Financial statements 2019

L&Q

Photo: our landscape-led new community at Beaulieu Oaks, Chelmsford boasting 180 acres of open meadows, manicured gardens and parkland.

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Photo: L&Q's show home at Willow Grove, Bedfordshire is within easy reach of the wetlands nature reserve at the Forest of Marston Vale.

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Highlights

Chair's statement

When L&Q published its fourth quarter trading update this spring, the commentary focused on the negative headline figures – an expected reduction in post-tax surplus, an increase in health and safety costs and a large remediation bill to put things right.

We fully acknowledge that this has been a challenging year for L&Q, however, we have achieved a turnover of £937 million, a surplus of £202 million and our top-tier ratings for viability and governance have been confirmed by the Regulator for Social Housing. We are seeing an improvement in customer satisfaction as a result of our increased investment in homes and services. Furthermore, the L&Q Foundation in partnership with local charities has invested some £6 million to help tackle some of the deprivation issues London faces.

Behind these headline figures is the story of how L&Q has put social purpose, quality homes, health and safety, tackling the housing crisis, and the needs of our customers at the heart of everything we do.

Safety

The Grenfell tragedy quite rightly remains at the front of our minds two years after that terrible night. Over the last year, we removed cladding on 13 blocks and replacement will be completed this summer. We also replaced more than 2,000 fire doors, started our sprinkler refit programme, and completed more than 2,500 fire risk assessments.

We joined the Government's early adopters steering group, directly testing policy to determine the practicalities and effectiveness of implementation ahead of expected changes in legislation. We are fully committed to sharing best practice to encourage culture change and leadership across the industry.

The financial impact of this is reflected in the results presented in these statements, but the safety of our residents is our number one priority and we will continue to work with partners to ensure that all our buildings comply with the latest government guidance.

Quality

Quality has naturally been in the spotlight since Grenfell, and L&Q was shown to have let its residents down at a new development in South London in a national newspaper article last summer. Our Group Board and Executive Group immediately established a 'Task Force' to urgently identify all other challenging schemes and resolve their issues, with an independent review commissioned to look into wider issues.

The task force identified 16 challenging schemes, and by June this year we had completed 81% of the key work packages that we reported to our regulator. Ten of the 16 schemes identified are now complete, and the work packages that remain outstanding are because of some more complex issues requiring greater work than initially expected. We will not rest until all these works are completed, and we will learn from our mistakes to ensure that they are not repeated in future.

While there was a strong focus on these challenging schemes, we have intensified our focus on quality more generally. Over the last year L&Q completed 8,000 internal and external redecoration jobs, and installed 1,500 kitchens, 2,800 windows and doors, 750 roofs, 350 bathrooms, 2,700 boilers, and remote monitoring systems for lifts in 56 blocks. Our new much higher void standard has seen a 30 per cent increase in satisfaction with re-lets, and we have substantially increased the inspection regime for all new homes to ensure compliance with our new quality standard.

We have also established a new product innovation team to look at how we can use technology to drive supply and quality through standardising components.

Increasing supply

Our focus on safety and quality has not diminished our ambition to help fix the housing crisis. Last year we completed nearly 2,900 new homes and started building nearly 6,500 more – a record for a housing association. Some 60% of these homes will help low to intermediate income households have an opportunity to call somewhere their home.

We have started to expand our geographical focus beyond our traditional areas of operation in London and the South East because we recognise that the housing crisis is a national issue. As part of this expansion, we are in talks to acquire Trafford Housing Trust, with whom we have had a very successful joint venture partnership since 2016. This proposed acquisition will unlock £4 billion investment for 20,000 much needed new homes in the North West as well as enabling Trafford Housing Trust to accelerate investment in existing homes and double the investment in community initiatives.

Supporting communities

L&Q's commitment to transforming communities has also continued with another £6 million invested through the £250 million fund made available to the L&Q Foundation. For every £1 invested we have created £3 of social value - helping people lead independent lives, secure employment and transforming the fabric of our neighbourhoods to create thriving and sustainable communities.

The future

At L&Q, we have always used our financial strength and robust approach to risk management, business planning and stress testing to take measured risks on a long-term basis. One of the great advantages housing associations have when compared to other organisations is that we can use our financial strength and patient capital to take a long-term view doing what is best for our residents, their homes and their communities. Unlike quoted companies, we do not make dividend distributions; our annual surplus acts as a buffer against changes in our operating environment and, over the longer term, finances our growth ambitions.

Our decision to accelerate record amounts of investment in the quality of our homes, the health and safety of our residents – coupled with a reduction in sales turnover and profit - has had a short-term impact on our operating margins and led to a year-on-year reduced surplus after tax.

Longer term, however, the underlying strength of our balance sheet means we can approach the second year of our corporate plan – Invest, Grow, Transform – with confidence. In the year ahead we will therefore focus on the following five organisational priorities:

- Quality homes and services: improving our service for existing homes and regaining the trust and confidence of our residents
- People: making L&Q a great place to work, investing in our colleagues, recruiting and retaining the best talent and ensuring L&Q is a supportive, inclusive place to work
- Growth: maintaining our ambition to tackle the housing crisis whilst ensuring an absolute focus on quality in design, quality in build and quality in service
- Culture, accountability and leadership: putting customers at the heart of L&Q, increasing local accountability and empowering our people to lead
- Resilience: dealing with external uncertainty to keep the light on and maintain the pace of delivery whilst managing risk.

As always, L&Q faces the year ahead in a strong financial position, with an engaged and committed workforce that will enable us to navigate all risks and take advantage of further opportunities as we deliver services and homes that everyone can be proud of.

Aubrey Adams

Aubrey Adams
Group Chair

25 July 2019

About L&Q

L&Q is a regulated charitable housing association and one of the UK's most successful independent social businesses. The L&Q Group houses around 250,000 people in more than 95,000 homes, primarily across London and the South East.

Everything we do begins with social purpose. Our roots go back to the 'new wave' of housing associations created in the 1960's, born out of a growing social consciousness around housing and homelessness. We set out to provide quality, affordable homes for the most vulnerable in society and it is that same fundamental mission that drives us today.

L&Q's vision is that everyone has a quality home they can afford, and we combine our social purpose with commercial drive to create homes and neighbourhoods everyone can be proud of.

Our core tenure is social rented housing. On average, our residents living in these homes pay less than 50% of market rents, making them genuinely affordable for people on lower incomes. We are absolutely committed to preserving social housing and building more of it.

We focus on the needs of our existing social housing residents by investing in their homes, local communities and services. We also create high quality homes for private rent, shared ownership and outright sale.

In response to the housing and affordability crisis, we will enable 100,000 new build homes over the next ten years. Of these, 60,000 homes will be built or funded by L&Q, whilst a further 40,000 will come through partnerships. Crucially, at least 50% of these new homes will be social housing, with a target of 60% in London.

As a charitable organisation, our role goes beyond providing homes and housing services. We are a long-term partner in the neighbourhoods where we work. We hope to build aspiration, opportunity and confidence in our communities through our £250 million L&Q Foundation and our skills academy. Our care and support subsidiary, L&Q Living, also offers housing and other assistance to meet the evolving needs of older and vulnerable people in our society.

Our values are:

- People - we care about the happiness and wellbeing of our customers and our employees
- Passion - we approach everything with energy, drive, determination and enthusiasm
- Inclusion - we draw strength from our differences and work collaboratively
- Responsibility - we own problems and deliver effective, lasting solutions
- Impact - we measure what we do by the difference we make.

	2019	2018	2017	2016	2015
Number of homes managed	**95,700**	93,100	90,600	73,100	71,500

The Group uses certain alternative performance measures throughout this report which, in the opinion of the Directors, aid the understanding of the business performance or provide comparison with our peer group. These measures are presented on a consistent basis over time to assist in comparison of performance and are defined and/or reconciled in note 36 of the accounts, and the Value for Money (VFM) Statement. VFM Metrics are as defined by the Regulator of Social Housing (RSH).

Greater London

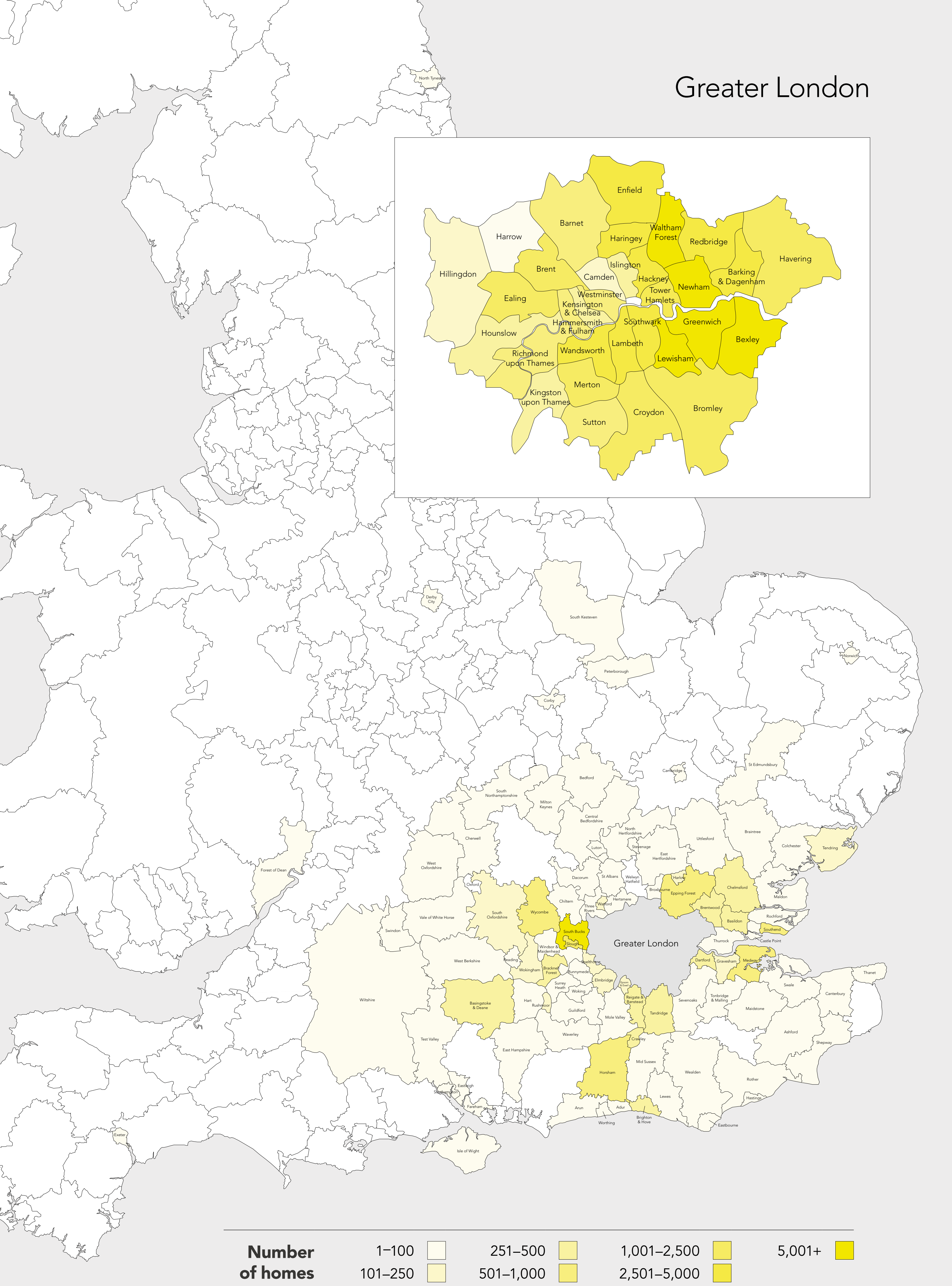


Photo: a unique collection of art-deco inspired homes and landscaped gardens at the Denham Film Studios in the picturesque village of Denham, Buckinghamshire.

02

Strategic report

Corporate plan

Corporate plan

We are partway through our two-year corporate plan that concentrates on three key themes "Invest, Grow, Transform". The plan has been shaped through consultation and engagement with our people, our residents and our key stakeholder partners.

Invest: We will invest in our people, in our existing homes and in the tools we need for the job.

Grow: We will grow our organisational and financial capability so we can deliver services better.

Transform: We will transform our services, tackle social stigma and embed a customer service culture.

We have made good progress on many initiatives across these themes, and delivered what we said we would - but there is more to do to get to where we want to be.

Looking to the year ahead, we will need to manage the challenges and opportunities present in our operating environment: delivering growth, maintaining our financial strength and performance and investing in our services and existing homes.

Investment in assets

A primary focus over the past year has been on the safety and quality of our homes, which has required increased investment in the maintenance of our existing properties, increasing in total from £173m to £251m of which £241m was on social housing. We spent £88m (2018: £67m) on reactive maintenance and a further £71m (2018: £41m) on the planned maintenance of the homes we own to provide social housing. In addition, capital improvements to these homes amounted to £92m (2018: £65m) in the year. Some of this additional expenditure in the year was set aside to put things right on a number of schemes where we have got things wrong previously on the specification or build quality.

We are committed to improving our service and this will continue to be a key area of focus for the business.

Investment in growth

During the year L&Q made a total investment of £1,136m to help build much needed homes.

Development spend on fixed asset housing properties through our own pipeline was £631m (2018: £337m) as we make progress with our ambition to tackle the housing crisis. We continue to work in partnership with other housebuilders and housing associations and as such investments through jointly controlled entities increased £47m in the year to £478m (2018: £431m).

Investment in transformation

We launched Microsoft D365 in May 2019 marking the start of our journey to unify our existing systems into a single platform. This will help us provide better, faster and lower cost services to our customers Our complaints handling process has changed as a result, making it easier for residents to deal with us.

