOBO) are measured at fair value through Statement of Comprehensive Income.

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

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

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

Profit on the sale of fixed assets

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

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

Housing properties

Housing properties are principally properties available for rent and shared ownership properties. Housing properties constructed or acquired in the open market are stated at cost less accumulated depreciation. The cost of housing properties is their purchase price together with any costs of acquisition, improvement, including directly attributable development costs and interest payable.

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

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

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

Depreciation of housing properties

Freehold land and housing properties under construction are stated at cost and are not depreciated.

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

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

Service contractors comprise capital costs relating to lifts, CCTV, warden call systems and other similar communal capital costs. Housing properties held on long leases are depreciated in the same manner as freehold properties, except where the unexpired lease term is shorter than the longest component life envisaged, in which case the unexpired term of the lease is adopted as the useful economic life of the relevant component category.

Depreciation of other tangible fixed assets

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

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

Impairment of tangible fixed assets

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

The recoverable amount will be the higher of fair value less costs to sell, or Existing Use Value for Social Housing (EUV-SH), or Value in Use (in respect of assets held for their service potential) (VIU-SP). As allowed by Housing SORP 2014 the Group uses depreciated replacement cost as a reasonable estimate of VIU-SP.

Where the carrying amount of an asset or CGU is deemed to exceed its recoverable amount, the resulting impairment loss is recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in the Revaluation Reserve, in respect of that asset or CGU. If an impairment loss exceeds the accumulated revaluation gains accumulated in the Revaluation Reserve in respect of that asset or CGU, the excess will be recognised in the Statement of Comprehensive Income.

The Group defines CGUs as schemes except where its schemes are not sufficiently large enough in size or where it is geographically sensible to group schemes into larger CGUs.

Investment properties

Investment properties consist of commercial properties and other properties not held for social benefit or for use in the business.

Completed investment properties are measured at cost on initial recognition and subsequently at fair value at the reporting date, with changes in fair value recognised in the Statement of Comprehensive Income. Fair value is determined annually, and is derived from current market rents and investment property yields for comparable properties, adjusted if necessary for any difference in the nature, location or condition of the specific asset. Investment properties are not depreciated.

Investment properties under construction are measured in the statement of financial position using the purchase price plus any other acquisition costs, construction costs to date plus directly attributable development overheads and capitalised interest. Any impairment is recognised in the Statement of Comprehensive Income in the year when the impairment occurs.

Intangible assets

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

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

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

Amortisation is charged using the straight-line method to allocate the cost of software over the estimated useful economic life. Software costs are amortised over a 3 to 5 year useful economic life.

Stocks

Stocks represent both completed properties and properties under construction:

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

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

Financial assets

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

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

Shared equity loans

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

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

Financial liabilities

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

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

Financial liabilities are derecognised when the liability is extinguished. Extinguishment occurs when Group ceases to have any obligations attached to the derecognised financial liability.

Fair values are determined in line with paragraph 11.27 of FRS 102 using exit prices quoted by the counterparty as the best estimate of fair value where available. Financial liabilities are derecognised when the liability is extinguished.

Where the terms of a financial liability are renegotiated with substantially different terms, the original financial liability is derecognised and a new financial liability is recognised. The difference between the carrying amount of the financial liability derecognised and the consideration paid (including any non cash assets transferred or liabilities assumed) for the new financial liability is recognised in the Statement of Comprehensive Income.

Social housing grant (SHG) and other capital grants

SHG is receivable from the Homes and Communities Agency and other grants are receivable from local authorities.

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

Upon the sale of a grant funded property, any attributable grant becomes recyclable and is transferred to a recycled capital grant fund (RCGF) or disposal proceeds fund (DPF) for right to acquire units until it is reinvested in a replacement property. The related grant amortisation is charged to the Statement of Comprehensive Income and is disclosed as part of the contingent liabilities until the property it funds is disposed of or ceases to be used for social housing purposes.

Provisions

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

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

To be compliant with FRS 102 Network Housing Group now considers it more appropriate to provide for rent arrears based on the aging of the debt as well as the type of debtor (current and former).

The level of provisioning was based on the collection rates for each aging group and on cash collected over a 12 month period.

Operating leases

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

Employee benefits – short term benefits

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

Notes to the Financial Statements
for the year ended 31 March 2016

Employee benefits – long term benefits

The Group operates both defined benefit schemes (where the benefit the employee will receive upon retirement is usually dependent upon a number of factors including age, length of service and remuneration) and defined contribution schemes (where the Group pays fixed contributions to a separate entity).

(a) Defined benefit schemes

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

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

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

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

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

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

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

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

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

(b) Defined contribution scheme

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

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

(c) Multi-employer pension scheme

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

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

Value added tax (VAT)

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

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

Hostels managed by agents

Where a hostel owned by the Group is managed by an agent organisation and the financial risks of management are assumed by the agent, any income and expenditure on that hostel is not included in the Statement of Comprehensive Income of the Group in accordance with the substance of the arrangement.

Gift aid

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

Related parties

The Group discloses transactions with related parties which are not wholly owned with the same group. The Group does not disclose transactions with members of the same group that are wholly owned as allowed by FRS 102 paragraph 33.1A.

Intra-group transactions required to be disclosed by The Accounting Direction 2015 are provided in note 40.

Notes to the Financial Statements
for the year ended 31 March 2016

2. Critical accounting judgements and estimation uncertainty

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

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

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

(i) Capitalisation of property development costs (note 12)
Distinguishing the point at which a project is more likely than not to continue, allowing capitalisation of development costs requires judgement. After capitalisation management monitors the project and considers whether events indicate that an impairment review is required.

(ii) Determining whether an impairment review is required (note 12)
Indicators of impairment are applied in determining whether there is impairment in respect of an asset or group of assets owned by the Association. Indicators include: changes in government policy, a reduction in the market value of properties where the occupant has the right to acquire, a reduction in the demand for a property, obsolescence of a property or contamination of a site. Impairment is tested at CGU level which is at scheme level.

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

(iii) Determining whether a debt instrument satisfies the requirement to be treated as basic (note 26)
Judgement is required to determine whether a debt instrument satisfies the requirements in FRS 102 Paragraph 11.9 to be treated as basic. For debt instruments to be classified as basic financial instruments the interest must be a positive amount or positive rate, at market rates. They are not index linked excluding RPI and the lender cannot unilaterally amend interest rates. Debt instruments are utilised to provide long term funding for the Group's operations and not for speculative trading. Facilities with two-way break clauses are judged to be basic.

(iv) Determining the fair value of other debt instruments (note 26)
Financial instruments that do not meet the definition of being basic under FRS 102 have to be measured at fair value using a hierarchy of estimates which prioritises quoted prices in an active market, then recent transactions of identical assets and finally the use of valuation techniques. In applying this hierarchy, management have to apply a significant amount of judgement and where available deem the best estimate of fair value of any one debt instrument to be the exit prices quoted by the respective counterparty.

(v) Financial liabilities measured at fair value (note 26)
Until 22 February 2016 the Group held three Lender's Option Borrower's Option loans (LOBOs) which are considered other financial instruments. These loans have been disclosed at the reporting dates of 31 March 2014 and 31 March 2015 at fair value. Fair value has been estimated at the exit price obtained from the lender.

On 22 February 2016 the Group renegotiated the terms of these three LOBOs with the Lender. These loans are now basic financial instruments and disclosed within the Statement of Financial Position as described in note 26 to these financial statements.

b. Key accounting estimates and assumptions

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

(i) Useful economic lives of tangible fixed assets (note 12)
The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The Group invests in major repairs as part of asset management and this has the effect of extending or maintaining the economic useful life. The Group also undertake an impairment assessment when there is an impairment trigger. Where there is evidence of impairment carrying amount are adjusted to the recoverable amount instead of adjusting the economic lives.

(ii) Investment properties (note 15)
Management reviews the its valuation of housing properties at each reporting date, based on either formal valuation reports or an update to those reports based on market conditions and other changes to assumptions. Uncertainties in these estimates relate to the discount rate, cost of property maintenance and future cash flows. The investment property valuation was £29,491k (2015: £25,621k).

(iii) Impairment of debtors (note 21)
The Group makes an estimate of the recoverable value of tenant and other debtors. When assessing impairment of tenant and other debtors, management considers factors including the ageing profile of debtors and historical experience.

(iv) Provisions (note 25)
Provision is made for dilapidations, which requires management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management's judgement. The provision at 31 March 2016 was £4,546k (2015: £4,055k).

(v) Stocks (note 20)
Net realisable value is based on the estimated selling price less selling costs. Estimated selling prices were provided by external valuers.

(vi) Impairment (note 12)
The Government presented a budget on 8 July 2015, which reduced the income from social housing rents for four consecutive years. Under FRS 102 this represented an impairment trigger, therefore all Cash Generating Units (CGU) were tested for impairment. Impairment is assessed by comparing the carrying amount against the recoverable amount and is recognised when the carrying amount is higher than the recoverable amount. The Group used Depreciated Replacement Cost (DRC) as a proxy for the recoverable amount.

In estimating DRC the Group assumed that the current build cost is between £2,443 and £3,105 per square metre depending on the property type. The estimates are based on the average cost of developing new properties. This cost per square metre was then multiplied by the square metres of each CGU and then depreciated by the life to date of the relevant CGU. The DRC calculated is compared against the carrying cost less unamortised grants of the CGU. Where DRC is lower then the carrying amount is reduced to the DRC by charging an impairment loss to the Statement of Comprehensive income.

As a result of the impairment review 280 units were impaired by £2,656k.

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

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

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

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

(viii) Defined benefit pension scheme and the measurement of the SHPS liability (note 37)
The Association participates in a SHPS pension scheme which is a multi employer pension scheme. The Pension Trust, the regulator of this pension scheme has not identified how much of the multi employer pension deficit relates to the Association. However, the Association has agreed to a deficit reduction plan with the Pension Trust. The deficit reduction plan has been recognised in the statement of financial position and has been discounted using the discount rates equivalent to an "AA" rated corporate bond.

The obligations under a defined benefit pension scheme and the measurement of the SHPS liability is agreed future payments have been recognised at their present value using the market yields on high quality bonds. The discount rate used was 2.06% (2015: 1.92%, 2014: 3.02%), as per the Pension Trust.

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

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

The net present value is sensitive to small changes in the market interest rate. For example a 5 basis point reduction in the market interest rate from 3.85% to 3.80% would result in a £1,044,000 increase in the net present value.

Notes to the Financial Statements
for the year ended 31 March 2016

3. Turnover, operating costs and operating surplus

Group	Turnover £'000	Cost of sales £'000	Operating costs £'000	2016 Operating surplus / (deficit) £'000	Turnover £'000	Cost of sales £'000	Operating costs £'000	2015 Operating surplus / (deficit) £'000
Social housing lettings (Note 4)	**137,969**	**-**	**(103,428)**	**34,541**	**137,062**	**-**	**(93,133)**	**43,929**
Other social housing activities								
Supporting people contract income	119	-	(184)	(65)	409	-	(199)	210
Housing management administration	2,579	-	(2,530)	49	518	-	(2,509)	(1,991)
Sale of first tranche properties	59,675	(28,077)	(2,534)	29,064	24,604	(13,452)	(1,497)	9,655
Other	16	-	(3)	13	57	-	(3)	54
Other social housing activities	**62,389**	**(28,077)**	**(5,251)**	**29,061**	**25,588**	**(13,452)**	**(4,208)**	**7,928**
Total social housing activities	**200,358**	**(28,077)**	**(108,679)**	**63,602**	**162,650**	**(13,452)**	**(97,341)**	**51,857**
Non-social housing activity								
Student accommodation	1,706	-	(401)	1,305	1,662	-	(145)	1,517
Outright sale of properties	105,837	(46,979)	(3,267)	55,591	28,358	(14,992)	(1,468)	11,898
Market rented	45	-	1	46	388	(26)	-	362
Commercial activities	1,454	-	(551)	903	2,597	-	(1,264)	1,333
Other	1,612	-	(1,005)	607	3,445	12	(710)	2,747
Total non-social housing activity	**110,654**	**(46,979)**	**(5,223)**	**58,452**	**36,450**	**(15,006)**	**(3,587)**	**17,857**
Total	**311,012**	**(75,056)**	**(113,902)**	**122,054**	**199,100**	**(28,458)**	**(100,928)**	**69,714**

Association	Turnover £'000	Operating costs £'000	2016 Operating (deficit) / surplus £'000
Other income and expenditure			
Management fees from Group entities	19,483	(21,854)	(2,371)
Development administration	5,412	(3,334)	2,078
Other income	128	-	128
	25,023	**(25,188)**	**(165)**

	Turnover £'000	Operating costs £'000	2015 Operating (deficit) / surplus £'000
Other income and expenditure			
Management fees from Group entities	15,183	(16,652)	(1,469)
Development administration	4,442	(3,398)	1,044
Other income	876	(2)	874
	20,501	**(20,052)**	**449**

Notes to the Financial Statements
for the year ended 31 March 2016

4. Income and expenditure from social housing lettings

Group 2016	General rented £'000	Sheltered £'000	Shared ownership £'000	Hostels £'000	Short stay £'000	Key worker £'000	Total 2016 £'000
Income from lettings							
Rent receivable	74,120	9,049	5,495	4,770	20,076	9,018	122,528
Charges for supporting services	-	132	-	54	-	-	186
Service charges receivable	3,410	2,760	2,926	129	206	127	9,558
Amortised government grants	4,588	531	178	247	41	36	5,621
Other income	-	65	-	-	11	-	76
	82,118	**12,537**	**8,599**	**5,200**	**20,334**	**9,181**	**137,969**
Expenditure on letting activities							
Management	22,632	922	385	1,105	2,217	2,110	29,371
Service charge costs	5,338	2,517	2,946	112	436	1,649	12,998
Support costs	-	104	-	48	-	-	152
Routine maintenance	11,345	1,231	414	545	686	856	15,077
Major repairs expenditure	7,361	615	348	385	(546)	540	8,703
Property lease charges	-	-	127	714	18,165	457	19,463
Depreciation of housing properties	10,415	1,809	802	649	723	600	14,998
Impairment of housing properties	2,575	-	-	-	-	81	2,656
Rent (write backs)/losses from bad debts	417	(66)	(142)	(38)	112	(273)	10
	60,083	**7,132**	**4,880**	**3,520**	**21,793**	**6,020**	**103,428**
Operating surplus / (deficit) on lettings	**22,035**	**5,405**	**3,719**	**1,680**	**(1,459)**	**3,161**	**34,541**
Void losses	**(660)**	**(141)**	**(13)**	**(25)**	**(139)**	**(1)**	**(979)**

Notes to the Financial Statements
for the year ended 31 March 2016

Group 2015	General rented £'000	Sheltered £'000	Shared ownership £'000	Hostels £'000	Short stay £'000	Key workers £'000	Total 2015 £'000
Income from lettings							
Rent receivable	68,196	8,554	4,718	4,722	21,048	9,006	116,244
Charges for supporting services	-	1	-	-	-	-	1
Service charges receivable	3,952	3,778	2,926	201	213	176	11,246
Amortised government grants	7,661	1,169	147	148	128	134	9,387
Other	120	64	-	-	-	-	184
	79,929	**13,566**	**7,791**	**5,071**	**21,389**	**9,316**	**137,062**
Expenditure on letting activities							
Management	16,620	913	587	1,095	2,029	1,582	22,826
Service charge costs	4,617	3,497	2,248	302	328	1,536	12,528
Support costs	-	92	-	-	-	-	92
Routine maintenance	8,763	1,648	395	562	896	735	12,999
Major repairs expenditure	6,442	600	398	345	56	612	8,453
Property lease charges	-	-	-	802	17,755	452	19,009
Depreciation of housing properties	11,019	2,222	620	693	166	610	15,330
Impairment of housing properties	1,627	-	-	-	-	-	1,627
Rent (write backs)/losses from bad debts	446	(64)	(48)	2	24	(91)	269
	49,534	**8,908**	**4,200**	**3,801**	**21,254**	**5,436**	**93,133**
Operating surplus / (deficit) on lettings	**30,156**	**5,042**	**3,611**	**1,249**	**46**	**3,825**	**43,929**
Void losses	**(531)**	**(166)**	**(3)**	**(28)**	**(484)**	**(593)**	**(1,805)**

5. Employee information

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

	Group		Association	
	2016 FTE	2015 FTE	2016 FTE	2015 FTE
Office-based staff	413	383	254	218
Scheme-based staff	25	27	-	-
	438	**410**	**254**	**218**

Staff costs for the above employees were:

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Wages and salaries	16,814	15,305	10,715	8,767
Social security costs	1,845	1,599	1,203	965
Pension costs	4,462	2,350	1,165	473
	23,121	**19,254**	**13,083**	**10,205**

The pension costs include a one-off expense of £3,946k in relation to re-measurements of SHPS contribution.