Financial review (5 year summary)

Consolidated Income and Expenditure (£m)	2019	2018	2017 [1]	2016	2015
Turnover	**937**	1,026	756	628	518
Operating costs and cost of sales	**(739)**	(724)	(457)	(371)	(299)
Surplus on disposal of assets	**50**	54	53	41	24
Share of profits from joint ventures	**20**	2	13	23	34
Change in valuation of investment properties	**37**	48	36	23	4
Operating surplus	**305**	**406**	**401**	**344**	**281**
Net interest charge and other finance costs	**(119)**	(66)	(69)	(65)	(66)
Taxation	**16**	10	(5)	(5)	-
Surplus for the year before exceptional items [2]	**202**	**350**	**327**	**274**	**215**
Exceptional items					
- Refinancing costs	**-**	-	(548)	-	-
- Gift on acquisition	**-**	-	441	-	-
Surplus for the year after tax	**202**	**350**	**220**	**274**	**215**

Statement of financial position (£m)	2019	2018	2017	2016	2015
Housing properties at cost less depreciation	**9,469**	9,089	8,671	7,024	6,875
Other fixed assets and investments	**1,718**	1,403	1,128	723	530
Net current assets	**966**	863	1,000	265	314
Total assets less current liabilities	**12,153**	**11,355**	**10,799**	**8,012**	**7,719**
Loans due after one year	**5,011**	4,367	4,530	2,110	2,042
Unamortised grant	**2,137**	2,145	1,777	1,744	1,800
Other long-term liabilities and provisions	**229**	259	261	302	283
Cash flow hedge reserve	**-**	-	-	(159)	(147)
Total reserves	**4,776**	4,584	4,231	4,015	3,741
Total assets less current liabilities	**12,153**	**11,355**	**10,799**	**8,012**	**7,719**

Statement of cash flows (£m)	2019	2018	2017	2016	2015
Net cash generated from operating activities	**189**	252	150	194	216
Cash flow from investing activities	**(885)**	(96)	(1,537)	(391)	(356)
Cash flow from financing activities	**645**	(149)	1,492	161	223
Cash and cash equivalents at start of year	**222**	215	110	146	63
Cash and cash equivalents at end of year	**171**	**222**	**215**	**110**	**146**

[1] Includes East Thames Group results from 6 December 2016 and Gallagher Estates from 1 February 2017.

[2] References made to 'exceptional items' are to highlight the impact of the refinancing costs and the gift on acquisition following East Thames Limited joining the Group in these financial statements.

CASE STUDY:

Tackling homelessness

As a housing provider with social purpose at the heart of everything we do, we are committed to helping those who have lost or are at risk of losing their homes.

There are almost 160,000 households experiencing the worst forms of homelessness in Britain. If we carry on as we currently are, this is expected to almost double in the next 25 years. By working with the relevant agencies to address the issues behind the figures, we want to stop this from happening. We have chosen Crisis as our charity partner for the next two years, and we are on target to reach the £50,000 that we have pledged to raise for them during this period.

L&Q has taken a keen interest in the presentations that Crisis have made to us. Working with the charity, our tenancy sustainment and corporate social responsibility teams are offering advice and solutions on how to prevent residents from becoming homeless or to help people get off the streets. We are also working with other charities to see what L&Q can do as an organisation to ensure we are supporting vulnerable residents to stay in their homes and make accommodation available for those in need.

What L&Q has done to help tackle homelessness so far

We have increased provisions for our homelessness services, which supply accommodation across **London** and the **South East**, by a third. This has enabled people in the pathway to settle into the community as general needs tenants and freed up bed-spaces for those who have recently become homeless, reducing rough sleeping.

We have met with the **Ministry of Housing, Communities & Local Government**, the **Greater London Authority** and several **Local Authorities** to understand how we can better support the rough sleeper strategy.

We have extended our **JumpStart** employment and skills service, which works with residents of L&Q's agency-managed supported housing, into its fourth year. The service helps current or recent residents of supported housing gain the skills and confidence they need to enter the jobs market, and places customers into work placements, volunteering roles and paid employment.

We have funded a **financial resilience advisor**, who will provide supported housing residents with benefits and housing advice, for the next three years.

Staff have raised money through a variety of events, including the **Square Mile run** and the **Ahoy! Thames Meridian Challenge**, with the proceeds going to **Crisis**.

In December 2018, we announced **Crisis** as our charity partner for the next two years. Staff also volunteered at one of the **Crisis at Christmas** warehouses.

Since **April 2018**, we have worked with a number of charities to make use of decommissioned buildings to house single homeless people in need.

We have opened a **homelessness assessment centre** in **Greenwich**.

Upcoming projects

- We will be announcing an exciting joint venture with St Mungo's later in the year
- We will also have further announcements about initiatives that are currently being discussed with Crisis
- We will be looking at how we can support local and grassroots organisations to work together to help end homelessness.

Group financial performance 2018/19

Turnover
Of the £937m turnover in the year (2018: £1,026m), 58% was generated from our core social housing lettings activities (2018: 51%) with the growth in housing stock outstripping the effects of a continued period of rent reduction. A further 37% of turnover was from market sales activity and 5% from market rents. The £89m reduction in total turnover in the year is primarily due to slower sales activity in a challenging market with a flattening of house price growth driven by ongoing economic and other external uncertainties.

Operating margins and surplus
Operating margins reduced to 33% from 39% as a direct consequence of the decrease in operating surplus for the year to £305m (2018: £406m) consisting of £232m (2018: £284m) contributed from social housing activities and £73m (2018: £122m) from non-social housing activities. These results were not unexpected with the continued external economic market and political uncertainty surrounding Brexit having some effect on the volume of sales achieved in the year compared to previous years, in addition to the increased maintenance and investment in the quality of existing homes. While overall sales margins fell to 9% (2018: 19%), operating margins on our core business social lettings remained strong at 37% (2018: 46%) against 2018 sector average of 30%, with the decrease attributable to the increased expenditure on maintenance.

Our commitment to making sure we are proud of the homes we provide our customers, and our new quality standards is paramount. We have delayed the handover of 200 new homes in the year because they did not meet our required standards, knowing the short-term financial impact of delaying handovers and that over time better quality and standards will pay off. We have established a new product innovation team to look at how we can use technology to drive supply and quality through standardising components which makes it easier to maintain them.

Interest payable for the year increased by £20m to £111m (2018: £91m) as a direct result of the increased borrowing in the year to fund our growth ambitions.

Financial Position
The group continues to maintain a strong financial position with net assets increasing by £192m to £4,776m in the year (2018: £4,584m). We continued to achieve one of our key strategic objectives to grow - with our housing property portfolio increasing steadily by £380m to £9,469m (2018: £9,089m) and our investment in private rented portfolio increasing by £272m in the year to £942m (2018: £670m).

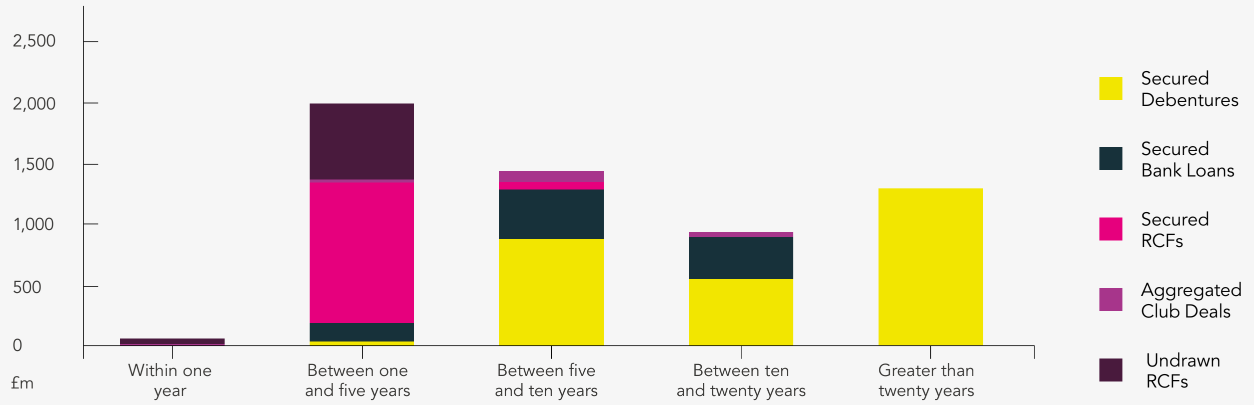
New information became available during 2019 to enable the Group to account for the Social Housing Pension Scheme as a defined benefit scheme. Previously the sector accounted for the same multi-employer plan as a defined contribution scheme. As a result, the £18m deficit funding agreement previously recognised at present value of the deficit has been derecognised, and the full net pension deficit as at 1 April 2018 has been recognised at £28m, all through other comprehensive income as required under the latest proposed amendments as set out in FRED 71
(see note 9 for further detail).

Capital Structure and Treasury
The Group's treasury strategy is approved twice a year by the Board and details how we mitigate and manage treasury related risk defined as liquidity risk, interest rate risk, covenant risk and counterparty risk. It ensures the Group has sufficient liquidity to fund its operations for a minimum of 18 months, mitigation of the impact of adverse movements in interest rates, ensuring loan covenants are met and ranking the preservation of capital ahead of returns when making investment decisions.

Loan Covenants are monitored regularly in accordance with the governance framework and were met throughout the year. These are forecast to be continually met for all loan facilities across the Group with sufficient buffer to remain above risk tolerance levels set by the Group Board.

At 31 March 2019, the Group had total loan facilities of £5,728m (2018: £5,041m) of which £4,992m (2018: £4,347m) were drawn. All undrawn facilities are fully secured and committed revolving credit facilities available within 48 hours. The Group's exposure to drawn re-finance risk within one year was £26m (2018: £33m) representing 1% of debt facilities.

Debt repayment by source



Cash and equivalents held at the year end totalled £171m (2018: £222m) leaving net debt (excluding any issue premium, fair value adjustments and mark to market exposure on interest rate hedges) at £4,822m (2018: £4,126m). Available liquidity (defined as available undrawn loan facilities and available cash that is not secured in held funds) was £751m (2018: £846m). The weighted average cost of the Group's drawn debt has decreased to 3.5% (2018: 3.6%).

The Group manages its exposure to fluctuations in interest rates with a view to achieving a level of certainty in its net interest costs. The Group's interest rate strategy is focused on achieving the prescribed balance between fixed and floating rate debt at an acceptable level of risk and cost. At 31 March 2019, 57% of drawn debt was fixed (2018: 65%).

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

As at 31 March 2019, L&Q had the following credit ratings:

Credit rating agency	Credit rating	Rating outlook
Standard & Poor's	A	Negative
Moody's Investors Service	A3	Stable
Fitch	A+	Stable

See note 33 for updated credit ratings post 31 March 2019.

Development and sales

The housing crisis remains a national issue, the spectrum of issues encompasses need, affordability, demand and quality. To help tackle the housing crisis, L&Q plans to enable the creation of 100,000 new homes over the next 10 years, 2018/19 was the first year of this 10-year plan. However, growth will not be at the expense of our commitments to investing in our existing homes and services. Equally, we only have a mandate to develop if we can deliver the required standards of quality and customer service. We are committed to build trust, not just homes.

During the year, the Group completed and handed over 2,874 homes (2018: 2,453) comprising of 55% (2018: 55%) social housing tenures and 45% (2018: 45%) market tenures. We commenced on another 6,428 residential homes (2018: 2,698), of which 63% (2018: 44%) were social housing tenures and 37% (2018: 56%) were market tenures. The Group achieved the sale of 1,044 (2018: 1,203) homes, of which 459 (2018: 568) were delivered through joint ventures.

Summary of performance (development and sales)	2019	2018
Homes handed over	**2,874**	2,453
Homes commenced	**6,428**	2,698
Homes enabled	**1,952**	3,842
Sales revenues (excluding joint ventures)		
- Property sales (£m)	**186**	200
- Land sales (£m)	**155**	243
Sales margins (excluding Joint Ventures)		
- Property sales (%)	**4%**	29%
- Land sales (%)	**16%**	14%
Sales profits (£m)	**32**	88
Share of profits from joint ventures (£m)	**20**	2
Homes under development	**50,400**	46,500
Strategic land plots under control	**46,800**	46,700

We have approved a further 8,667 residential homes during the year bringing our total development pipeline to 50,400, of which 31% is currently on site, representing a significant investment in new supply and affordable output.

As a result of a slowing sales market in some areas driven by continued external uncertainty the Group's own sales profit decreased to £32m (2018: £88m). Profit on open market sales from land and properties was £16m (2018: £61m), and shared ownership sales profit was £16m (2018: £27m) with shared owners purchasing an average of 35% first tranche.

Bearing down on costs without compromising quality has been a key priority for this year and strong financial efficiency targets have been set for 2020/21 and 2021/22. There will also be changes to our resourcing plans that will see increased productivity within our construction and development teams over the next three years.

The need to control cost and to improve quality points us firmly at the off-site manufactured product. This year has seen us come to the end of our research and development phase and to firmly establish what the L&Q housing product is so that we can confidently approach the market. We have set ourselves a target of having 65% of our new homes having an element of off-site manufacture within the next 5 years. On the back of agreeing a set of standard house types, we have placed an order for 1,000 homes with Stewart Milne. They have 40 years' experience in the off-site manufactured market and the first of their new homes will be delivered to site in the Midlands in 2019.

Our move to off-site manufacturing has the additional benefit of helping us to hedge against potential labour shortages and in helping to develop a more diverse workforce within the construction industry. The coming year will see us work with a number of other providers to commission or to develop joint ventures or equity investment models. We will work closely with Homes England on these ideas.

Development and sales (continued)

Joint ventures

L&Q works with a range of partners including the GLA, Trafford Housing Trust and major housebuilders to deliver projects of various scale. At 31 March 2019 L&Q had 22 (2018: 14) active developing JVs, delivering 7,077 homes (2018: 7,129 homes). The majority of JVs are separate Limited Liability Partnerships (LLPs), set up to deliver a specific site or regeneration project. However, more recently the focus has been on larger scale initiatives where L&Q can maximise the social impact by delivering long term sustainable mixed tenure communities.

Forging strong relationships with these and future partners, we will continue to work hard to be able to ensure investment in more homes, communities, apprenticeships, jobs and innovative methods of construction for years to come. This is also an attractive way for the Group to secure an affordable housing supply.

Land sales

In January 2019, Gallagher Estates, our strategic land division was consolidated under our development division and rebranded as L&Q Estates.

Within strategic land we secured outline planning consent on over 12 different sites and sold land to seven housebuilders to enable the delivery of 1,952 new homes.

Over the last 12 months, we have continued to secure and promote new sites, securing planning consent and delivering infrastructure such as roads, schools and open space to create new communities.

The underlying land sales margins in the individual L&Q Estates entities were 42% (2018: 61%), compared to 16% (2018: 14%) at Group level due to the land having been fair valued on the acquisition of Gallagher Estates in February 2017. As new sites are acquired, we can expect land sales margins to increase and over time will re-align with the margins delivered by the individual entities engaged in strategic land promotion which are significantly higher.

There were 46,800 (2018: 46,700) potential strategic land plots under our control as at 31 March 2019, of which 8,216 (2018: 9,504) had a resolution to grant or a full planning permission. These land interests are principally held in southern England, and other prime land areas of the south west, central and eastern regions where we continue to see strong demand for serviced land.

Social housing lettings

Summary of performance (Social housing lettings)	2019	2018
Revenues (£m)	**529**	521
Operating surplus (£m)	**194**	238
Surplus on disposals (£m)	**50**	54
Operating margins	**37%**	46%
Units managed	**80,223**	79,342

Social housing lettings activities form the core of our business contributing £194m (2018: £238m) to the Group's operating surplus with operating margins of 37% (2018: 46%). The decline in margin is to be expected in line with continued increased investment in the quality and safety of our homes. Rent losses across our general needs tenures were less than 2% (2018: 1%) and total arrears at the year end were 4.5% against a target of 4.6%.