The number of staff (including the Chief Executive Officer) receiving remuneration in excess of £60,000 per annum at 31 March 2016 is as follows:

	2016 FTE	2015 FTE
£60,000 - £69,999	13	6
£70,000 - £79,999	7	5
£80,000 - £89,999	4	1
£90,000 - £99,999	1	4
£100,000 - £109,999	1	2
£110,000 - £119,999	1	-
£120,000 - £129,999	1	-
£130,000 - £139,999	-	1
£160,000 - £169,999	1	1
£170,000 - £179,999	1	-
£200,000 - £209,999	1	-
£220,000 - £229,999	1	-
	32	**20**

6. Directors' emoluments

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

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

In 2015 the Group moved towards a simpler Common Board structure that enabled faster decision making, stronger Board control, risk management and better value for money. Remuneration of the Common Board members was reviewed in line with their responsibilities and costs increased from £81,874 in 2015 to £126,275 in 2016. The Common Board met for the first time in May 2015.

*A loss of office payment of £90k is part of the remuneration.

6. Directors' emoluments – continued

Board members and Executive Officers emoluments 2014/15

	Appointed (A) / Resigned (R)	Basic salary / fees	Expenses	Bonus / other payments	Pension contributions	Benefits in kind (BUPA)	Total emoluments
Non-Executive Officers		£	£	£	£	£	£
Andrew Watson		20,000	-	-	-	-	20,000
Charmain Boyd		6,667	-	-	-	-	6,667
Alan Head		10,167	-	-	-	-	10,167
Chris Kane		-	-	-	-	-	-
Christopher Lyons	R 01/4/2015	8,083	-	-	-	-	8,083
Trevor Morley		10,333	-	-	-	-	10,333
Nick Sharman		8,956	-	-	-	-	8,956
Linda Walton	R 01/9/2014	4,251	-	-	-	-	4,251
Peter Stredder		6,125	-	-	-	-	6,125
Anne Turner		6,125	-	-	-	-	6,125
Kevin Brush	R 20/5/2014	1,167	-	-	-	-	1,167
Alan Hall		3,500	-	-	-	-	3,500
Valerie Vaughan-Dick		3,500	-	-	-	-	3,500
		88,874	**-**	**-**	**-**	**-**	**88,874**
Executive Officers							
David Levenson*	R 26/9/2014	188,321	13	-	7,818	-	196,152
Barry Nethercott		160,609	-	-	-	-	160,609
Helen Evans		163,716	14	11,890	12,039	1,945	189,604
Trudi Kleanthous		111,764	-	8,610	8,610	-	128,984
Jon Dawson		93,314	406	9,225	8,518	1,409	112,872
Gerry Doherty		104,808	40	-	1,367	-	106,215
Vicky Savage		121,545	1,617	32,597	11,043	1,370	168,172
		944,077	**2,090**	**62,322**	**49,395**	**4,724**	**1,062,608**
		1,032,951	**2,090**	**62,322**	**49,395**	**4,724**	**1,151,482**

*A loss of office payment of £115k is part of the remuneration.

6. Directors' emoluments – continued

Board members and Executive Officers emoluments 2014/15

	2016 £'000	2015 £'000
Aggregate emoluments payable to Executive Directors	1,123	1,013
Aggregate emoluments payable to non-executive Directors	126	89
	1,249	**1,102**
Pension contributions payable to Executive Directors	**49**	**49**
Total emoluments	**1,298**	**1,151**
Emoluments paid to the highest paid Director, excluding pension contributions	**221**	**188**

The Chief Executive is an ordinary member of the Social Housing Pension Scheme on the same basis as that available to all staff. Pension contributions paid into a defined contribution scheme on behalf of the Chief Executive were £12,544 (2015: £12,039). The Association did not make any contribution to any individual pension arrangement on her behalf. The notice period for termination of her contract is six months.

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

Emoluments to Common Board members were paid from the parent company, Network Housing Group Limited.

Ratio of highest to lowest earners

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

	2016	2015
Ratio of highest to average earner	5.8 : 1	4 : 1

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

	2016 (based on units in management)	2016 (based on total no of units)	2015 (based on units in management)	2015 (based on total no of units)
Chief Executive remuneration per home (£)	10.2	9.9	10.1	9.8
Board Chair's remuneration per home (£)	1.1	1.1	1.3	1.3
Total Board members remuneration per home (£)	6.4	6.1	7.4	7.25

Notes to the Financial Statements
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6. Directors' emoluments – continued

Board members and Executive Officers emoluments 2014/15

Other directorships

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

Board Member	Related Parties	Position
Trevor Morley	Cerberus Innovations Limited	Director
	Direction Home Investments Limited	Director
	Direction Home (Law) LLP	Director
	Director Network Living Ltd	Director
Valerie Vaughan-Dick	V&A UK Ltd	Director
	RCGP Conferences Ltd	Director
	RCGP Enterprises Ltd	Director
Alan Hall	Director of Communities, Epping Forest District Council	Director
Alan Head	None	
Peter Fiddeman	None	
Andrew Watson	Who Moved My Cheese Ltd	Director
	FISH Asset Management Ltd	Director
Anne Turner	ASRA Housing Group Ltd	Director
Peter Stredder	None	
Chris Kane	Chris Kane Associates Ltd	Director
	Smart Value Ltd	Director
	NHS Property Services Ltd	Director
Charmian Boyd	Seamless Relocation Ltd	Director

7. Profit on sale of fixed assets

	Group	
	2016 £'000	2015 £'000
Sales proceeds	16,089	19,084
Cost of sales transferred from fixed assets	(7,908)	(10,540)
Incidental sale expenses	(716)	(478)
	7,465	**8,066**

8. Interest receivable and other income

	Group	
	2016 £'000	2015 £'000
Interest receivable on deposits	195	266
Interest receivable on investments	234	315
Amortisation of financial asset premium	48	13
Total interest income on financial assets not measured at fair value through profit or loss	**477**	**594**
Restructuring of financial instruments	**62,335**	**-**

In 2016, LOBO loans were extinguished due to the restructure of the loans. As a result, the fair value elements were also extinguished. The gain on de-recognition of LOBO loans of £84,581k and the loss on the recognition of new loans of £22,246k has been netted off as they relate to the same transactions which are the restructure of the LOBO loans. £84,581k is the fair value element of the LOBO loans and £22,246k is the financial impact of recognising the new loans at amortised cost using the effective interest rate. These resulted in a net financing income of £62,335k.

9. Interest payable and similar charges

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Housing loans	32,485	32,739	-	-
Less: interest capitalised	(4,023)	(7,025)	-	-
Unwinding of SHPS discount rate	111	286	66	109
Loan cost amortisation	349	138	-	-
Amortisation of financial liability premium	-	32	-	-
Other finance costs	588	1,055	-	-
Sinking fund depreciation	51	51	-	-
Local Government Pension scheme interest	**55**	**103**	-	-
Total interest expense on financial liabilities nor measured at fair value through profit or loss	**29,616**	**27,379**	**66**	**109**
Fair value element of LOBO	9,979	41,382	-	-
Interest capitalisation rate	**4.15%**	**4.28%**	**-**	**-**

The £62,355k in note 8 is the net of the £84,581k and £22,246k. This is the net amount incurred in the extinguishment of the LOBO loan and the recognition of new loans when the LOBO loans were restructured.

10. Surplus on ordinary activities before taxation

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
The surplus on ordinary activities before taxation is stated after charging:				
Depreciation	17,334	15,589	751	760
Impairment of housing properties	2,656	1,627	-	-
Amortised government grant	5,619	9,387	-	-
Auditors' remuneration (including expenses, excluding VAT)				
– Fees for the audit of the financial statements – current year	118	-	33	-
– Fees for the audit of the Association's financial statements – prior year	-	111	-	27
– Fees in respect of other non-audit services	229	137	175	83
Operating lease payments	20,087	19,986	664	896
Surplus on sale of housing properties	**(7,465)**	**8,066**	**-**	**-**

11. Tax on surplus on ordinary activities

(a) Analysis of charge in year	Group	
	2016 £'000	2015 £'000
UK corporation tax on surplus for the year	**7**	**1**
Current tax charge	7	1
Deferred tax charge	-	-
Total tax charge	**7**	**1**

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

The tax assessed for the year is the same as the standard rate of corporation tax in the UK (20%) (2015: 20%).

(b) Factors affecting tax charge for the year	Group	
	2016 £'000	2015 £'000
Surplus on ordinary activities before taxation	**155,330**	**9,613**
Surplus on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20%)	31,066	1,923
Effects of:		
Non-taxable charitable activities	**(31,059)**	**(1,922)**
Total tax charge	**7**	**1**

The Association has charitable status and is not subject to corporation tax on its charitable activities. During the year, all activities were within the scope of charitable status.

12. Housing properties

Group	Under Development General rented £'000	Under Development Shared ownership £'000	Completed (available for letting) General rented £'000	Completed (available for letting) Shared ownership £'000	Total £'000
Cost					
At 1 April 2015	163,694	26,538	1,249,831	80,963	1,521,026
Additions	14,182	33,216	10,474	-	57,872
Transfer to stock	(9,193)	(8,403)	(1,436)	1,154	(17,878)
Transfer to other fixed assets	-	-	-	(722)	(722)
Transfer on completion	(94,478)	(30,701)	94,478	30,701	-
Transfer to investment properties	(346)	-	(709)	(455)	(1,510)
Disposals	(999)	-	(247)	(5,939)	(7,185)
Reclassification	-	-	-	2	2
Components replaced	-	-	(747)	(11)	(758)
At 31 March 2016	**72,860**	**20,650**	**1,351,644**	**105,693**	**1,550,847**
Accumulated depreciation					
At 1 April 2015	-	-	106,991	2,587	109,578
Charge for the year	-	-	14,970	921	15,891
Disposals	-	-	(422)	(224)	(646)
*LFS write back	-	-	(647)	-	(647)
Components replaced	-	-	(298)	-	(298)
At 31 March 2016	**-**	**-**	**120,594**	**3,284**	**123,878**
Impairment					
At 1 April 2015	-	-	7,287	-	7,287
Charge for year	-	-	2,656	-	2,656
At 31 March 2016	**-**	**-**	**9,943**	**-**	**9,943**
Net book value					
At 31 March 2016	**72,860**	**20,650**	**1,221,107**	**102,409**	**1,417,026**
At 31 March 2015	**163,694**	**26,538**	**1,135,553**	**78,376**	**1,404,161**

*The Group has updated its depreciation calculation methodology for London Field Solutions (LFS) to bring it in line with other housing assets. As a result, £650k was credited to the Statement of Comprehensive Income.

Additions to housing properties during the year included capitalised interest of £4,023k (2015: £7,025k). The capitalisation rate used was 4.18% (2015: 4.28%). At 31 March 2016 the EUV-SH for the units charged was £888.5m (2015: £751.2m) and the number of units charged was 10,879 (2015: 10,532).

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13. Intangible assets and other fixed assets

Group	Computer Software £'000	Computer hardware £'000	Freehold and leasehold office property £'000	Office fixtures and fittings £'000	Scheme furniture £'000	Total £'000
Cost						
At 1 April 2015	1,680	4,350	33,451	1,159	56	40,696
Additions	1,004	339	1,217	300	-	2,860
Write off	-	-	(58)	(93)	-	(151)
Reclassification	-	-	(1,811)	1,811	-	-
At 31 March 2016	**2,684**	**4,689**	**32,799**	**3,177**	**56**	**43,405**
Accumulated depreciation and amortisation						
At 1 April 2015	695	3,942	11,610	795	56	17,098
Amortisation for the year	386	-	-	-	-	386
Depreciation charge for the year	-	170	641	241	-	1,052
Reclassification	-	-	(901)	901	-	-
Write back	-	-	-	(32)	-	(32)
At 31 March 2016	**1,081**	**4,112**	**11,350**	**1,905**	**56**	**18,504**
At 31 March 2016	**1,603**	**577**	**21,449**	**1,272**	**-**	**24,901**
At 31 March 2015	**985**	**408**	**21,841**	**364**	**-**	**23,598**

Association	Computer Software £'000	Computer Hardware £'000	Office Fixture and Fittings £'000	Leasehold Improvements £'000	2016 Total £'000
Cost					
At 1 April 2015	1,615	832	232	1,861	4,540
Additions	1,004	339	219	-	1,562
Reclassification	-	-	1,811	(1,811)	-
At 31 March 2016	**2,619**	**1,171**	**2,262**	**50**	**6,102**
Accumulated depreciation and amortisation					
At 1 April 2015	681	424	97	901	2,103
Charge for the year	-	170	204	6	380
Amortisation for the year	372	-	-	-	372
Reclassification	-	-	901	(901)	-
At 31 March 2016	**1,053**	**594**	**1,202**	**6**	**2,855**
Net Book Value at 31 March 2016	**1,566**	**577**	**1,060**	**44**	**3,247**
Net Book Value at 31 March 2015	**934**	**409**	**135**	**960**	**2,437**

14. Freehold and leasehold properties

The cost of housing properties and office property comprises:

	Group 2016 £'000	Group 2015 £'000
Housing properties		
Freehold	1,446,928	1,439,892
Long leasehold	103,919	81,134
	1,550,847	**1,521,026**
Office properties		
Freehold	32,749	31,680
Short lease	50	1,861
	32,799	**33,541**
Total	**1,583,646**	**1,554,567**

15. Investment properties

	Group £'000
At 1 April 2015	25,621
Additions	1,172
Revaluation surplus	2,594
At 31 March 2016	**29,387**

Completed investment properties

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

Where properties were valued using an appropriate capitalisation rate to the income streams the following assumptions were applied;

Capitalisation rates	7.25% to 10%
Inflation rate	1%

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

Investment properties under construction

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

Notes to the Financial Statements
for the year ended 31 March 2016

16. Investments (financial)

	Group £'000
At 1 April 2015	6,590
Amortisation of cost	(51)
At 31 March 2016	**6,539**

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

17. Investment in group entities

The Association has interests in the following Group entities:

Name of Entity	Notes	Country of incorporation	Nature of business	Interest
Community Housing Development Limited	1	UK	Property Development	100% ordinary shares
Community Trust Housing	2, 3	UK	Social Housing Provider	100% ordinary shares
London Strategic Housing Limited	2, 3	UK	Social Housing Provider	100% ordinary shares
Network Living Limited	1	UK	Property Investment and Management	100% ordinary shares
Network New Build Limited	1	UK	Property Development	100% ordinary shares
Network Stadium Housing Association Limited	2, 3	UK	Social Housing Provider	100% ordinary shares
Network Stadium Investments Limited	1	UK	Investment company	100% ordinary shares
Network Treasury Services Limited	1	UK	Treasury vehicle	100% ordinary shares
Riversmead Housing Association Limited	2, 3	UK	Social Housing Provider	100% ordinary shares
Riversmead Housing Development Limited	1	UK	Dormant	100% ordinary shares
Pimlico Village Developments Limited	1	UK	Property development	100% ordinary shares
Pimlico Village Developments (Number Two) Limited	1	UK	Dormant	100% ordinary shares
Student First Limited	2	UK	Student Accommodation	100% ordinary shares
Churchill Gardens Amenity Limited	1	UK	Property Management	Interest in property management
Tay Road Amenity Limited	1	UK	Property Management	Interest in property management

Notes

1. Companies incorporated under the Companies Act 2006.
2. Bodies incorporated under the Co-operative and Community Benefit Societies Act 2014.
3. Housing Associations registered with the Homes and Communities Agency.

Notes to the Financial Statements
for the year ended 31 March 2016

18. Shared equity loans

	Group 2016 £'000	Group 2015 £'000
At 1 April	2,919	1,095
Loans issued during the year	4,234	1,824
Redeemed during the year	(332)	-
	6,821	**2,919**

Shared equity loans meet the criteria for concessionary loans and are therefore measured at amortised cost less impairment.