The Group invested a total of £241m (2018: £165m) on our existing social housing homes of which £158m was on planned maintenance and capital works with the remaining £83m incurred on reactive maintenance. Much of this work was required to improve the safety and quality of our homes, whilst improving resident satisfaction through launching new initiatives such as our much improved void re-let standard.

Our main social housing sub-tenures are:

- General Needs - regulated under a target rent regime
- Affordable rent - which ranges from 40% to 80% of the market rate under an L&Q policy
- Intermediate market rent - which is designed for those not on housing benefits
- Shared ownership with rent set at a maximum of 2.75% of the unsold equity
- A range of other Government introduced initiatives such as London Affordable Rent (LAR) introduced as part of the London Homes Programme 2016-21 and London Living Rent (LLR).

In January 2019, we started to switch our residents with fixed-term tenancies onto lifetime assured tenancies. Open-ended tenancies will give our residents more security – and this means people can put down roots locally.

The Group is also committed to providing a range of supported housing accommodation and high-quality support services for older people, adults with learning disabilities, mental health issues and vulnerable young people.

The combined contribution to operating surplus of supported housing was £1m (2018: £8m) generating an operating margin of 3% (2018: 24%). The decrease in the year is mainly attributable to increased costs in maintenance. Supported housing primarily includes sheltered accommodation and a mix of agency and directly managed supported accommodation. Although our care provision is currently managed through our subsidiary, LQL, our supported housing portfolio is managed under our Commercial, Care and PRS directorate.

Other social housing activities

L&Q Living

We care for the most vulnerable people living across a range of properties, tenures and communities through our subsidiary "LQL" with support tailored to their needs.

LQL has continued to achieve a 'Good' Care Quality Commission rating across 100% of their services, with 1 scheme being rated 'Outstanding'. It works across 46 local authorities and includes a mixture of direct housing management and agency managed services to over 6,000 people and was a finalist at the UK Housing Awards in two categories – "Best Older Person's Landlord" and "Best Support Housing Landlord".

Further progress on key initiatives was also made in the year, including:

- 'L&Q Inclusion', an initiative to reduce loneliness and isolation
- 'Later Life Living' design guide which sets out our accommodation design standards for all future older persons' developments
- Our vulnerable persons 'offer' which sets out our intensive housing management and support offer to our vulnerable customers
- Launching a mental health recovery academy working with specialist agencies to deliver training to support individuals to gain better control of their mental health.

L&Q Foundation

As a charitable housing association, we are a long-term partner in the neighbourhoods where we work. We create opportunities for people and strengthen communities we serve through the L&Q Foundation.

The L&Q Foundation's work is focussed around three strategic pillars:

- Independent lives – supporting our residents to live economically and socially independent lives
- Successful places – improving the quality of life and life chances of those who live in our homes and communities
- Social responsibility – supporting the business to be socially responsible in the way it manages its operations

In 2019, we invested £6m to help drive outcomes that would make a difference to our residents and wider communities. The L&Q Foundation's key achievements were:

- 606 people into paid work
- £10m raised for residents as additional income through helping them access support and funding
- 664 of our most vulnerable residents supported to stabilise their tenancies
- £17m social value created – measured using the Housing Associations Charitable Trust (HACT) Wellbeing Valuation.

L&Q Academy

The L&Q Academy works alongside the L&Q Foundation to provide opportunities for our residents and others living in our communities through apprenticeships to gain skills and enter sustainable employment, with a particular focus on addressing skills shortages in care and support and construction. Last year, 46 apprentices started at L&Q in 35 different apprenticeship roles in vocational areas across the business.

The L&Q Academy continues to thrive across the organisation, offering accredited training and upskilling opportunities to our staff so they can progress their careers and has worked collaboratively to expand our apprenticeship and graduate programmes on offer. Currently we have a total of 61 apprentices and 23 graduates working within L&Q, many studying towards professional qualifications such as chartered accountancy or chartered surveying. By this time next year, we will have increased the range of apprenticeships including degree level that are on offer and have recruited over 100 L&Q apprentices.

CASE STUDY:

Employment Support

An integral part of helping the people in our communities live better lives is supporting them to find secure work that they enjoy.

At L&Q, we understand the barriers that some people face in finding employment, and we are here to help support our residents when they are ready to look for a job.

We also encourage our residents in the capital to get involved with Love London Working, a new training and employment programme helping people aged over 16 into work.

The three-year, London-wide programme is delivered by 16 housing associations working in partnership and offers training including help with digital skills and IT.

Location:

In London and across L&Q communities.

606 people
into paid work

Highlight:

We offer residents support throughout the whole job-seeking process, whether it is help with their CVs, interview skills, or providing training and education that will help them find employment. One resident commented that the process had made her see L&Q as "not just there to take the rent" and spoke of how much more secure she felt in being able to provide a future for her daughter. The success of this initiative has enabled access to a positive incentive loan facility of £100m with BNP Paribas.

Non-social housing lettings

The Group's non-social housing lettings activities comprise private rented sector (PRS), student accommodation, commercial, leaseholder services and other non-habitable units.

Summary of performance (Non-social housing lettings)	2019	2018
Revenues (£m)	**50**	41
Operating profit (£m)	**23**	17
Revaluation gains (£m)	**37**	48
Operating margins	**44%**	42%
Units managed	**23,694**	21,818

The Group's private rented business, operated under our PRS subsidiary, acquired nearly a further 800 homes in the year (2018: 530) taking the total to more than 2,300 homes. L&Q PRS Co Limited made revenues of £34m (2018: £26m) generating an operating margin of 65% (2018: 62%). Rental yields also compared positively to the target rates, with gross rental yield of 3.7% (2018: 5.6%) and net rental yield of 2.4% (2018: 4.4%).

The investment property portfolio benefitted from a revaluation gain of £37m (2018: £48m) which reflects the current external market sentiment alongside the Group's build–to-rent model where newly handed over homes will generally gain more substantial uplift from their initial build cost than homes already previously revalued or homes purchased. The PRS portfolio continues to achieve its strategic plan to expand the portfolio over the next few years. Under the new corporate plan our intention is to maximise the income from this portfolio to support our focus on delivering social rented homes.

Other non-social housing lettings

Other than our open market sales and joint venture activities reported earlier under "Development and sales activities", other non-social housing activities include the expansion of L&Q Energy which helped reduce our environmental impact by installing solar panels, offsetting carbon, fitting charging points for electric vehicles and sourcing energy from green suppliers. We also minimise the waste we generate from our offices and construction sites and monitor the outputs through annual environmental impact reporting.

Through a combination of energy saving advice for residents and practical improvements to make these homes more energy efficient, our EnergySave Plus programme is helping reduce energy bills. It should also help to reduce rent arrears and mould and damp problems while also improving comfort.

L&Q Energy's income generation in the year was £3m (2018: £3m). Our award winning Energy team continues to be recognised for the size and scope of its energy efficiency work, impact on the local community and its expertise.

Value for money

L&Q is committed to demonstrating and improving value for money as an integral part of the Group-wide corporate strategy and objective setting, and it remains at the heart of its current Corporate Plan to invest, grow and transform. More specifically, our value for money strategic objectives have centred around four themes,

- Customers – implementing a service culture that delivers value, convenience and reliability for minimum customer effort.
- Financial Health and growth – delivering sustainable growth and be recognised as a leading, large-scale provider of quality residential homes and regeneration.
- Operations – innovate and adapt continuously to create efficient, quality and responsive operations that deliver optimal value for customers.
- Organisation and culture – investing in customers and our people to realise their full potential.

Approach

The Group has a rigorous focus on the value it seeks to bring to the UK, its residents and the communities it serves. We have continued to invest in the building of new homes across a mix of social and non-social housing tenures in equal measure.

The volume of homes delivered is important, but the Group also wants to deliver value by providing good quality homes and services, and by investing in its residents and communities. As a responsible landlord we prioritise protecting the safety of our residents which involves greater investment in fire safety measures and other risk mitigation. We joined the government's early adopters steering group, directly testing policy to determine the practicalities and effectiveness of implementation ahead of legislation. We're committed to sharing best practice to encourage culture change and leadership across industry.

One of the great advantages housing associations have is that we can use our financial strength to take a long-term view, to do what is best for our residents, their homes and their communities.

In addition to setting the strategy, the Board has responsibility to ensure that the organisation operates effectively, efficiently and economically. Value for money is embedded in the governance arrangements of the Group and specifically set within the objectives of each committee, for example, under the service improvements objectives of the Customer Experience Committee.

The Development Committee has a duty to appraise significant projects and to scrutinise quarterly the performance of the Development and Sales Board against the Group's approved development strategy and set minimum returns. The committee can also review post completion scheme evaluation appraisals on schemes it has approved.

The Audit and Risk Committee's key objectives include the promotion of the highest standards of propriety in the use and stewardship of the group assets and to encourage transparency and clear accountability for the use of those assets.

The Group has an investment policy that sets out the requirement in the Group's commercial investments to manage the risk-return trade off associated with those activities effectively. Generally, investments are to be managed on a going concern basis with an overriding objective to preserve capital and to generate a long-term return commensurate with the risk profile of the investment, so that those returns can be used to further L&Q's charitable objectives.

The Group is also committed to maximising value for money for residents and other stakeholders in all its activities including the procurement of third party goods and services. Value for money is achieved by awarding the lowest price for short term, simple goods and services of a standard specification; or on a weighted quality and cost basis for more complex, high value goods and services where several service delivery factors are considered. The Group recognises it has duty to deliver value from every '£' spent in services provided to its customers and in its investments in the community through the L&Q Foundation as measured using the Housing Associations Charitable Trust (HACT) Wellbeing Valuation.

Customers

Through our customer service transformation, we are making it easier for our people, residents and customers to engage and transact with us by embedding customer-focused systems and behaviour to make real our customer promise.

In making it easier to deal with us, we will be delivering online services to enable customers to self-serve, anytime, anyplace, on any device. We will launch a new website and start delivering online transactional services including webchat, help and advice, and improved payments online. We will consolidate customer contact for the Group into a unified customer contact centre. We will also provide transparent cost information to all customers by reviewing our approach to service charges and sinking funds and deliver best practice in how we charge for services.

L&Q's standard for the homes it relets is a good example of the difference residents can make. It was residents who flagged that refurbishing homes more thoroughly between lettings would give the people moving in a better start to their tenancy. Our new void standard has seen a 30 per cent increase in satisfaction with re-lets.

Financial Health and growth

As a housing association, we reinvest all the money we make into new and existing homes, creating successful communities and providing excellent services. We will focus on delivering social rented homes as our main housing offer and make sure that we maximise the income from our other types of homes to support this.

L&Q will deliver growth through targeted strategic acquisitions and partnerships with like-minded organisations as demonstrated by our planned acquisition of Trafford Housing Trust (THT) which unlocks major investment in the North West by combining the capabilities and resources of our two organisations to create 20,000 new homes and strong communities over the next 10 years. Through THT's local knowledge, relationships and reputation, L&Q will gain access to the North West whilst THT will benefit from L&Q's sustained financial strength and capacity to lead on large-scale development in areas of much needed housing.

We will build financial flexibility and strength to maximise our capacity to deliver services and homes and manage risk effectively. As we see new risks emerging, we understand the need in developing a new capacity model that ensures we can sustain our investment and growth ambition while operating within set levels of financial risk appetite and linking them directly to financial metrics which are widely communicated, understood and effective in driving decision making.

Sustainable growth is also dependent on seeking new funding opportunities and diversifying funding to support the capacity model and articulated within a new five-year funding strategy.

We have also created a new Place Makers Fund for the Counties region to support community activity and increase social impact. We are supporting vulnerable people living within the wider community by working in partnership with St Mungo's and in the process of setting up a homeless recovery centre in Stratford.

Operations

Our homes are well designed, well built, well managed and well maintained. We take a customer-focused approach and ensure there are appropriate investment plans in place for all homes and ensure they are of a standard we can all be proud of. We have established a new product innovation team to look at how we can use technology to drive supply and quality through standardising components. We are improving the way we manage and monitor properties through a new

Value for money (continued)

Building Information Management approach, in-home digital systems and technology including the roll out of low-cost broadband to customers and connecting more schemes so that our homes will be able to tell us automatically when issues arise.

Our immediate focus is on embedding new quality standards consistently across all schemes including a new standard for sheltered housing. We will also develop a targeted and strategic asset disposal strategy based on quality of homes, efficiency, organisational geography and accelerated staircasing to generate additional revenue whilst improving the quality of the properties we maintain.

Our Direct Maintenance in-house service has been rolled out across our neighbourhoods over the last five years with the final piece to that jigsaw, the North Neighbourhood, now in place. This means our service and our brand will now be seen in all the boroughs and areas in which we operate as we drive up efficiency and productivity in our maintenance service.

We have developed several tailored VFM tools as part of our approach to procurement from those targeted at our establishing sustainable improvement in our supply chain by creating, managing and supporting relationships with key suppliers to value analysis and engineering which identifies areas of unnecessary cost and improving the design of our products and services. These are supplemented by continuous improvement workshops to identify opportunities for continual, often small-step incremental improvements. The focus is to eliminate waste (non-value-adding activities).

2018/19 was the second year of the current three-year Procurement Strategy. The Strategy had a procurement savings target of £5 million for the first two years of the strategy: the target was met and exceeded. The savings were realised through several initiatives including spend aggregation across the Group, the establishment of multi-year contracts and improved definition of business requirements.

A programme of contract management training was also delivered during the year, thereby enabling L&Q to realise value during the life of its contracts in addition to at the letting stage. Work has also commenced on unifying aspects of the Development and Operational procurement to enable products to be selected at the build stage that will support more cost-effective ongoing maintenance.

We are continuing in our planned investment in technology having in the year delivered our modern workplace transformation enabling a flexible working environment for work colleagues, reducing the desk space requirements whilst improving the quality and use of digital communication channels.

Organisation and culture

L&Q is committed to introduce and implement a new pay and reward strategy including new pay grades, revised bonus arrangements and a review of our range of flexible benefits.

We will implement a new skills and development strategy to support our future leaders and expand the reach of the L&Q Academy by creating degree-level apprenticeships.

Through the L&Q Foundation we have helped more than 600 residents into employment and we continue to work on key initiatives to provide opportunities for both employees and residents to upskill.

Measuring value for money

L&Q participates in the annual Sector Scorecard which aims to benchmark housing associations' performance, demonstrates the sector's accountability to its tenants and stakeholders and includes a range of consistent and reliable measures from financial gearing ratios to customer satisfaction. This platform allows participants to learn from each other and as a sector improve financial and operational performance in a sustainable manner.