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

	Group 2016 £'000	Group 2015 £'000
Stock transfer	**5,233**	**8,541**

Stock transfer balances relate to a works programme being undertaken on the Stockwell Park and Robsart estates in the London Borough of Lambeth. The amount stated in debtors due after one year and debtors due within one year (note 21) represents the Group's receivables from the London Borough of Lambeth to be reimbursed for the cost incurred in undertaking the works under the refurbishment contract.

20. Stocks

	Group 2016 £'000	Group 2015 £'000
Completed schemes:		
Shared ownership properties	3,338	1,270
Assets held for sale	193	4,023
	3,531	**5,293**
Under construction:		
Shared ownership properties	12,736	12,747
Open market sales	70,841	59,501
	83,577	**72,248**
Total	**87,108**	**77,541**

Stock recognised in cost of sales as an expense was £111,580k (2015: £18,477k).
There was no impairment on stock recognised during the year (2015: £nil).
None of the stock is pledged as collateral against borrowing by the Group (2015: £nil).

Notes to the Financial Statements
for the year ended 31 March 2016

21. Debtors: amounts falling due within one year

	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Rent and service charges	12,670	12,171	-	-
Less: provision for bad and doubtful debts	(4,743)	(8,104)	-	-
	7,927	**4,067**	**-**	**-**
Trade debtors	2,938	2,348	637	98
Amount owed from Group undertakings	-	-	4,561	7,942
Other debtors	2,674	2,303	-	-
Stock transfer	4,455	2,350	-	-
Prepayments and accrued income	9,305	16,171	943	642
	27,299	**27,239**	**6,141**	**8,682**

22. Cash and cash equivalents

	Note	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Cash at bank and in hand		60,903	35,285	136	-
Cash held for client accounts	23	4,203	1,528	-	-
		65,106	**36,813**	**136**	**-**

All the cash other than cash held for client accounts is available for general use. No cash is restricted or held as debt reserve.

23. Creditors: amounts falling due within one year

	Note	Group 2016 £'000	Group 2015 £'000	Association 2016 £'000	Association 2015 £'000
Client accounts					
Service charge and client funds		4,210	1,535	-	-
Tenant welfare fund		(7)	(7)	-	-
Total client account creditors		**4,203**	**1,528**	**-**	**-**
Other creditors					
Bank overdraft		95	570	11	172
Housing loans	26	4,942	30,399	-	-
Trade creditors		1,207	4,591	234	45
Rent and service charges received in advance		6,168	4,585	-	-
Owed to Group undertakings		-	-	1,707	2,872
Other grants repayable		21	21	-	-
Other creditors including taxation and social security		2,187	2,062	555	689
SHPS Accrual	37	1,080	1,046	450	450
Accruals		32,186	35,615	3,982	4,733
		52,089	**80,417**	**6,939**	**8,961**

Notes to the Financial Statements
for the year ended 31 March 2016

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

		Group		Association	
	Note	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Housing loans*	26	731,450	797,839	-	-
Social housing grant received in advance		573	390	-	-
Social housing grant repayable		960	1,095	-	-
Recycled capital grant fund	27	12,380	11,357	-	-
Disposal proceeds fund	28	171	-	-	-
Social housing grant	29	510,687	519,404	-	-
Other capital grants	30	56,400	54,514	-	-
Shared equity grants	31	1,531	1,261	-	-
SHPS accrual	37	11,641	8,724	3,693	3,237
		1,325,793	**1,394,584**	**3,693**	**3,237**

*Housing loans are carried either at their fair values when they are classified as other loans or at amortised cost using the effective interest method when they are classified as basic loans. The nominal carrying values of housing loans are £706,430k (2015: £720,754k).

25. Provisions for liabilities and charges

Group	Termination fee Liberty Gas £'000	SHPS Cessations £'000	SHPS Growth plan £'000	Lease termination repairs £'000	Bonus £'000	Stock Transfer £'000	Total £'000
As at 1 April 2015	715	-	115	4,537	100	10,891	16,358
Additions in the year	-	311	-	881	-	4,455	5,647
Released in the year	(715)	-	(115)	(873)	(100)	(5,658)	(7,461)
At 31 March 2016	**-**	**311**	**-**	**4,545**	**-**	**9,688**	**14,544**

	2016 £'000	2015 £'000
Amount payable within one year	7,241	7,166
Amount payable after one year	7,303	9,192
	14,544	**16,358**

Association	SHPS Growth plan £'000	Bonus £'000	Total £'000
At 1 April 2015	30	100	130
Unused amounts released against the Statement of Comprehensive Income	(30)	(100)	(130)
At 31 March 2016	**-**	**-**	**-**

	2016 £'000	2015 £'000
Amount payable within one year	-	130
Amount payable after one year	-	-
	-	**130**

SHPS growth plan
The provision for SHPS growth plan termination debt at 31 March 2015 was as per the actuarial report provided in 2013. During the year ended 31 March 2016 the Pension Trust confirmed that no payment was required.

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

Contract Termination Fee
The provision related to a termination fee claimed by Liberty Gas following the cessation of the Gas Contract. The unused provision was released.

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

Cessation costs in relation to Community Trust Housing
The last active member of SHPS retired on 31 March 2016 and that triggered cessation event. Provision is based on estimated amount provided by The Pension Trust. The timing of that payment is uncertain.

26. Housing loans

				2016 £'000	2015 £'000
Financial liabilities measured at fair value					
Fixed Rate Debt Instruments	**Rate**	**Maturity**	**Repayment**		
Lenders Option Borrowers Option Loan	4.63% to 4.69%	May 2068	On maturity	-	149,601
Financial liabilities measured at amortised cost					
Fixed Rate Debt Instruments	**Rate**	**Maturity**	**Repayment**		
Bilateral bank loan	4.39% to 5.18%	June 2038 to May 2068	On maturity	258,814	191,277
Bilateral bank loan	1.60% to 5.47%	June 2020 to May 2048	Instalment	316,667	298,403
				575,481	**489,680**
Variable Rate Debt Instrument	**Margin over LIBOR**	**Maturity**	**Repayment**		
Bilateral bank loan	0.60% to 2.00%	June 2038 to May 2068	On maturity	95,750	115,017
Bilateral bank loan	0.25% to 0.38%	June 2020 to May 2048	Instalment	66,169	75,230
				161,919	**190,247**
Unamortised loan issue costs				(1,008)	(1,290)
Total financial liabilities measured at amortised cost				**736,392**	**678,637**
Total financial liabilities				**736,392**	**828,238**

Repayment profile of financial instruments	Group		
	Payable by instalment £'000	Payable on maturity £'000	2016 Total £'000
Less than one year	4,915	-	4,915
Between two and five years	49,466	64,223	113,689
In more than five years	351,974	240,794	592,768
Total	**406,355**	**305,017**	**711,372**
	Payable by instalment £'000	Payable on maturity £'000	2016 Total £'000
Less than one year	11,510	13,890	25,400
Between two and five years	29,170	169,017	198,187
In more than five years	331,772	195,794	527,566
Total	**372,452**	**378,701**	**751,153**

The above repayment profile excludes a number of non-cash and accrued nominal value adjustments as follows:

	Group	
	2016 £'000	2015 £'000
Total as above	711,372	751,153
Plus: unamortised loan issue costs	1,008	1,290
Plus: Net present value of future cash flows	25,020	2,484
Fair value element of financial instruments	-	74,601
	737,400	**829,528**

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

Funds pertaining to activities within areas covered by:		HCA £'000	GLA £'000	Other £'000	Total £'000
As at 01 April 2015		602	9,780	975	11,357
Inputs to RCGF:	Grants recycled	384	3,037	303	3,724
	Other	128	-	-	128
Recycling of grant:	New build	(289)	-	-	(289)
	Repayment of grant	-	(2,540)	-	(2,540)
At 31 March 2016		**825**	**10,277**	**1,278**	**12,380**

28. Disposal Proceeds Fund
The movement on the recycled capital grant fund is shown below:

	GLA £'000
As at 01 April 2015	-
Inputs: Grants recycled	171
At 31 March 2016	**171**
Repayable to Housing and Communities Agency (HCA)	171
	171

29. Social housing grant

	Under Development		Completed (available for letting)		
	General rented £'000	Shared ownership £'000	General rented £'000	Shared Ownership £'000	Total £'000
At 1 April 2015	23,972	9,498	458,139	27,795	519,404
Received	4,017	-	-	-	4,017
Amortisation for year	-	-	(5,618)	(263)	(5,881)
Disposal	-	-	(84)	8	(76)
Transfer on completion	(19,450)	(1,559)	19,450	1,559	-
Repayable at disposal – RCGF	-	-	(1,252)	(2,306)	(3,558)
Transfer to other entities	(162)	-	-	-	(162)
Reallocation	(994)	994	-	-	-
Reclassification to other capital grants	(2,154)	-	(903)	-	(3,057)
At 31 March 2016	**5,229**	**8,933**	**469,732**	**26,793**	**510,687**

30. Other capital grants

	Under Development		Completed (available for letting)		
	General rented £'000	Shared ownership £'000	General rented £'000	Shared Ownership £'000	Total £'000
At 1 April 2015	9,692	-	42,303	2,519	54,514
Received	482	-	-	-	482
Amortisation for year	-	-	(148)	(129)	(277)
Transferred on completion	(2,575)	-	2,353	-	(222)
Repayable at disposal	-	-	(17)	(203)	(220)
Disposals	-	-	(29)	(2)	(31)
Reclassification from social housing grants	2,154	-	-	-	2,154
At 31 March 2016	**9,753**	**-**	**44,462**	**2,185**	**56,400**

Other grants are grants from local authorities.

31. Shared equity grants

	Group	
	2016 £'000	2015 £'000
At 1 April	1,261	762
Grants received during the year	384	499
Recycled during the year	(114)	-
	1,531	**1,261**

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

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32. Non-equity share capital

	Association	
	2016 £	2015 £
Ordinary shares of £1 each, issued and fully paid:		
At 1 April	10	9
Issued during the year	-	3
Surrendered during the year	(1)	(2)
At 31 March	**9**	**10**

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

33. Legislative provisions

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

34. Capital commitments

	Group	
	2016 £'000	2015 £'000
Expenditure contracted for but not provided for in the financial statements	**265,091**	**92,018**

Capital commitments are in relation to the development programme that Board approved.

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

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

	Group	
	2016 £'000	2015 £'000
Social Housing Grants	3,877	17,207
Surpluses and borrowings	261,214	74,811
Total	**265,091**	**92,018**

35. Operating leases

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

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Amount payable in:				
Not later than one year	2,854	6,801	108	133
Later than one year and not later than five years; and	12,563	9,948	-	108
Later than five years	2,608	2,373	-	-
Total	**18,025**	**19,122**	**108**	**241**

The amount of lease payments recognised as an expense in the year was £2,854 (2015: £6,801).

Certain properties are available to purchase via right to buy by the existing tenant.

The Group's social housing properties are held under operating leases and are tenanted under cancellable operating lease conditions. Typical tenant break clauses exist requiring a notice period of a month. Rents fluctuate in accordance with the Rent Standard and are affected by the Welfare Reform and Work Act 2016. Shared ownership properties may be purchased (staircased) by its leaseholder at any time at the pro-rata market rate. Ongoing lease payments will be adjusted according to the share of ownership retained by the Group. Certain properties are available to purchase via right to buy by the existing tenant.

36. Notes to the cash flow statement

	Group	
	2016 £'000	2015 £'000
Surplus for the financial year	155,323	9,612
Profit on sale of fixed assets	(7,465)	(8,066)
Revaluation surplus on investment properties	(2,594)	-
Interest receivable and other income	(477)	(594)
Interest payable and similar charges	29,616	27,379
Restructuring of financial instruments	(52,356)	-
Fair value element of LOBO	-	41,382
Taxation	7	1
Operating surplus	**122,054**	**69,714**
Depreciation charges	16,650	15,457
Amortised government grants	(6,158)	(9,387)
Impairment of assets	2,656	1,627
FRS 102 adjustment	-	15,367
Loss on disposal of assets	3,054	1,505
Working capital movements		
Increase in stock	(9,567)	(27,998)
Decrease/(increase) in debtors	3,250	(8,544)
Decrease in creditors	(5,865)	(22,232)
Net cash inflow from operating activities	**126,074**	**35,509**

Notes to the Financial Statements
for the year ended 31 March 2016

Analysis of changes in net debt	1 April 2015 £'000	Cash flow £'000	31 March 2016 £'000
Cash and cash equivalents	35,258	27,517	62,775
Sinking fund	1,555	776	2,331
Bank overdraft	(570)	475	(95)
	36,243	**28,768**	**65,011**
Debt due within one year	(30,400)	25,458	(4,942)
Debt due after more than one year	(720,754)	14,324	(706,430)
THFC debt	(2,483)	(291)	(2,774)
	(717,394)	**68,259**	**(649,135)**

37. Pension schemes

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

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

Charged in operating profit		2016 £'000	2015 £'000
Defined benefit schemes: service costs	note 37a	20	1,392
Defined benefit scheme – accounted for as a defined contribution scheme: contribution paid	note 37b	1,093	1,039
Defined contribution scheme: contributions paid	note 37c	511	453
		1,624	**2,884**
Interest and finance costs			
Defined benefit schemes	note 37a	55	103
Defined benefit scheme – accounted for as a defined contribution scheme	note 37b	177	286
		232	**389**

(a) Defined benefit schemes

The Group participates in two local government pension schemes, being Hertfordshire Local Government Pension Scheme (the Hertfordshire Scheme) and the London Borough of Lambeth Pension Scheme (the Lambeth Scheme). The schemes are administered by Hertfordshire County Council and the London Borough of Lambeth, respectively and are regulated under the Local Government Pension Scheme Regulations 1997, as amended. The schemes are a defined benefit statutory scheme providing benefits on the basis of members' final salary. The schemes are contracted out of the Second State Pension.

	Hertfordshire Scheme		Lambeth Scheme	
	2016	2015	2016	2015
Members of the Schemes employed by the Group	**-**	**36**	**-**	**3**

A full actuarial valuation of the schemes was performed at 31 March 2016 by a qualified independent actuary, Hymans Robertson, using the projected unit credit method. The principal financial assumptions used by the actuary were:

	Hertfordshire Scheme		Lambeth Scheme	
	2016 %	2015 %	2016 %	2015 %
Expected rate of price increase	1.2	2.4	1.2	2.4
Expected rate of salary increase	3.7	3.8	4.2	4.3
Expected rate of pension increases	2.2	2.4	2.2	3.2
Discount rate	3.5	3.2	3.5	3.2

Hertfordshire Scheme	Assets £'000	Liabilities £'000	Total £'000
At 1 April 2015	11,868	(13,035)	(1,167)
Benefits paid	(337)	337	-
Interest income / (expense)	374	(412)	(38)
Actuarial (loss)/gain	(197)	1,280	1,083
31 March 2016	**11,708**	**(11,830)**	**(122)**

Lambeth Scheme	Assets £'000	Liabilities £'000	Total £'000
At 1 April 2015	2,029	(2,584)	(555)
Benefits paid	(56)	56	-
Current service costs	-	(20)	(20)
Employer contributions	68	-	68
Interest income / (expense)	65	(82)	(17)
Actuarial gain / (loss)	(41)	275	234
31 March 2016	**2,065**	**(2,355)**	**(290)**

Total	Assets £'000	Liabilities £'000	Total £'000
At 1 April 2015	13,897	(15,619)	(1,722)
Benefits paid	(393)	393	-
Current service costs	-	(20)	(20)
Employer contributions	68	-	68
Interest income / (expense)	439	(494)	(55)
Actuarial gain / (loss)	(238)	1,555	1,317
31 March 2016	**13,773**	**(14,185)**	**(412)**

Total cost recognised as an expense:	Hertfordshire Scheme		Lambeth Scheme	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Service cost	-	196	20	28
Net interest cost	38	87	17	16
	38	**283**	**37**	**44**

The fair value of the plan assets were:	Hertfordshire Scheme		Lambeth Scheme	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Equity instruments	7,376	7,785	1,239	1,177
Bonds	3,044	2,882	599	588
Property	937	841	186	203
Cash	351	360	41	61
	11,708	**11,868**	**2,065**	**2,029**

The return on the plan assets were:	Hertfordshire Scheme		Lambeth Scheme	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Interest income	374	431	65	78
Actual return on plan assets less interest income	(197)	840	(41)	140
	177	**1,271**	**24**	**218**

The Association participates in the Social Housing Pension Scheme (the Scheme). The Scheme is funded and is contracted-out of the State Pension scheme.