All 15 measures are reported below for the L&Q Group and are set out compared to L&Q's prior year performance, the G15[3] median and Housing sector median[4]. The adjusted position excludes the effect of fire risk assessment and associated works to highlight the impact of this additional expenditure.

Sector scorecard		L&Q 2019 adjusted	L&Q 2019	L&Q 2018	G15 median 2018	Sector median 2018
Business health						
1.	Operating margin (overall)[5]	**24%**	**21%**	29%	29%	28%
2.	Operating margin (social housing lettings)	**39%**	**37%**	46%	33%	30%
3.	EBITDA MRI (as % interest)[6]	**186%**	**166%**	288%	187%	214%

Operating margins should be viewed in the context of the diversity of activities the sector is now engaged in and can fluctuate at times when investments are planned. The Group's operating margin has been more exposed to the increase in the Group's land sales activities. Our core social housing lettings activities operating margin compares favourably against the G15 peer group and the sector despite a significant increased investment in safety measures and making good defects on 16 schemes which had been identified as not of acceptable quality to the residents.

Our EBITDA MRI provides a good approximation of the net cash generation by the Group. The reduction in the year results from a combination of the challenging property sales market faced by all house builders and the increase in our maintenance spend. It also reflects a significant reduction in the proportion of costs we would have previously capitalised following a review of the methods used to apportion directly attributable costs to the construction of properties.

L&Q's development pipeline and work under construction is significantly increasing in a response to the call from the Government to invest in building new homes. This is largely funded by debt with a proportionally higher interest cost than other housing associations which are not developing to the same extent.

[3] The G15 represents London's largest Housing Associations.

[4] Source: Sector Scorecard 2018 results.

[5] Excludes gain/(loss) on disposal of fixed asset, share of joint venture results and revaluation of investment properties.

[6] EBITDA MRI % interest calculated as EBITDA MRI ÷ Gross interest payable x 100 as prescribed in the current Sector Scorecard, where EBITDA MRI represents earnings before interest, tax, depreciation and amortisation adding back major repair capitalised costs.

Sector scorecard			L&Q 2019	L&Q 2018	G15 median 2018	Sector median 2018
Development – capacity and supply						
4.	New supply delivered (absolute)					
	-	Social housing homes	**1,582**	**1,342**	425	N/A
	-	Non-social housing homes	**1,292**	**1,111**	154	N/A
5.	New supply delivered %[7]					
	-	Social housing homes	**2%**	**2%**	1%	1%
	-	Non-social housing homes	**1%**	**1%**	1%	Nil%
6.	Gearing[8]		**46%**	**43%**	43%	35%

The number of homes built for both social and non-social housing by L&Q is significantly higher than the average G15 figure. This does not necessarily translate into an equivalent increase in the new supply percentage due to the significantly higher deemed cost base the Group adopted in 2014 under the transition rule of FRS102. In the same way, the Group's gearing ratio calculated above has benefitted from the higher deemed cost. The gearing level shows that even though L&Q is currently building the largest number of homes in the sector, its ambition to build even more can be effectively leveraged on its asset base.

Sector scorecard		L&Q 2019	L&Q 2018	G15 median 2018	Sector median 2018
Outcomes delivered					
7.	Customer satisfaction with services provided by landlord	**70%**	**74%**	75%	87%
8.	Reinvestment %[9]	**9%**	**7%**	6%	6%
9.	Investment in communities[10]	**£6m**	**£8m**	£3m	£Nil

The level of customer satisfaction for the year has averaged at lower than in the previous year with the Group in the middle of a wide-ranging transformational programme aimed at improving services. Encouragingly we have seen our best performance in March 2019 when we delivered ratings of 76%. With a significant increase in the reinvestment of the Group's surplus into existing properties and in new build social housing, we have set a target of 79%.

Our investment in communities is covered in the section under L&Q Foundation of this report, as well as some case study examples of the impact this has.

[7] As a % of stock owned at the end of the year.

[8] Gearing calculated as net debt ÷ carrying value of housing properties x 100 as prescribed in the current Sector Scorecard, where net debt represents total bank and debenture loans less cash and cash equivalents.

[9] Investment in properties as a percentage of the value of total properties held at end of year.

[10] Actual spend in the year.

Sector scorecard		L&Q 2019	L&Q 2018	G15 median 2018	Sector median 2018
Effective asset management					
10.	Return on capital employed[11]	**2.2%**	**3.7%**	3.7%	3.7%
11.	Occupancy	**100%**	**100%**	100%	99%
12.	Ratio of responsive repairs to planned maintenance[12]	**0.5**	**0.6**	0.6	0.6

Whilst overall return on capital employed (ROCE) gives an indication of how well the Group makes a financial return on the assets it owns, our asset management strategy focuses on improving how the asset base can perform better as well as the qualitative aspect of improving our homes, for example, by improving our void standards. The Group's ROCE is lower than the G15 following the deemed cost revaluation exercise carried out on the transition to FRS102 which increased the book value of our housing properties and also reflects our reduced operating margins.

Our occupancy rate demonstrates we are very efficient at turning around void properties and at sustaining existing tenancies but is also a reflection of the overall quality of our homes and areas of operation, primarily in London and the south east.

We have seen a gradual improvement in the ratio of responsive to planned maintenance which is now consistently below 60% evidence that our planned programme driven by stock condition surveys and contracts procurement are improving.

Sector scorecard		L&Q 2019 adjusted	L&Q 2019	L&Q 2018	G15 average 2018	Sector average 2018
Operating efficiencies						
13.	Headline social housing unit cost	**4,393**	**4,721**	3,923	4,527	3,450
•	Management cost per unit	**508**	**588**	650	1,405	1,023
•	Service charge cost per unit	**745**	**745**	646	681	331
•	Maintenance cost per unit	**1,684**	**1,867**	1,264	1,019	906
•	Major repairs cost per unit	**1,013**	**1,078**	793	935	720
•	Other social housing costs per unit	**443**	**443**	570	406	186
14.	Rent collected as % of rent due (General needs)	**99%**	**99%**	100%	100%	99%
15.	Overheads as a % of turnover	**6%**	**6%**	14%	11%	12%

The Group's headline operating cost per social housing unit is below the peer average and will remain a key focus in improving our operating margin target. L&Q is in its second year of a significant transformational change and incurring additional operating and capital costs to deliver the programme which will deliver a better service at a lower cost in the future.

With our ongoing transformation of customer service and the final roll out of the direct maintenance service now completed, the Group is well positioned to deliver lower unit cost in our reactive maintenance service whilst also improving the service standards targeting an 80% first-time-fix by the end of next year.

[11] Return on capital employed calculated as operating surplus including gain/(loss) on disposal of fixed assets and share of operating surplus/(deficit) in joint venture or associates ÷ total fixed assets + total current assets less current liabilities at end of year.

[12] Routine maintenance as a percentage of planned maintenance + major repairs expenditure + capitalised major repairs and re-improvements expenditure.

Photo: one of the modern, shared ownership apartments available at Erith Baths in Erith.

03

Governance

Group Board

The L&Q group structure is governed by its Group Board (the Board) – Board member biographies are available on our website. London & Quadrant Housing Trust is the parent body of the L&Q Group and is an exempt charity and registered society under the Co-operative and Community Benefit Societies Act 2014. It has overall control of all of its subsidiaries.

Code of Governance

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

L&Q has adopted the principles and provisions of the National Housing Federation's Excellence in Governance – Code for Members (2015 edition). It has also committed to adhere to the NHF Code of Conduct (2012 edition) by its adoption of an L&Q Code of Conduct. An assessment of compliance with both codes is conducted annually. Its subsidiaries have adopted either the Group Governance Standing Orders or a tailored version of the Group Governance Standing Orders which acknowledge L&Q's power to intervene in their governance. A list of L&Q's direct and indirect subsidiaries can be found in note 34.

Leadership and control

The Board consists of a minimum of 5 and a maximum of 12 members, which includes the Group Chief Executive and the Group Finance Director.

The Key management personnel of the Group consists of the Board and the Executive Group as listed in section 5 – other company information.

Board and Committee membership

The table below sets out the Board membership and attendance, which is shown as the number of meetings attended out of the total number of meetings possible for the individual board member during the year. If any board members are unable to attend a meeting, they are encouraged to communicate their opinions and comments on the matters to be considered via the Chair or the relevant committee chair.

Delegation

The focus of the Board is on L&Q's strategy and objectives, business plan and viability. It also has responsibility for overseeing the performance of L&Q and its activities to help L&Q deliver long-term success. In order that it can operate efficiently and give the right level of attention and consideration to relevant matters, the Board delegates certain responsibilities to Board committees.

Board committee agendas and schedules of items to be discussed at future meetings are prepared in accordance with the terms of reference of each committee and take account of a combination of standing, topical and ad hoc matters.

The four standing Board committees are:

- Audit and Risk Committee – responsible for overseeing internal audit, external audit, the effectiveness of internal controls, monitoring and challenging management on its identification and mitigation of risk, and reviewing the financial statements and financial performance
- Governance and Remuneration Committee – responsible for advising the Board on governance, remuneration, and Board and committee succession planning and appointments. A more detailed account of the role of the Governance and Remuneration Committee and a summary of its activities during the year is available on the L&Q website
- Development Committee – responsible for appraising and reviewing major development and investment schemes
- Customer Experience Committee – has a focus on service improvement, customer insight and monitors the delivery of the Regulator of Social Housing's Consumer Standards

At Board committee meetings, items are discussed and, as appropriate, may be endorsed, approved or recommended to the Board, by the committee. All committees report back to the Board at each board meeting.

Day-to-day management of L&Q and its subsidiaries and delivery of the Board approved strategies are delegated to the Executive Groups.

Some members of the Board also sit on the board of individual subsidiaries where additional oversight is required by the Board.

Board member	Board attendance	Audit & Risk Committee	Governance & Remuneration Committee	Development Committee	Customer Experience Committee
Aubrey Adams	Chair 9/9		•	•	
David Montague	9/9				
Waqar Ahmed	9/9				
Anne Elizabeth Bassis	6/9		•		Chair
Tracey Fletcher–Ray	6/9	•			
Samantha Hyde	7/9			•	
Rajiv Jaitly	8/9	•			
Larissa Joy	8/9		•		
Michael More	9/9	Chair			•
Trevor Moross	7/9		Chair	•	
Simon Rubinsohn	9/9			Chair	
Fayann Simpson (joined 10 May 2018)	9/9	•			•
Other committee members					
Duncan Beardsley	n/a	•		•	
James Scott (resigned 9 January 2019)	n/a			•	
John Drew	n/a		•		
Paula Higson	n/a				•
Michael Verrier	n/a				•
Sanjay Patel	n/a	•			

Other statutory and regulatory information

Employee involvement

The Group aims to attract, recruit, develop and retain employees who will share their passion, experience, skills and knowledge with their colleagues and customers. There is a culture of shared leadership and collaborative learning across the Group. We pride ourselves on nurturing internal talent through our talent management schemes and other developmental opportunities, not limited to learning and development activities. This ensures that employees remain engaged, motivated and are committed to providing excellent service for our customers.

Our brand and our work on diversity and inclusion have brought a number of benefits to the Group. Naturally, it assists talent acquisition and retention, but it also allows us to raise the profile of the social housing sector as an employment proposition for talented people, and it enables us to grow our business.

L&Q has won numerous accolades, including Investors in People Gold status.

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

- We have introduced a more effective induction programme to help assimilate new staff quickly into the L&Q culture and values and behaviours of the organisation, with the express intention of putting customers at the heart of everything we do.
- We continue to develop staff in service delivery, through our Customer Excellence programme.
- We have revitalised our Employee Engagement Strategy and have worked with our colleagues across the organisation to recruit engagement champions who are situated in each area of the business and who are able to support leaders with action planning with the view to sustaining high levels of engagement.
- We continue to develop our offer on skills and talent development, in-line with the requirements of the business and ensure we provide a clear management and leadership pathway as well as opportunities such as mentoring.
- We have developed our in-house e-learning training programme to deliver blended learning and development to support our people in developing their skills.

Diversity and Inclusion

L&Q is committed to a holistic approach to Diversity and Inclusion from recruitment and selection, through training and development, appraisal and promotion to retirement. Equally important in this regard is our approach to service delivery. It is our policy to promote an environment free from discrimination, harassment and victimisation. All decisions relating to employment practices will be objective, free from bias and based solely on work criteria and individual merit. We are responsive to the needs of our employees, residents and the community at large.

The Group is a Disability Confident employer, offering an interview to disabled candidates who meet the minimum requirements of the role. We will also support staff who may become disabled during their employment.

We have signed up to, and are founding members of, the Leadership 2025 programme, which seeks to promote BAME talent at the most senior levels within the sector. Furthermore, we will continually strive to reduce both our gender and our ethnicity pay gaps.

Our Head of Diversity and Inclusion ensures that we meet all of the objectives identified within our Diversity and Inclusion Strategy and action plan. Our three network groups, Inspire, Spectrum and Kaleidoscope, are working in tandem with the business to make sure that we make improvements and raise our profile in these areas of work.

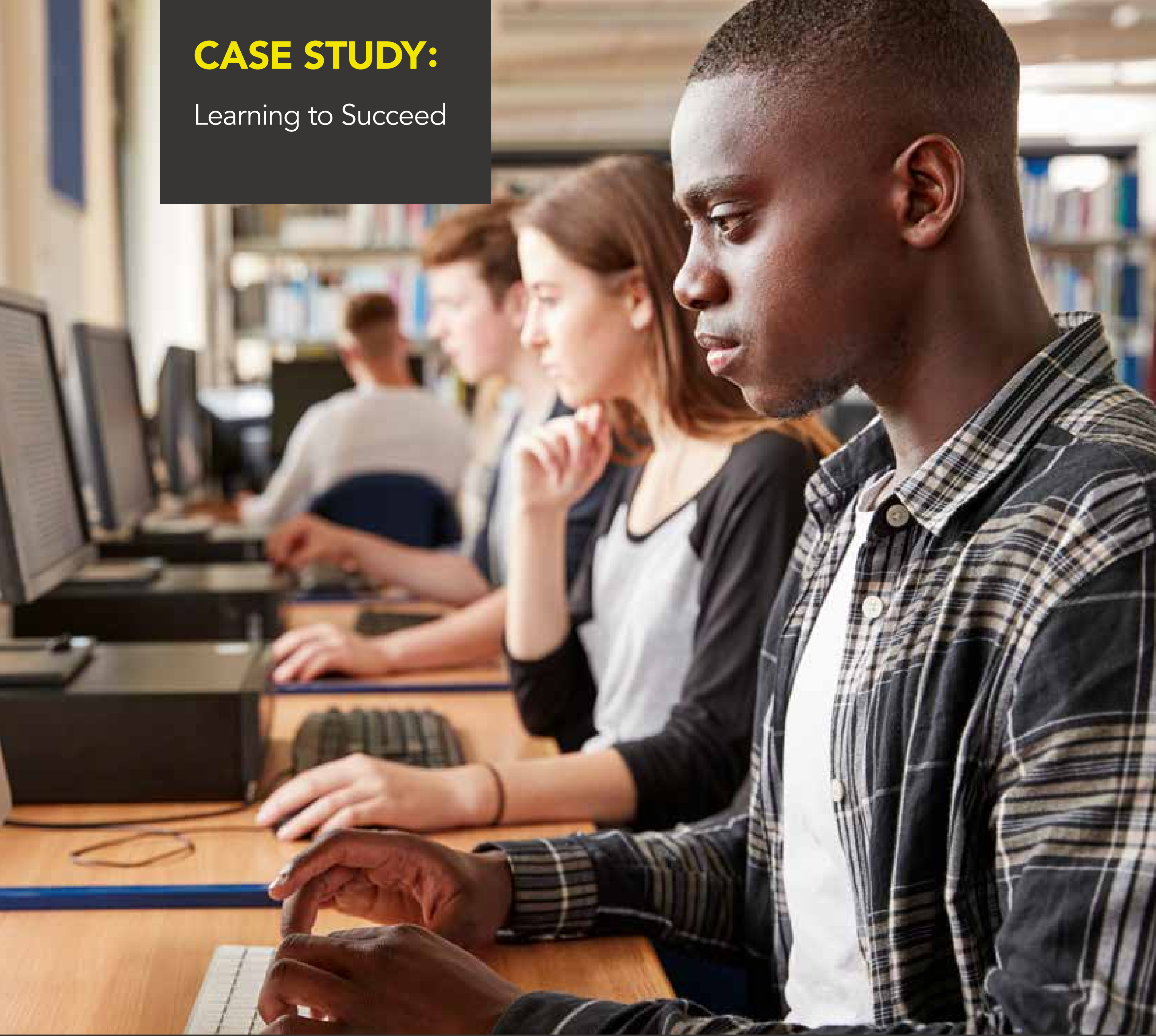
Modern Slavery and human trafficking statement

The Group is committed to understanding modern slavery risks and ensuring that we comply with our legal and regulatory responsibilities, including the Modern Slavery Act 2015. We take care to ensure that slavery and human trafficking does not exist in any part the Group or supply chain.

L&Q's full statement on modern slavery is available on the L&Q website.

CASE STUDY:

Learning to Succeed



L&Q has launched a £1 million programme that seeks to address the Construction and Built Environment's image problem and encourage new talent to enter the industry.

As well as broadening the career horizons of young people, Learning to Succeed intends to secure the next generation of housebuilders. It is estimated the industry will need to recruit an extra 168,500 workers over the next five years to support construction growth and account for an ageing workforce.

Young people are the future of the construction industry, which is why it is so vital to inspire talented youngsters to put their skills to use and support their career journey.

Location:

Across 12 London boroughs.

30 schools

offered STEM lessons and careers advice

Highlight:

It was launched after research commissioned by L&Q found that many young people held negative misconceptions about the industry. A survey of 1,095 people aged 16-18 found that only 10% would consider a career in construction, even though more than half were interested in subjects that qualified them for the industry.

Internal control and risk management

The Board has overall responsibility for the system of internal control and risk management across the Group and for reviewing its effectiveness. The Board also take steps to ensure the Group adheres to the regulator's Governance and Financial Viability standard and its associated code of practice that includes adhering to all relevant law. The Audit and Risk Committee is responsible to the Board for monitoring these arrangements and reporting on their effectiveness.

Review of internal controls

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

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

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

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

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

The Board has reviewed the effectiveness of the system of internal control, including risk management, for the year to 31 March 2019, and up to the date of signing these financial statements. It has not identified any weaknesses sufficient to cause material misstatement or loss, which require disclosure in the financial statements.

Risk management

Risk Management is fundamental to the achievement of our corporate objectives. We have an enterprise risk management approach based upon the principles of ISO 31000, the recognised international standard for risk management. Risk management is embedded across all operational functions and projects supported by a leading risk software system to provide oversight across the entire business. We have a suite of key risk indicators (KRIs) which provide intelligence on the key areas of risk facing our business and act as early warning indicators. Our key financial ratios are also monitored on a regular basis with Audit & Risk Committee oversight to ensure we remain within risk appetites.

Our objective in embedding an ISO 31000 compliant risk management framework is to ensure that we become a more resilient organisation. The incentive to become resilient goes beyond merely avoiding disaster. Leading research commissioned by Airmic (Association of Insurance & Risk Managers in Commerce) and prepared by Cranfield School of Management has shown that organisations that are confident in their risk management have the ability to be more enterprising and entrepreneurial, thereby not only identifying risks but also seizing opportunities. The qualities we will embed by being a resilient organisation will enable us to succeed in other respects. We will be more responsive to our customers and the markets we serve, our staff and suppliers will remain motivated and loyal, we will gain trust by being more dependable and achieve better results. As we develop resilience at the heart of strategy and part of the overall vision of the organisation, this will enable us to deal more effectively with both expected risks and the unexpected ones.

There are five main principles of resilience set out in the research which we have adopted. They are:

- Risk radar: the ability to anticipate problems and see things in a different way will help us develop an early warning system and be able to seize new opportunities
- Resources and assets: well diversified resources and assets provide the flexibility to respond to opportunities as well as adverse or changing circumstances
- Relationships and networks: risk information flows freely throughout the organisation up to directors to prevent the "risk blindness" that affects many boards
- Rapid response: capability that prevents an incident escalating into a crisis or disaster because people and processes are in place to quickly restore things to normal
- Review and adapt: learn from experience, including near-misses and make the necessary changes and improvements to strategy, tactics, processes and capabilities.

We must demonstrate all five principles to achieve resilience. These five principles do not just happen – they reflect the fact that we have nurtured a resilient environment through our business enablers of Customers, Operations, Financial Health & Growth and Organisation and Culture as monitored through our balanced scorecard. In developing a resilient culture in order to protect our business, brand and reputation L&Q will be characterised by having the five resilience principles in place in a way that enhances our business enablers.

The Group risk map details the key risks that impact upon our strategic objectives. It is prepared by the Executive Group, reviewed quarterly by the Audit and Risk Committee and approved annually by the Group Board. There are numerous other risks managed at an operational level as part of our enterprise risk management approach which can be escalated to the Group risk map as necessary. Like many organisations a no deal Brexit is of considerable concern to us and this impacts upon numerous risks faced by our business including those detailed here.

Internal control and risk management (continued)

The Executive Group and Group Board considered the risks described here as the group's key risks for this financial year linked to our Corporate Plan strands: 1-Invest 2-Grow 3-Transform

Risk	Comments and risk mitigation
Economic uncertainty leads to inability to meet sales targets and provide investment in affordable housing 1	We closely monitor macro-economic data as well as house price indices and mortgage approval rates as part of our suite of key risk indicators. We regularly stress test our business plan against a wide range of scenarios in order to inform our decision-making process around the implementation of key risk mitigation, such as switching tenure and scaling back on market activity. Our key financial ratios and risk indicators are monitored on a monthly basis with Audit & Risk Committee oversight. We have seen the impact of continued Brexit uncertainty on the housing market with a reduction in sales receipts that would typically provide most of the subsidy for new affordable homes. We continue to lobby Government to ensure it deploys the resources that have already been allocated for housing delivery at a much greater pace. Geopolitical events may also lead to further economic uncertainty which would require additional Government support to maintain housing supply in order to tackle the housing crisis.
Major or Series of Health & Safety or Safeguarding Incident(s) causing injury or death event(s) 1 2 3	The health and safety of our customers, staff, partners and members of the public who may be affected by our activities is an essential part of our risk management approach. We have invested in developing a specialist in-house Health & Safety team who continue to embed and monitor a robust Health & Safety management system. We also have established procedures and inspection regimes covering estate management, critical incident management and construction site safety management. In addition, we have embedded specialist Health & Safety advisors within our in-house construction and maintenance teams to provide additional support and guidance in these key areas of our operations. We undertake a range of audits to ensure compliance and have a suite of KPIs to monitor performance which are overseen by our Health & Safety Board. We have also undertaken a business resilience review building on the successful integration of recent acquisitions and this included a review of Business Continuity and Critical Incident/Emergency Planning capability. An improvement plan aimed at further enhancing our capabilities will be implemented in the year ahead. On safeguarding, we have robust policies and procedures in place which are strictly enforced, safeguarding forms part of our recruitment and selection process in L&Q Living and we undertake DBS checks. We have a cross departmental safeguarding committee which is held on a quarterly basis and report regularly to the L&Q Living Board. We also have robust whistleblowing arrangements in place with confidential reporting.
Complexities of fire safety management 1	The tragic events at Grenfell Tower led to a complete review of fire safety across our business. We have signed up to work with the Ministry of Housing, Communities and Local Government (MHCLG) to trial ways of working in line with the recommendations of Dame Judith Hackitt's review of building regulations. We have invested significantly in fire safety in previous years and have now committed additional resources to ensure that all our homes are safe. This includes replacement of all ACM cladding regardless of the height of the building, a range of fire risk assessments including intrusive surveys and investigation of external wall systems with the support of chartered fire engineers. We have strengthened our professional in-house fire safety team and are committed to driving a best practice approach to fire safety, not just compliance.
Serious loss of sensitive/ personal data 1 2 3	We have data loss prevention controls in place to prevent a breach of sensitive data and have disabled file sharing in collaboration tools to prevent inadvertent data breaches. We are investing significantly in innovative technologies and are also building in the necessary levels of security protection to ensure that our data is safe. A detailed training and awareness programme with refresher modules is also in place overseen by our dedicated Data Protection Officer, who also conducts compliance audits across the business on an ongoing basis.

Risk	Comments and risk mitigation
Impact of political change and uncertainty on housing 1 2 3	Brexit continues to dominate the political landscape. With a new Prime Minister and a General Election not out of the question we face unprecedented levels of uncertainty. We continue to lobby government both directly and through the NHF and G15 to promote our social enterprise model and to ensure that housing remains a key government priority.
Utilising our capacity to grow and maximising development opportunities overloads operational and human capacity 1 2	We have developed a new capacity model that ensures we can sustain our investment and growth ambition while operating within set levels of financial risk appetite, linked to key financial metrics. We are proud of our reputation for financial strength and our ability to deliver. We believe that we have a compelling and authentic proposition which sets us apart from our peers and makes us a strategic partner of choice for Government and other key stakeholders. We are transforming our business by embedding customer-focussed systems and behaviour to make real our customer promise. This includes unprecedented levels of investment in our people, growth, front line services, the quality and safety of our homes and the systems that support all of this. We are reviewing our corporate governance structure to support future growth and ensure that the resident voice and accountability are appropriately represented. We will build financial flexibility and strength to maximise our capacity to deliver services and homes.
Impact of Brexit on housing market, Care, Construction and supply chain 2	We have stress tested our business plan against a range of Brexit related economic scenarios and have a suite of financial metrics and key risk indicators in place. We have a number of effective mitigating actions in place but in a worst-case scenario the importance of government support as set out in the joint letter from the Mayor of London, London Councils and G15 to the Secretary of State will be key in terms of maintaining housing supply. On the operational side we have undertaken detailed assessments of supply chain and labour risk across our construction, maintenance and care operations and have plans in place to address any disruption, including the threat of a no deal Brexit.
Ability to attract and retain the best staff within L&Q 1 2 3	We aim to be an employer of choice and create opportunities for our people to realise their full potential. Following work with a leading pay and reward consultancy we are introducing a new pay and reward strategy including new pay grades, revised bonus arrangements and a review of our range of flexible benefits. We have implemented a new skills and personal development strategy to support our future leaders with a focus on the values and behaviours that are required to enable us to succeed. This will ensure that we keep all of our people motivated and engaged to promote L&Q's culture. We actively conduct benchmarking and seek to achieve external accreditation including Great Places to Work 'Best Workplaces' and Investors in People.
Major or series of financial or cyber fraud incidents 1 2 3	Our Fraud Risk Assessments are embedded within our enterprise risk management approach, ensuring that all operational areas review fraud risk alongside all other operational risks. Compulsory training including an annual refresher module is in place to ensure continuous knowledge and awareness of Fraud, Bribery & Corruption risks. We have robust multi-level secure financial system controls in place in relation to payments and electronic funds transfer as well as in relation to the creation and amendment of supplier bank details. We have undertaken a high-level gap analysis based upon ISO27001/02 Information Security Standard to inform our work around information security. We have implemented Cyber Essentials, a Government backed cyber security certification scheme, and have created a Chief Information Security Officer (CISO) role within IT to focus specifically on the security of our systems. We have also set up an Information Security Panel to manage cross discipline day to day corporate operational information compliance & security. A range of monitoring and protection tools are in place to assess the threat landscape and protect our systems.

Audit and Risk Committee

Throughout the financial year, the Audit and Risk Committee members met 6 times as part of the work of the committee in discharging its responsibilities.

The committee discussed with the external auditors the adequacy, nature and scope of the annual financial audit plan, including reviewing and agreeing the engagement letter issued by the external auditor at the outset of the Group audit, assuring itself that the external auditor has the fullest co-operation of staff and to oversee the satisfactory completion of the annual external audit process. The committee has also considered all relevant reports by the external auditor and by regulatory authorities and the findings of the external auditor in the course of its work, and the adequacy of management's responses.

The committee has reviewed and monitored the external auditor's independence, judgement and robustness in handling key decisions, objectivity and the effectiveness of the audit process and particularly in respect of safeguards established to mitigate threats to its independence.

Significant financial statement areas considered during the year

In respect of significant issues that the committee considered in relation to the financial statements, and to monitor the integrity of the financial statements, specific workshops were carried out to ensure that members were clear about the nature of those issues, and the potential impact on the presentation of the financial statements. These were discussed in sufficient detail with our external auditors to ensure resolution of any issues was in line with auditing standards and accounting requirements. Matters of significant importance and risk to the Group financial statements audit were agreed by the committee.

The impact of uncertainties due to the UK exiting the European Union

The committee has considered the possible impact of Brexit across multiple risk areas as set out in the Internal control and risk management section of this report. The dependence on forecast in the Group's assessment of future assumptions is clearly understood and therefore factored into stress testing to expose the cumulative effect of such significant risks materialising to the Group's financial plan and performing sensitivity analysis on key items of the balance sheet to ascertain recoverability of current assets and impairment of fixed assets. Estimates and disclosures in respect of judgemental areas affecting the financial statements are also considered taking into account Brexit uncertainty.

Land and properties for sale, work in progress in current assets and joint ventures

The committee has considered the risk of impairment of land and properties for sale as well as work in progress in current assets and gains confidence from the supporting work of the Development Committee which oversees all major development and investment schemes including joint ventures undertaken by the Group.