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

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

The Scheme is classified as a "last-man standing arrangement". Therefore, the Association is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the Scheme deficit following withdrawal from the Scheme. Participating employers are legally required to meet their share of the Scheme deficit on an annuity purchase basis on withdrawal from the Scheme.

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

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

	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
At 1 April 2015	9,770	10,051	3,687	3,863
Deficit contributions paid	(1,093)	(1,039)	(463)	(443)
Charged to staff costs:				
Impact of change in discount rate	(79)	472	(23)	158
Unwinding of the discount factor (charged to interest payable)	177	286	66	109
Re-measurement to contribution	3,946	-	876	-
At 31 March 2016	**12,721**	**9,770**	**4,143**	**3,687**
Analysed as follows:				
Amount due within one year	1,080	1,046	450	450
Amount due after one year	11,641	8,724	3,693	3,237
	12,721	**9,770**	**4,143**	**3,687**

During the year ended 31 March 2016 the Group and Association was informed by the Scheme that the Group and Association would be required to make additional contributions to reduce the deficit. The additional payment from 1 April 2016 is £1,499,292 at the Group level, from which £563,551 per annum relates to NHG Ltd.

The Association is party to a deed of indemnity with its subsidiaries; London Strategic Housing Limited, Network Stadium Housing Association Limited, Riversmead Housing Association Limited and Community Trust Housing. The deed of indemnity requires that each subsidiary agrees jointly and severally to indemnify and hold harmless the parent, for and against (as applicable) an amount equal to the liability due to The Pensions Trust. The Pensions Trust has notified the parent of the estimated employer debt on withdrawal from the SHPS, based on the financial position of the Scheme as at 30 September 2014. The estimated employer debt for the parent was £11,196,000. No crystallising event has occurred in respect of the deed of indemnity. As a result, no provision has been recognised, nor has any contingent liability been disclosed arising from this arrangement.

(c) Defined contribution scheme

The amount recognised as an expense was:	Group		Association	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Contributions	511	453	389	315
	511	**453**	**389**	**315**

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

38. Contingent liabilities

As at 31 March 2016, the Group had the following contingent liabilities:

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

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

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

iv. Cross collateralisation and cross guarantees are in place for £410m of loans borrowed by Network Treasury Services Limited, the Group's Treasury vehicle, as at 31 March 2016. The Group entities involved are Network Stadium Housing Association Limited, Riversmead Housing Association Limited and London Strategic Housing Limited. The loans are secured against property assets held by these Group entities. These loans are included within housing loans in note 26.

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

As at 31 March 2016, Community Trust Housing was contracted to:

i. TUPE bond of £165,100 to protect the terms and conditions of transferring staff from London Borough of Lambeth;

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

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

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

39. Government assistance

The Group receives financial assistance from government sources such as the HCA and local authorities. These government grants are accounted for as deferred income in the statement of financial position and are amortised annually to the statement of comprehensive income based on the life of the building component; which is, 100 years.

The amount amortised represents a contingent liability to the entity and will be recognised as a liability when the properties funded by the relevant government grant are disposed of or when the property ceases to be used for social housing purposes.

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

	2016 £'000	2015 £'000
Government funding received (Note 29,30 & 31)	580,681	562,796
Grants amortised to date (Contingent liabilities)	**58,153**	**20,720**

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for the year ended 31 March 2016

40. Related parties

As permitted by FRS 102 Paragraph 33.1A, the Association has not presented details of related party transactions with other companies that are wholly owned within the Group.

The rents of the tenant Board members are on normal commercial terms and they are not able to use their position to any advantage.

Total receipts from non-regulated Group members	Transaction	2016 £'000	2015 £'000
Network Stadium Investments Limited	Gift aid	28,118	5,895
Pimlico Village Development Limited	Gift aid	13	102
Network New Build Limited	Gift aid	303	255
Network Treasury Services Limited	Gift aid	4	-
Network Living Limited	Gift aid	25	-
Community Housing Development Limited	Gift aid	28,077	5,502
		56,540	**11,754**

Total payments from non-regulated Group members	Transaction	2016 £'000	2015 £'000
Network New Build Limited	Design and build fees	54,694	106,298
Pimlico Village Development Limited	Electricity and insurance	60	39
Student First Limited	Loans	669	491
Network Living	Office rent and loans	61	645
Community Housing Development Limited	Design and build fees	1,097	1,841
Network Treasury Services Limited	Loan interest	220	121
		56,801	**109,435**

Gift aid from the subsidiaries is recognised at year-end on receivable basis and is calculated based on the profit for the year end.

Design and build fees are calculated as a percentage of scheme build cost recharged to individual registered providers.

Electricity and insurance cost is recharged based on the agreement between Pimlico Village Developments and Network Stadium Housing Association.

Student First Ltd pays interest on loan from Network Stadium Housing Association. The interest is at market rate.

Network Living receives office rent from Riversmead Housing Association for Riversmead House in Hertfordshire.

Network Treasury Services Ltd receives interest on loan to the RPs.

41. Housing stock

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

	2016			2015		
Social Housing Rental Stock	Owned	Managed	Total	Owned	Managed	Total
General Needs (inclusive of PSL)	9,715	685	10,400	9,064	1,369	10,433
Sheltered (Older Persons)	1,458	-	1,458	1,457	-	1,457
Shared Ownership	1,675	70	1,745	1,420	159	1,579
Leasehold	1,967	78	2,045	1,823	105	1,928
Key Workers	1,308	-	1,308	1,151	-	1,151
Supported Housing, incl. hostel bedspaces	521	-	521	522	-	522
Intermediate Rents	13	310	323	6	312	318
Affordable	1,584	2	1,586	1,101	54	1,155
Total	**18,241**	**1,145**	**19,386**	**16,544**	**1,999**	**18,543**
Non-Social Housing Stock						
Leasehold	47	411	458	12	-	12
Key Worker	-	-	-	158	-	158
Market Rented	16	5	21	21	5	26
Total	**63**	**416**	**479**	**191**	**5**	**196**
Total	**18,304**	**1,561**	**19,865**	**16,735**	**2,004**	**18,739**
Properties Owned But Managed by Others Externally						
General Needs (inclusive of PSL)	251	-	251	252	-	252
Leasehold	16	-	16	16	-	16
Supported Housing, incl. hostel bedspaces	423	-	423	423	-	423
Sub Total	**690**	**-**	**690**	**691**	**-**	**691**

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42. Accommodation managed by agents

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

Group	2016 Number	2015 Number
Alamo Housing Association	81	81
Apna Ghar Housing Association	10	10
Ashford Place	6	6
Bahay Kubo Housing Association	11	11
Brent Community Housing	6	6
Brent Mind	30	30
Centrepoint	6	6
Certitude	4	4
Creative Support	7	7
Directly-Managed	1	1
Equality Housing	12	12
Equinox Care	13	13
Harrow Churches Housing Association	6	6
Harrow Council	7	7
Hestia Housing and Support	7	7
HFT	5	5
Home From Home	4	4
Karin Housing Association	35	35
Look Ahead Care and Support	98	98
MACE Housing Co-operative Ltd	71	71
Refugee Support Housing	1	1
Riverside ECHG	52	52
Safestart Foundation	24	24
Saint Mrk's Co-operative	7	7
Spittalfields Housing Association	3	3
SSAFA	28	28
St Mungo's Housing Association	30	30
Tamil Community Housing Association	39	39
Unit 11 Housing Co-operative	29	29
Westminster Society	8	8
Westminster Housing Co-operative	7	7
Westminster MIND	42	43
	690	**691**

43. Reconciliation of the previous financial reporting framework to FRS 102

This is the first year that the Group has presented its results under FRS 102. The last financial statements prepared under the previous UK GAAP were for the year ended 31 March 2015. The Group's transition date for the adoption of FRS 102 is 1 April 2014. The transition date has been selected in accordance with FRS 102 Paragraph 35.6.

The principal differences for the Group between reporting under FRS 102 and the previous Financial Reporting Framework (UK GAAP) as at 1 April 2014 are:

A. On transition to FRS 102 the Group reviewed its historical consolidation adjustments for compliance with FRS 102. As a result of this review an elimination adjustment between Network Stadium Housing Association Limited and its former subsidiaries; Solon Co-operative Housing Services Limited and Willow Housing and Care Limited of £3,008k, which were collapsed when both former subsidiaries were amalgamated into Network Stadium Housing Association Limited was still being accounted for as a consolidation adjustment. The impact of the adjustment in the FRS 102 Group accounts is an increase in the cost of housing assets and other fixed assets and an increase in general reserves. This adjustment was accounted as a prior year adjustment in the transition year accounts in accordance with FRS 102 paragraphs 35.13 and 35.14.