Land available for sale is most susceptible to changes in circumstances that could lead to the net realisable value falling below carrying value at a Group level given these are currently held at fair value on acquisition. The committee is provided regular quarterly updates on land sales performance separate from property sales and joint ventures. This ensures that these asset classes are treated and assessed separately in terms of performance and for impairment testing purposes.

Accuracy of development costs

The committee can confirm that there has been no change in methodology for the capitalisation of internal development costs in the year. Staff costs and overheads which are directly attributable to bringing housing properties into working condition for their intended use are capitalised. Other central overheads attributable to development and marketing but not considered directly attributable to housing properties are expensed as set out in note 3 of these financial statements. In 2019 these amounted to £22m (2018: £18m). The committee has delegated to management the regular review of the basis of calculation and apportionment used in capitalising staff costs and overheads to ensure they remain appropriate and in line with FRS102.

Staff benefits plan

The committee has been kept informed of changes in the way Social Housing Pension Scheme (SHPS) are required to be accounted for through technical updates and a key accounting judgement paper prior to the preparation of these financial statements. The actuarial assumptions used in all pensions schemes are validated by the Group's independent pensions advisers including the equalisation of Guaranteed Minimum Pensions (GMP) between men and women. The relevant disclosures in respect of the changes to SHPS accounting have been reviewed in line with the Financial Reporting Council (FRC) guidance and updated reporting standards.

Viability statement

The Group retained its top-tier rating G1/V1 ratings for governance and financial viability following a thorough in depth assessment by the Regulator in early 2018. This judgement is confirmation to residents, investors, partners and other stakeholders that the Group's growth ambition remains anchored by sound financial management and a robust approach to risk management, business planning and stress testing. The ratings are also an external validation that our Board has an integral role to the business and that a highly effective governance structure is in place across the organisation.

The Board has assessed the viability of the Group over a five-year period. The Board's assessment is also supported by the longer 30 year financial forecast shared annually with the regulator and the annual review of the adequacy of resources available to the Group to prepare the financial statements on a going concern basis.

The Board approves the Group financial plan twice a year and its output which is submitted annually to the Regulator in the form of a Financial Forecast Return. The Board is, to the best of its knowledge, satisfied that covenant compliance is maintained throughout the life of the plan on the basis that the financial plan has been stress tested to withstand significant composite risks materialising without breaching lender covenants, thus confirming the future viability of the Group.

After making enquiries, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group has considerable financial resources together with long-term cash generating assets. As a consequence, the Board believe that the Group is well placed to manage its business risks successfully. For this reason they continue to adopt the going concern basis in preparing the Group's financial statements.

No material uncertainties related to events or conditions that may cause significant doubt about the ability of the L&Q Group (defined as London & Quadrant Housing Trust and its subsidiaries) to continue as a going concern have been identified by key management personnel after taking into account the relevant facts and circumstances.

Our positive viability statement is supported by documented evidence in the form of a Board-approved Treasury Strategy that addresses liquidity risk, refinancing risk, projected covenant performance, credit and regulatory ratings, viability review and access to funding. L&Q's Group insurance policy covers full reinstatement value of £12 billion. Our forecasting and budgeting processes are long established and proven techniques where critical assumptions are subject to independent challenge and stringent sensitivity analysis. In addition, the Group has put in place a stress test recovery planning process in the event where there is a forecast covenant breach.

The Board has considered L&Q's exposure to contingent liabilities and the potential source of cash outflows during the review period relating to legal proceedings, guarantees, margin or other credit support provisions under derivative contracts and product liability.

The Board can also confirm that it has complied with the Governance and Financial Viability Standard set out by the Regulator of Social Housing. Throughout our recent in-depth assessment by our Regulator, the Group provided evidence of clear strategic direction with targets set which are challenging and stretching and monitored on an ongoing basis. Governance oversight is clear through our reporting framework and covers risk around financial investment and protection of social housing assets.

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

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

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

In preparing each of the Group and Parent association financial statements, the Board is required to:

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

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

Financial statements are published on L&Q's website in accordance with UK legislation governing the preparation and dissemination of financial statements. The Board is responsible for the maintenance and integrity of the corporate and financial information included on the association's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

As referred to in the Viability Statement, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason has continued to adopt the going concern basis in preparing the Group's financial statements.

Statement of compliance

The Strategic Report has been prepared in accordance with applicable reporting standards and legislation. The Board can also confirm that the Group has complied with the Regulator of Social Housing's Governance and Financial Viability Standard.

Provision of information to the Auditor

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

By order of the Board

Aubrey Adams
Group Chair

25 July 2019

Photo: Chobham Manor, Stratford, an exciting joint venture with Taylor Wimpey based in the heart of Queen Elizabeth Olympic Park.

04

Financial statements 2018/19

Independent auditor's report

1. Our opinion is unmodified

We have audited the financial statements of London & Quadrant Housing Trust ("the Association") for the year ended 31 March 2019 which comprise the Group and Association Statements of Comprehensive Income, Group and Association Statements of Financial Position, Group and Association Statements of Changes in Reserves, the Group Statement of Cash Flows and related notes, including the accounting policies in notes of the financial statements.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the state of affairs of the Group and of the Association as at 31 March 2019 and of the income and expenditure of the Group and of the Association for the year then ended
- Comply with the requirements of the Co-operative and Community Benefit Societies Act 2014
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

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

We were first appointed as auditor for the year ended 31 March 2013 by the Board. The period of total uninterrupted engagement is for the 7 financial years ended 31 March 2019.

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

Overview		
Materiality: Group financial statements as a whole		£14.8m (2018:£17m) 5% (2018: 5%) of 3 year average normalised group surplus before tax
Coverage		83% (2018:98%) of group surplus before tax
Key audit matters		**vs 2018**
Event driven	**New:** The impact of uncertainties due to the UK exiting the European Union	▲
Recurring risks	**New:** Impairment of Land and properties for sale, work in progress in current assets and joint ventures	▲
	Accuracy of development costs	▼
	New: Defined Benefit pensions	▲

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Group and Parent risk **The impact of uncertainties due to the UK exiting the European Union** Refer to pages 38-39 (principal risks) and page 40 (Audit and Risk Committee)	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in Impairment of Land and properties for sale and work in progress in current assets, Defined Benefit Pensions below, and related disclosures and the appropriateness of the going concern basis of preparation of the accounts. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge** – We considered the Board's assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Board's plans to take action to mitigate the risks • **Sensitivity analysis** – When addressing Impairment of Land and properties for sale and work in progress in current assets, Defined Benefit Pensions and other areas that depend on forecasts, for example the Group's forecasts of cash headroom and covenant compliance, we compared the Board's analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty • **Assessing transparency** – As well as assessing individual disclosures on Impairment of Land and properties for sale and work in progress in current assets, Defined Benefit Pensions we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** • As reported under Impairment of Land and properties for sale and work in progress in current assets, Defined Benefit Pensions, we found the resulting estimates and related disclosures, and disclosures in relation to going concern, to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for an entity and this is particularly the case in relation to Brexit.

Independent auditor's report (continued)

	The risk	Our response
Group risk **Land and properties for sale, work in progress in current assets and joint ventures** **Group:** Land and properties for sale and work in progress £1,050m (2018: £927m) **Group:** Equity investment in jointly controlled entities £478m (2018: £431m) Refer to page 40 (Audit and Risk Committee), note 2, 14 and 15 (accounting policy) and notes 14a and 15 (financial disclosures)	**Impairment of Land and properties for sale and work in progress in current assets and joint ventures** Inventory need to be held at the lower of cost and net realisable value and joint ventures at the lower of cost and their recoverable amount. Given the increased uncertainty arising from the current economic climate and Brexit and reduced sales activity we feel that there is an increased risk over impairment of inventory and joint ventures which hold significant amounts of inventory in the form of development schemes. The Group has the option, subject to planning, to use the land to construct and then operate social housing, construct and operate investment properties, to construct and sell properties on the open market or to sell the land for development by third parties. The different scenarios will drive different accounting classifications in the financial statements and different impairment approaches especially in the case of properties held for social benefit.	Our procedures included: Inspection of the group's impairment assessments and cash flow forecasts and performing the following procedures: • **Re-performance:** Checking the mathematical accuracy of certain valuation models • **Enquiry:** Making enquires with directors and site project surveyors to assess any potential site impairment indicators such as increased planning restrictions, identification of contaminated land and changes to forecast site completion dates. Where potential site impairment indicators existed we performed more detailed testing on the recoverable value of these sites, investments to determine if the level of impairment taken by management was reasonable, including: • **Sensitivity analysis:** Performing sensitivity analyses over the assumptions and considering the outcomes with reference to benchmarks to identify the key assumptions affecting the appraisal • **Data comparisons:** Comparing initial forecast costs and selling prices with the actual outturn for completed developments and critically assessing the accuracy of the Group's forecasting • **Corroboration of assumptions:** Corroboration of underlying forecasts by considering post year end sales, and corroboration for changes in intended use of land and properties held for sale, which would lead to a different impairment approach through inspection of development meeting minutes, discussions with directors and other corroborating evidence. **Our results** • We found the estimated recoverability of the carrying value of land and properties for sale and work in progress and joint ventures to be acceptable.

	The risk	Our response
Group and Parent risk **Properties under construction - additions** **Group:** Properties under construction additions: Social housing lettings additions £294m (2018: £317m), Low-cost home ownership £246m (2018: £84m) and non-social housing lettings £77m (2018: £34m). **Parent:** Properties under construction additions: Social housing lettings £268m (2018: £325m), Low-cost home ownership £199m (2018: £76m) and non-social housing lettings £19m (2018: £46m). **Group:** Land and properties under construction additions: Low cost home ownership £105m (2018: £45m), open market sales £263m (2018: £319m). **Parent:** Land and properties under construction additions: Low cost home ownership £113m (2018: £38m), open market sales £3m (2018: £1m) Refer to page 40 (Audit and Risk Committee), note 2, 12 and 15 (accounting policy) and notes 12 and 15 (financial disclosures)	**Accuracy of development costs:** Development is a significant activity for the Group. With the quantum and value of capitalised development costs, internal and external, alongside the judgement involved in what is permissible we feel this gives rise to a significant risk of misstatement in the group over the accuracy of those capitalised costs.	Our procedures included: • **Controls testing:** Testing controls inplace over the on-going monitoring of contracts and costs • **Assessing principles:** Assessed the amounts capitalised comply with FRS102 including inspection and assessment of the Group and parent's assumptions • **Test of detail:** agreeing a sample of costs back to source documentation including internally generated costs. **Our results** • We found the capitalisation of developments costs in assets in course of construction to be acceptable. (2018: acceptable).

	The risk	Our response
Group and parent risk **Defined Benefit Pensions – The L&Q Staff Benefits Plan and the Social Housing Pension Scheme ('SHPS') defined benefit schemes** **Group:** L&Q Staff Benefits Plan Net Deficit £12m **Group:** SHPS pension deficit £30m **Parent:** L&Q Staff Benefits Plan Net Deficit £12m **Parent:** SHPS pension deficit £27m Refer to page 40 (Audit and Risk Committee) and note 9 (financial disclosures and accounting policy).	**Defined Benefit pensions** The Group operates a number of defined benefit pension schemes, the deficit for which is included in the balance sheet at actuarial valuation. The L&Q Staff Benefits plan and the SHPS defined benefit pension plan are the most significant of these defined benefit pension schemes in the year. The valuation of defined benefit obligations is based on unobservable inputs and is inherently volatile and judgemental. Market conditions over recent periods have increased the volatility of pension scheme assets and liabilities. Further risk arises in this financial year following a High Court ruling that requires equalisation of pension benefits for the effect of unequal Guaranteed Minimum Pensions (GMP) between men and women. The accounting treatment of the SHPS Defined Benefit pension scheme changed for the year ended 31 March 2019 and is now required to be accounted for in line with defined benefit pension accounting and L&Q's share of assets and liabilities was calculated, including factoring in the GMP impact. This we felt gave rise to an increased significant risk of misstatement in the financial statements due to the changes and judgements involved.	We performed the following procedures: • **Use of Specialists:** Involved our actuarial specialists to benchmark and assess the reasonableness of the assumptions applied in the valuation of the year end liability. • **Benchmarking assumptions:** Sensitised the valuation of the liability to key assumptions and consider the reasonableness of specific assumptions used in the context of our understanding of the Group and the GMP related ruling. • **Test of detail:** Corroborated the assets held by the scheme using third party confirmations, assessment of the competency of fund managers and inspection of pension scheme accounts • **Disclosures:** Considered the adequacy and accuracy of the related disclosures in the financial statements. **Our results** • We found the disclosures and provisions for the L&Q Staff Benefits Plan net deficit and SHPS pension deficit to be acceptable.

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

Materiality for the group financial statements as a whole was set at £14.8m (2018: £17m), determined with reference to a benchmark of normalised 3 year average of group surplus before tax, of £286m, of which it represents 5% (2018: 5% based on surplus before tax). Normalisation involved adjusting to exclude the exceptional gift arising from the East Thames acquisition and the refinancing costs in 2017.

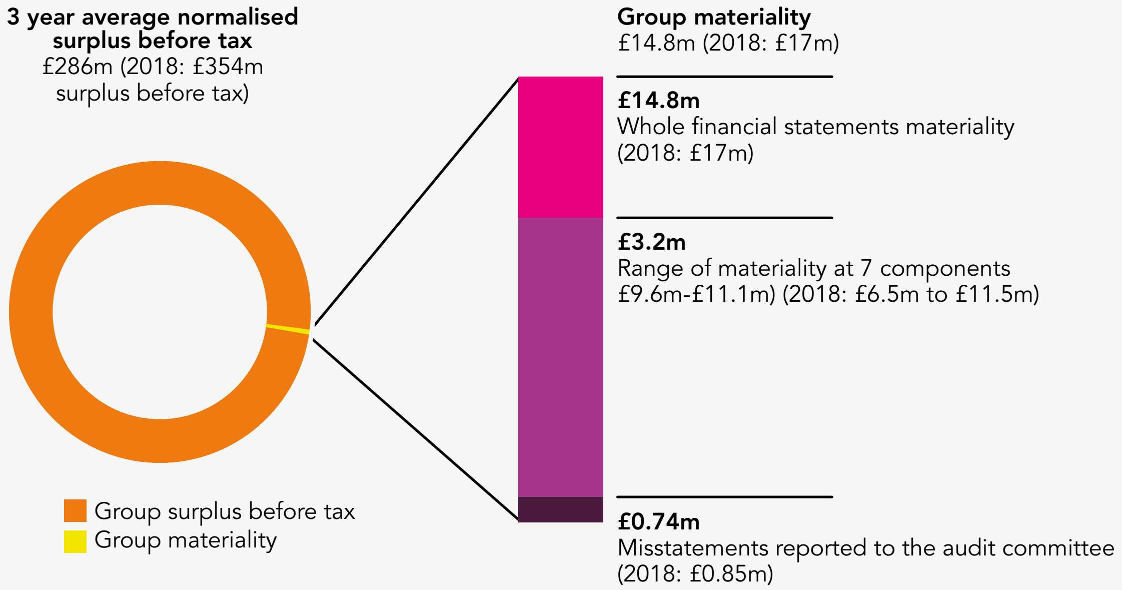
Materiality for the Association financial statements as whole was set at £11.1m (2018: £11.5m), determined with reference to a benchmark of normalised 3 year average of Group surplus before tax, of which it represents 5% (2018: 5% based on normalised surplus before tax). Normalisation involved adjusting to exclude gift aid for all years and also the 2017 refinancing costs.

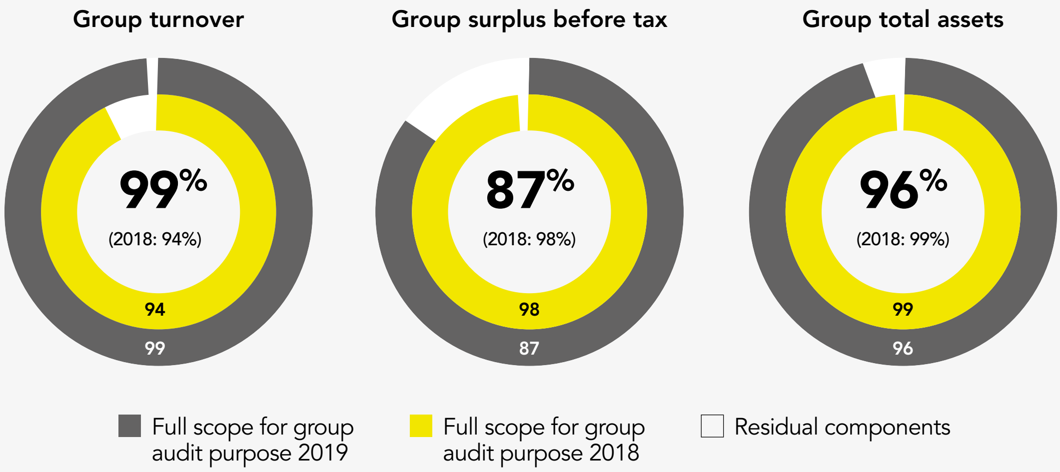
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.74m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

We subjected all of the Group's 7 (2018: 7) reporting components to full scope audits for group purposes.

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

The work on 6 of the 7 reporting components (2018: 1 of the 7 reporting components) was performed by component auditors and the audit of the parent company, was performed by the Group team.





4. We have nothing to report on going concern

The Association's Board have prepared the accounts on the going concern basis as they do not intend to liquidate the Association or the Group or to cease their operations, and as they have concluded that the Association's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the accounts ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Board's conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Association will continue in operation.

In our evaluation of the Board's conclusions, we considered the inherent risks to the Group's and Association's business model and analysed how those risks might affect the Group's and Association's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Association's available financial resources over this period were:

- A significant downturn in the economy, including a property market crash
- Changes in funding streams, political agenda or ability to develop successful partnerships.

As these were risks that could potentially cast significant doubt on the Group's and the Association's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Board consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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

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

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

Based solely on that work we have not identified material misstatements in the other information.

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Board's responsibilities

As explained more fully in their statement set out on pages 42-43, the Board is responsible for: preparing financial statements which give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Board and other management (as required by auditing standards), and discussed with the Board and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related legislation for registered providers of social housing) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: laws related to the construction and provision of private and social housing recognising the nature of the Group's activities and the regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Board and other management and inspection of regulatory and legal correspondence, if any.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations

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

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

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

31 July 2019

Statement of comprehensive income for the year ended 31 March 2019

	Note	Group 2019 £m	Group 2018 £m Restated*	LQHT 2019 £m	LQHT 2018 £m Restated*
Turnover	3a	**937**	1,026	**665**	640
Cost of sales	3a	**(297)**	(338)	**(91)**	(74)
Operating costs	3a	**(442)**	(386)	**(402)**	(350)
Surplus on disposal of fixed assets and investments	6	**50**	54	**49**	50
Share of profits from joint ventures	14a	**20**	2	**-**	-
Change in value of investment property	14c	**37**	48	**-**	(2)
Operating surplus	5	**305**	406	**221**	264
Gift aid received		**-**	-	**143**	104
Interest receivable and similar income	7	**1**	1	**44**	41
Interest payable and similar charges	8a	**(111)**	(91)	**(119)**	(101)
Other finance (costs)/income	8b	**(9)**	24	**(7)**	11
Surplus/(deficit) on ordinary activities before tax		**186**	340	**282**	319
Tax on surplus on ordinary activities	11	**16**	10	**(1)**	-
Surplus/(deficit) for the year		**202**	350	**281**	319
Other comprehensive income					
Initial recognition of multi-employer defined benefit scheme	9	**(9)**	-	**(8)**	-
Actuarial (loss)/gain on pension schemes	9	**(1)**	3	**(1)**	3
Total comprehensive income for the year		**192**	353	**272**	322

All amounts relate to continuing activities.

*Prior year restatement is detailed in note 35.

BEAM PARK

Beam Park is a major £1 billion regeneration partnership between L&Q and Countryside on the site of the former Ford factory plant in Barking and Dagenham and Havering.

One of London's largest new housing developments, the scheme will provide 3,000 homes across 29-hectares of land. 50% of the homes will be affordable, managed by L&Q.

Beam Park will provide an outstanding level of publicly accessible green space, including a three-hectare central park in the heart of the new neighbourhood. This will be alongside two schools and a nursery, community facilities, shops, a gym and two energy centres.

3,000
new homes

50%
affordable homes

two
schools built

29
hectares of land

Statement of financial position at 31 March 2019

	Note	**Group 2019 £m**	Group 2018 £m Restated*	**LQHT 2019 £m**	LQHT 2018 £m Restated*
Fixed assets					
Housing properties	12	**9,469**	9,089	**9,088**	8,662
Other tangible fixed assets	13a	**57**	55	**51**	49
Intangible assets	13b	**12**	10	**12**	10
Goodwill	14f	**16**	22	**-**	-
Equity investment in subsidiaries	14e	**-**	-	**1,164**	913
Investments - jointly controlled entities	14a	**478**	431	**24**	8
Investments - HomeBuy equity loans	14b	**111**	119	**111**	119
Investment properties	14c	**942**	670	**6**	7
Investments - Real Lettings property fund	14d	**10**	10	**10**	10
		11,095	10,406	**10,466**	9,778
Debtors due after more than one year	16a	**92**	86	**1,011**	952
Current assets					
Land and properties for sale and work in progress	15	**1,050**	927	**131**	65
Debtors	16b	**207**	188	**90**	59
Cash and cash equivalents	17	**171**	222	**86**	128
		1,428	1,337	**307**	252
Creditors: amounts falling due within one year	18	**(462)**	(474)	**(242)**	(279)
Net current assets/(liabilities)		**966**	863	**65**	(27)
Total assets less current liabilities		**12,153**	11,355	**11,542**	10,703

	Note	**Group 2019 £m**	Group 2018 £m Restated*	**LQHT 2019 £m**	LQHT 2018 £m Restated*
Creditors: amounts falling due after more than one year	19	**(5,141)**	(4,525)	**(4,626)**	(4,065)
Deferred social housing grant	20	**(2,039)**	(2,041)	**(2,068)**	(2,071)
Grant on HomeBuy equity loans	14b	**(98)**	(104)	**(98)**	(104)
Derivative financial liabilities	30	**-**	-	**-**	-
Provisions for liabilities	24	**(55)**	(65)	**(25)**	(16)
Net pension liability	9	**(44)**	(36)	**(41)**	(35)
Net assets		**4,776**	4,584	**4,684**	4,412
Capital and reserves					
Share capital	26	**-**	-	**-**	-
Revenue reserve		**2,892**	2,700	**2,619**	2,347
Cash flow hedge reserve		**-**	-	**-**	-
Revaluation reserve		**1,884**	1,884	**2,065**	2,065
		4,776	4,584	**4,684**	4,412

*Prior year restatement is detailed in note 35.

These financial statements were approved and authorised for issue by the Board and signed on its behalf by:

Aubrey Adams
Group Chair

Michael More
Chair of Audit and Risk Committee

Waqar Ahmed
Group Finance Director

Date of approval: 25 July 2019

Statement of changes in equity for the year ended 31 March 2019

Group	Called up share capital £m	Revaluation reserve £m	Cash flow hedge reserve £m	Revenue reserve £m Restated*	Total equity £m
Balance at 1 April 2017	-	1,886	-	2,345	4,231
Surplus for the year (restated*)	-	-	-	350	350
Reclassification of cash flow hedge reserve	-	-	-	-	-
Reserves transfer	-	(2)	-	2	-
Actuarial gains	-	-	-	3	3
Balance at 31 March 2018 (restated*)	-	1,884	-	2,700	4,584
Surplus for the year	**-**	**-**	**-**	**202**	**202**
Reclassification of cash flow hedge reserve	**-**	**-**	**-**	**-**	**-**
Initial recognition of multi-employer defined benefit scheme	**-**	**-**	**-**	**(9)**	**(9)**
Reserves transfer	**-**	**-**	**-**	**-**	**-**
Actuarial (losses)	**-**	**-**	**-**	**(1)**	**(1)**
Balance at 31 March 2019	**-**	**1,884**	**-**	**2,892**	**4,776**

LQHT	Called up share capital £m	Revaluation reserve £m	Cash flow hedge reserve £m	Revenue reserve £m Restated*	Total equity £m
Balance at 1 April 2017 (restated*)	-	2,067	-	2,023	4,090
Surplus for the year	-	-	-	319	319
Reclassification of cash flow hedge reserve	-	-	-	-	-
Reserves transfer	-	(2)	-	2	-
Actuarial gains	-	-	-	3	3
Balance at 31 March 2018 (restated*)	-	2,065	-	2,347	4,412
Surplus for the year	**-**	**-**	**-**	**281**	**281**
Reclassification of cash flow hedge reserve	**-**	**-**	**-**	**-**	**-**
Initial recognition of multi-employer defined benefit scheme	**-**	**-**	**-**	**(8)**	**(8)**
Reserves transfer	**-**	**-**	**-**	**-**	**-**
Actuarial (losses)	**-**	**-**	**-**	**(1)**	**(1)**
Balance at 31 March 2019	**-**	**2,065**	**-**	**2,619**	**4,684**

*Prior year restatement is detailed in note 35.

Consolidated statement of cash flows for the year ended 31 March 2019

	Note	2019 £m	2018 £m Restated*
Cash flows from operating activities			
Surplus for the year		**202**	350
Adjustments for non-cash items:			
Depreciation, amortisation and impairment		**91**	75
Deferred government grant		**(23)**	(23)
		68	52
Adjustments for investing or financing activities:			
Change in value of investment property		**(37)**	(48)
Interest receivable and similar income		**(1)**	(1)
Interest payable and similar charges (including capitalised interest)		**111**	91
Other finance costs/(income)		**9**	(24)
Gain on sale of fixed assets		**(50)**	(54)
Share of profit from joint ventures		**(20)**	(2)
Taxation		**(16)**	(10)
		(4)	(48)
Adjustment for working capital movement:			
(Increase) in trade and other debtors		**(75)**	(74)
(Increase) in stocks		**(92)**	(36)
Increase/(decrease) in trade and other creditors		**82**	14
Increase/(decrease) in provisions and employee benefits		**5**	(7)
		(80)	(103)
Tax paid		**3**	1
Net cash flow from operating activities		**189**	252
		2019	2018

	Note	£m	£m
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets		**87**	85
Proceeds from sale of investments		**-**	-
Purchase of other fixed assets		**(12)**	(5)
Interest received		**1**	1
Interest paid		**(144)**	(128)
Other finance costs		**(18)**	(8)
Investments in jointly controlled entities		**(27)**	(36)
Acquisition of investment property		**(60)**	(11)
Proceeds from the receipt of government grant		**10**	408
Capitalised development expenditure		**(631)**	(337)
Capital expenditure on existing properties		**(91)**	(65)
Net cash from investing activities		**(885)**	(96)
Cash flows from financing activities			
Loans received		**1,171**	1,566
Loans repaid		**(526)**	(1,715)
Net cash from financing activities		**645**	(149)
Net (decrease)/increase in cash and cash equivalents		**(51)**	7
Cash and cash equivalents at 1 April		**222**	215
Cash and cash equivalents at 31 March	17	**171**	222

*Prior year restatement is detailed in note 35.

Notes to the financial statements for the year ended 31 March 2019

1. Legal status

London and Quadrant Housing Trust (LQHT) is a housing association registered under the Cooperative and Community Benefit Societies Act 2014 and is registered with Homes England and Regulator of Social Housing as a social landlord and public benefit entity. LQHT is the ultimate parent of the Group.

2. Principal accounting policies

Basis of preparation

The financial statements of the Group and association are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including FRS102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS102) and the Housing SORP 2014 "Statement of Recommended Practice for Registered Social Housing Providers" and comply with the Accounting Direction for Private Registered Providers of Social Housing from April 2015.

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

We have chosen to adopt the following disclosure exemptions in respect of the individual accounts of LQHT:

- The requirement to present a statement of cash flows and related notes
- financial instrument disclosures, including:

  (a) categories of financial instruments,

  (b) items of income, expenses, gains or losses relating to financial instruments and Impairment

  (c) exposure to and management of financial risks.

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

Segmental reporting

For the purpose of segmental reporting, the chief operating decision maker (CODM) is considered to be the Board. In line with the segments reported to the CODM, the presentation of these financial statements and accompanied notes are in accordance with the Accounting Direction for Private Registered Providers of Social Housing from April 2015 and is considered appropriate. Information about income, expenditure and assets attributable to material operating segments are presented on the basis of the nature and function of housing assets held by the Group. This is appropriate on the basis of the similarity of the services provided, the nature of the risks associated, the type and class of customer and the nature of the regulatory environment across all of the geographical locations in which the Group operates. The CODM do not review disaggregated financial information of assets and liabilities at this level of operating segment. Refer to Note 3b for further disclosed information.

Going concern

The Group's business activities, its current financial position and factors likely to affect its future development are set out within the Strategic Report. The Group has in place long-term borrowing facilities which provide adequate resources to finance committed reinvestment and development programmes, along with the Group's day to day operations. The Group also has a long-term business plan which shows that it is able to service debt facilities whilst continuing to comply with lenders' covenants.