B. In accordance with FRS 102 sections 11 and 12 financial instruments have been re-measured at fair value through the statement of comprehensive income when they are classified as other loans for example LOBOs and at amortised cost using the effective interest rate method when they are classified as basic financial instruments. Loans that are not at market interest rates are carried at the net present value of future cash flows from the loans. The premium on financial assets has now been amortised using the effective interest method, rather than the straight line method that was used under previous UK GAAP.

C. Provision is made for dilapidations, which requires management's best estimate of the costs that will be incurred based on legislative and contractual requirements. FRS 102 requires that provisions should be discounted where the time value of money is material.

D. Grants now recognised as a liability within deferred income rather than being netted off against the cost of Property, Plant and Equipment (Housing Properties) in Tangible Fixed Assets. Grants are accounted for using the Accruals Model (i.e. grants are amortised over the useful economic life of the Structure of the property to which it relates). Grants were previously allocated to Land and Structure, with the grants allocated to Land not being amortised. Grants are now only allocated to Structure, resulting in an increase in grants amortisation of £18,507k at 31 March 2014 (being the amortisation of the grants previously allocated to Land);

E. Revaluations on Investment Properties are recognised in the statement of comprehensive income rather than directly to Reserves as previously under SSAP 19. All investment properties with the exception of properties under construction are now measured at their fair value.

F. Fixed assets adjustments relate to non housing fixed assets that were recognised or derecognised in accordance with the requirements of FRS 102 paragraphs 35.7(a) and 35.7(b) which require assets that meet the recognition criteria under FRS 102 to be recognised and assets that do not meet the FRS 102 criteria to be derecognised. The fixed assets adjustments relate to de-recognition of Portland Mutual Housing Association Limited's costs, write off of minor capital costs and recognition of development costs.

G. Short-term Employee Benefits such as holiday and sick pay are accrued as the employees become entitled to them.

H. Where the Association has a contractual agreement to fund a deficit of a multi-employer pension plan (Long-term Employee Benefits) it recognises a liability for the discounted contributions payable.

I. Bad debts have been re-measured to comply with the requirements of FRS 102. Under the previous UK GAAP bad debt provisions were based on generic provision rates of 20% for current arrears and 100% for former tenants. Provision for bad debts is now based on aged arrears and the provision rate used for each arrears band reflects the collectability of the arrears.

J. The Association received gift aid retrospectively from Network New Build as a result of implementation of FRS 102.

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Group

Reconciliation of the Group's Financial Position at 31 March 2014 and 31 March 2015	Note	2015 £'000	2014 £'000
Total net assets as determined by the previous accounting framework		176,586	127,366
Correction of error to historical consolidation adjustment	A	3,008	3,008
Re-stated net assets as determined by the previous accounting framework		**179,594**	**130,374**
FRS 102 Adjustments:			
Financial instruments re-measurement	B	(74,602)	(33,220)
Impact of discounting provisions	C	(3,407)	(3,323)
Amortisation of SHG and other capital grants	D	20,255	18,507
Revaluation of investment properties	E	6,952	6,931
Fixed assets adjustment	F	1,419	1,105
Employee benefits – short term	G	(121)	-
Employee benefits – post employment	H	(9,914)	(10,051)
Provision for bad debts arrears	I	(234)	-
		(59,652)	**(20,051)**
Financial Position as determined by FRS 102		**119,942**	**110,323**

Reconciliation of the Group's Financial Performance for the year ending 31 March 2015	Note	Surplus for the year £'000
Total net surplus as determined by the previous accounting framework		49,235
FRS 102 Adjustments:		
Financial instruments re-measurement	B	(41,639)
Impact of discounting provisions	C	(55)
Amortisation of SHG and other capital grants	D	1,748
Fixed assets adjustment	F	94
Employee benefits – short term	G	(121)
Employee benefits – post employment	H	584
Provision for bad debts arrears	I	(234)
		(39,623)
Net surplus as determined by FRS 102		**9,612**

Association

Reconciliation of the Association's Financial Position at 31 March 2014 and 31 March 2015	Note	2015 £'000	2014 £'000
Total net assets as determined by the previous accounting framework		2,229	1,905
FRS 102 Adjustments:			
Gift aid	J	47	22
Fixed assets adjustment	F	280	133
Employee benefits: short-term	G	(78)	-
Employee benefits: post-employment	H	(3,687)	(3,863)
		(3,438)	**(3,708)**
Financial Position as determined by FRS 102		**(1,209)**	**(1,803)**

Reconciliation of the Association's Financial Performance for the year ending 31 March 2015	Note	Surplus for the year £'000
Total net surplus as determined by the previous accounting framework		324
FRS 102 Adjustments:		
Gift aid	J	25
Fixed assets adjustment	F	147
Financial instruments re-measurement	B	(109)
Employee benefits: short-term	G	(78)
Employee benefits: post-employment	H	285
		270
Net surplus as determined by FRS 102		**594**

44. Financial instruments and financial management

Financial Instruments	2016 £'000	2015 £'000
Financial assets measured at amortised cost		
Investment - financial	6,539	6,590
Shared Equity Loans	6,821	2,919
Rents receivables	7,842	4,067
Trade debtors	7,886	2,348
Stock transfer	4,455	2,350
Other receivables	31,456	18,427
Cash and cash equivalents	65,106	36,813
Total financial assets	**130,105**	**73,514**
Financial liabilities measured at fair value through profit or loss		
Fair value of LOBOs	-	149,601
Financial liabilities measured amortised cost		
Housing loans less than one year	4,915	30,399
Housing loans more than one year	731,477	648,238
Bank overdraft	95	570
Trade creditors	1,207	4,591
Rent and service charges received in advance	6,168	4,585
Accruals	37,837	35,588
Social Housing Grant repayable	1,523	1,517
Disposal proceeds fund	171	-
Recycled capital grant fund	12,380	11,357
Other creditors	7,403	4,707
	803,176	**741,552**
Total financial liabilities	**803,176**	**891,153**

Financial Management

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

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

Liquidity risk

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

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

The Group borrows at both fixed and variable rates, with fixed interest rates being hedged at not less than 50% of drawn borrowings. In accordance with treasury policy, variable rate borrowings are fixed for less than twelve months from the reporting date.

The Group's debt is a mixture of fixed and floating rate loans. As at 31 March 2016, 75% (2015: 75%) of the Group's debt was at fixed rates and 25% (2015: 25%) at floating rates.

Network Homes' Treasury team monitors cash flow on a daily basis. The team also monitors covenant compliance for the Group and is required to report on covenant compliance to the Group's lenders and the borrowers on a quarterly basis. At 31 March 2016 the Group complied with its loan covenants. Business plans demonstrate that it will continue to do so in the future.

Interest rate risk

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

Counter party risk

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

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

The treasury policy is reviewed annually.

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

Customer credit exposure

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

45. Events at the end of the reporting period

(i) The UK voted to leave EU (Brexit) during the referendum on 23 June 2016. Brexit represents an event at the end of the reporting period and has been judged to be non adjusting event so no adjustments have been made in the financial statements. It is likely there will be a protracted period of negotiation that may take at least two years. Due to the uncertainty and timing of negotiations, it is not possible to estimate the financial impact of this event.

(ii) In February 2016 the Group restructured loans in good faith which previously gave one of its lenders the unilateral right to amend interest rates at given dates. At the reporting date the loans were classified in the financial statements as basic loans as they had been restructured. The gains and costs incurred in restructuring these loans were recognised as a financing transaction using the effective interest rate. In July 2016, the Group reached an agreement with the lender to amend the interest rates and recover additional costs incurred since restructuring these loans.

The financial impacts of reaching this agreement have not been adjusted because the Group deems this to be a non-adjusting event as this does not represent conditions that existed at the end of the reporting period. As a result, no adjustments have been made in the financial statements. The Group estimates the financial impact of this will be a credit to the statement of comprehensive income of approximately £22.3m in the 2016/17 financial year. This will also lead to the amortised cost of loans being reduced by £22.3m and will lead to a minimum of £0.4m annual interest for the duration of the loans.


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