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

Significant judgements and estimates

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

Significant management judgements

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

- The indicators of impairment of the Group's fixed assets and the assumptions made in

  (a) determining the cash-generating unit (CGU) level at which recoverable amount is to be assessed

  (b) estimating the recoverable amount of the cash-generating unit

  (c) calculating the carrying amount of the cash-generating unit and

  (d) comparing the carrying amount to the recoverable amount to determine if an impairment loss has occurred.

- The appropriate point at which a development project is more likely than not to continue, allowing capitalisation of associated development costs and borrowing costs.

- The appropriate allocation of costs for mixed tenure developments, and furthermore the allocation of costs relating to shared ownership between current and fixed assets.

Other estimation uncertainty

- Management is required to determine the finite useful life over which purchase goodwill is to be amortised on a systematic basis. If, in exceptional cases, a reliable estimate of the useful life of goodwill cannot be determined, the life will not exceed 10 years (refer to note 14f).

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

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

(a) the useful economic life of property structure set to 100 years

(b) that properties have no residual values at the end of useful life.

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

- The critical selection of financial and actuarial assumptions in relation to defined benefit scheme obligation (DBO) based on best estimates derived from the Group's policies and practices and their applications across all pension schemes operated by the Group where appropriate and confirmed with actuaries where these are beyond management expertise, e.g. Mortality tables have been chosen based on published research by the Continuous Mortality Investigation (supported by the Actuarial Profession). Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses (as analysed in note 9).

- Management is required to determine the fair value of asset and liabilities of any entities acquired and reflect these fair values as part of the process of preparing consolidated financial statements. Where the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, management estimates the fair value by using a valuation technique and engages qualified external valuer where such techniques are beyond management expertise. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations and will necessarily include management judgement applied to assumptions provided to the valuer. The determination of fair values is also a key determinant of goodwill calculation and the exceptional gains on business combinations where purchase consideration is nil.

- Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices. Fair value measurements applied to fixed rate and hedged debt carry a significant mark-to-market exposure year on year, the accounting for which can impact on the presentation

Notes to the financial statements for the year ended 31 March 2019

of the financial statements depending on whether hedge accounting is applicable and whether management opts to apply hedge accounting.

- Management perform estimates for receivables relating to the recoverability of outstanding balances (rental and other trade debtors, see note 16). A review is performed each year end on an individual debtor basis to consider whether each debt is recoverable.

Basis of consolidation

The Group has prepared consolidated financial statements as required by the Housing SORP 2014 "Statement of Recommended Practice for Registered Social Housing Providers" under the purchase method in which the financial statements of LQHT and its subsidiaries are presented as those of a single economic entity. Intercompany transactions and balances between group companies are therefore eliminated in full on consolidation.

The consolidated accounts comprise the financial statements of London & Quadrant Housing Trust, the parent company and its subsidiary undertakings, control of which are achieved where LQHT has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements of the parent LQHT. A list of all subsidiaries is provided in note 34.

Business combinations that are gifts

Where there is a business combination that is in substance a gift, any excess of fair value of the assets received over the fair value of the liabilities assumed is recognised as a gain in the statement of comprehensive income. This gain represents the gift of the value of one entity to another and shall be recognised as income. Where the fair value of the liabilities exceeds the fair value of the assets, the loss represents net obligations assumed and shall be recognised as an expense.

Jointly controlled entities

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

Value added tax

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

Turnover

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

Income from sale of strategic land and infrastructure can be recognised in one of two ways depending on the agreed contract. Sale of strategic land is recognised when the benefits of ownership and related planning consents are passed to the purchaser. Long term infrastructure contracts are included in revenue on the basis of the sales value of work performed during the year by reference to the total sales value and stage of completion of these contracts.

Where a contract consists of a single price for both the strategic land and the infrastructure contract after completion, total income is recognised on transfer of benefits of ownership and related planning consents of the site, while a provision for future contractual costs to complete the infrastructure works are included as a liability to the accounts. Any deferred consideration is discounted using an appropriate effective interest rate.

Other income is recognised as receivable on the delivery of services provided.

Cost of sales

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

In addition to the land costs originally stocked under construction attributable to each sales transaction, included within cost of sales are expenses relating to fees expended in promoting developments through the planning system which are written off to the statement of comprehensive income until the viability of such a development is reasonably secure, after which such costs are capitalised in accordance with the accounting policy in respect of land and properties held for sale. At the date a sale is recognised all costs, including planning and infrastructure costs attributable to that sale, are taken to cost of sales.

Joint ventures

The Group has entered into various open market sales activities conducted through joint ventures, the majority of which are jointly controlled entities. These are represented in Statement of Comprehensive Income by applying the equity accounting method as set out in note 14a.

For those which are jointly controlled assets the results are proportionally consolidated within the Statement of Comprehensive Income, while L&Q recognises its share of assets and liabilities within the Statement of Financial Position.

Reserves

There are no restricted or designated reserves held.

The revaluation reserve was established on transition to FRS102 on application of the deemed cost model, which allowed first time adopters to elect to measure an item of fixed assets at its fair value at the date of transition and use that fair value as its deemed cost at that date. Movements in the revaluation reserve relate to disposals in the year of homes held at deemed cost.

Notes to the financial statements for the year ended 31 March 2019

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

Group	Turnover	Cost of sales	Operating costs	Other operating items	Operating surplus 2019	Turnover	Cost of sales	Operating costs	Other operating items	Operating surplus 2018 Restated
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Social housing lettings										
General needs	**371**	**-**	**(254)**	**-**	**117**	373	-	(211)	-	162
Supported housing	**34**	**-**	**(33)**	**-**	**1**	34	-	(26)	-	8
Intermediate market rent	**27**	**-**	**(14)**	**-**	**13**	25	-	(15)	-	10
Low-cost home ownership	**56**	**-**	**(20)**	**-**	**36**	53	-	(16)	-	37
Affordable rent	**41**	**-**	**(14)**	**-**	**27**	36	-	(15)	-	21
	529	**-**	**(335)**	**-**	**194**	521	-	(283)	-	238
Other social housing activities										
Care and support	**9**	**-**	**(8)**	**-**	**1**	10	-	(11)	-	(1)
First tranche low-cost home ownership sales	**69**	**(53)**	**-**	**-**	**16**	80	(53)	-	-	27
Development and marketing	**3**	**-**	**(25)**	**-**	**(22)**	3	-	(21)	-	(18)
Community investment	**-**	**-**	**(6)**	**-**	**(6)**	-	-	(7)	-	(7)
Other	**-**	**-**	**(1)**	**-**	**(1)**	1	-	(10)	-	(9)
Surplus on disposal of fixed assets	**-**	**-**	**-**	**50**	**50**	-	-	-	54	54
	81	**(53)**	**(40)**	**50**	**38**	94	(53)	(49)	54	46
Non-social housing lettings										
Student accommodation	**1**	**-**	**(2)**	**-**	**(1)**	2	-	(2)	-	-
Market rent*	**35**	**-**	**(12)**	**37**	**60**	26	-	(8)	48	66
Non-social homeowners	**11**	**-**	**(11)**	**-**	**-**	8	-	(11)	-	(3)
Commercial	**2**	**-**	**(1)**	**-**	**1**	4	-	(2)	-	2
Garages, sheds, parking spaces	**1**	**-**	**(1)**	**-**	**-**	1	-	(1)	-	-
	50	**-**	**(27)**	**37**	**60**	41	-	(24)	48	65

Group	Turnover 2019 £m	Cost of sales 2019 £m	Operating costs 2019 £m	Other operating items 2019 £m	Operating surplus 2019 £m	Turnover 2018 £m	Cost of sales 2018 £m	Operating costs 2018 £m	Other operating items 2018 £m	Operating surplus 2018 £m
Non-social housing activities										
Open market sales	**117**	**(126)**	**-**	**-**	**(9)**	120	(87)	(5)	-	28
Land sales	**155**	**(118)**	**(12)**	**-**	**25**	243	(198)	(12)	-	33
Resales	**2**	**-**	**-**	**-**	**2**	2	-	-	-	2
Other non-social housing activity	**3**	**-**	**(28)**	**-**	**(25)**	5	-	(13)	-	(8)
Share of profits from joint ventures**	**-**	**-**	**-**	**20**	**20**	-	-	-	2	2
	277	**(244)**	**(40)**	**20**	**13**	370	(285)	(30)	2	57
	937	**(297)**	**(442)**	**107**	**305**	1,026	(338)	(386)	104	406
Interest receivable					**1**					1
Interest payable					**(111)**					(91)
Other finance income/(costs)					**(9)**					24
Tax on surplus on ordinary activities					**16**					10
Surplus for year					**202**					350

Notes:
*Market rent "other operating items" represents the change in valuation of investment property which forms part of operating income.
**Prior year restatement is detailed in note 35.

Notes to the financial statements for the year ended 31 March 2019

3a. Particulars of turnover, cost of sales, operating costs and operating surplus – LQHT

					2019					2018 Restated
LQHT	**Turnover**	**Cost of sales**	**Operating costs**	**Other operating items**	**Operating surplus**	Turnover	Cost of sales	Operating costs	Other operating items	Operating surplus
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Social housing lettings										
General needs	**370**	**-**	**(252)**	**-**	**118**	372	-	(210)	-	162
Supported housing	**34**	**-**	**(32)**	**-**	**2**	33	-	(25)	-	8
Intermediate market rent	**27**	**-**	**(14)**	**-**	**13**	25	-	(15)	-	10
Low-cost home ownership	**56**	**-**	**(21)**	**-**	**35**	53	-	(16)	-	37
Affordable rent	**41**	**-**	**(14)**	**-**	**27**	36	-	(15)	-	21
	528	**-**	**(333)**	**-**	**195**	519	-	(281)	-	238
Other social housing activities										
Care and support	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
First tranche low-cost home ownership sales	**69**	**(55)**	**-**	**-**	**14**	80	(56)	-	-	24
Development and marketing	**-**	**-**	**(18)**	**-**	**(18)**	1	-	(21)	-	(20)
Community investment	**-**	**-**	**(6)**	**-**	**(6)**	-	-	(7)	-	(7)
Other	**1**	**-**	**(1)**	**-**	**-**	-	-	(10)	-	(10)
Surplus on disposal of fixed assets	**-**	**-**	**-**	**49**	**49**	-	-	-	50	50
	70	**(55)**	**(25)**	**49**	**39**	81	(56)	(38)	50	37
Non-social housing lettings										
Student accommodation	**1**	**-**	**(3)**	**-**	**(2)**	2	-	(3)	-	(1)
Market rent*	**-**	**-**	**-**	**-**	**-**	-	-	-	(2)	(2)
Non-social homeowners	**11**	**-**	**(11)**	**-**	**-**	8	-	(11)	-	(3)
Commercial	**2**	**-**	**(1)**	**-**	**1**	4	-	(2)	-	2
Garages, sheds, parking spaces	**1**	**-**	**(1)**	**-**	**-**	1	-	(1)	-	-
	15	**-**	**(16)**	**-**	**(1)**	15	-	(17)	(2)	(4)

LQHT	Turnover	Cost of sales	Operating costs	Other operating items	2019 Operating surplus	Turnover	Cost of sales	Operating costs	Other operating items	2018 Operating surplus
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-social housing activities										
Open market sales	**47**	**(36)**	**-**	**-**	**11**	18	(18)	-	-	-
Resales	**2**	**-**	**-**	**-**	**2**	2	-	-	-	2
Other non-social housing activity	**3**	**-**	**(28)**	**-**	**(25)**	5	-	(14)	-	(9)
	52	**(36)**	**(28)**	**-**	**(12)**	25	(18)	(14)	-	(7)
	665	**(91)**	**(402)**	**49**	**221**	640	(74)	(350)	48	264
Interest receivable					**44**					41
Interest payable					**(119)**					(101)
Other finance income/(costs)					**(7)**					11
Gift aid					**143**					104
Tax on surplus on ordinary activities					**(1)**					-
Surplus/(deficit) for year					**281**					319

Notes:
*Market rent “other operating items” represents the change in valuation of investment property which forms part of operating income.
**Prior year restatement is detailed in note 35.

Notes to the financial statements for the year ended 31 March 2019

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

Group	General needs £m	Supported housing £m	Intermediate market rent £m	Low-cost home ownership £m	Affordable rent £m	2019 Total £m	2018 Total £m
Rent receivable net of identifiable service charges	330	25	23	39	36	**453**	447
Service charges receivable	23	8	3	10	4	**48**	48
Net rents receivable	353	33	26	49	40	**501**	495
Amortised government grant	14	1	1	7	1	**24**	24
Other income	4	-	-	-	-	**4**	2
Total income from lettings	371	34	27	56	41	**529**	521
Expenditure on letting activities:							
Management	32	5	3	6	1	**47**	50
Services	34	9	4	10	3	**60**	52
Routine maintenance	69	6	3	1	4	**83**	63
Planned maintenance and major repairs	55	4	1	3	3	**66**	37
Bad debts	(1)	1	-	-	-	**-**	2
Depreciation of housing properties	65	7	3	-	3	**78**	75
Impairment of housing properties	-	-	-	-	-	**-**	4
Other costs	-	1	-	-	-	**1**	-
Total expenditure on lettings	254	33	14	20	14	**335**	283
Operating surplus on lettings	117	1	13	36	27	**194**	238
Voids losses	2	2	3	-	1	**8**	5

3b. Particulars of income and expenditure from social housing lettings - LQHT

LQHT	**General needs** £m	**Supported housing** £m	**Intermediate market rent** £m	**Low-cost home ownership** £m	**Affordable rent** £m	**2019 Total** £m	2018 Total £m
Rent receivable net of identifiable service charges	330	25	23	39	36	**453**	444
Service charges receivable	24	7	3	10	4	**48**	48
Net rents receivable	354	32	26	49	40	**501**	492
Amortised government grant	14	1	1	7	1	**24**	24
Other income	2	1	-	-	-	**3**	3
Total income from lettings	370	34	27	56	41	**528**	519
Expenditure on letting activities:							
Management	30	5	3	6	1	**45**	49
Services	34	9	4	10	3	**60**	51
Routine maintenance	69	5	3	2	4	**83**	63
Planned maintenance and major repairs	54	5	1	3	3	**66**	37
Bad debts	(1)	1	-	-	-	**-**	2
Depreciation of housing properties	66	6	3	-	3	**78**	75
Impairment of housing properties	-	-	-	-	-	**-**	4
Other costs	-	1	-	-	-	**1**	-
Total expenditure on lettings	252	32	14	21	14	**333**	281
Operating surplus on lettings	118	2	13	35	27	**195**	238
Voids losses	2	2	3	-	1	**8**	5

Notes to the financial statements for the year ended 31 March 2019

4. Group housing stock

Social housing accommodation	Owned and directly managed	Owned but managed by other organisations	Managed on behalf of other organisations	2019 Total	Owned and directly managed	Owned but managed by other organisations	Managed on behalf of other organisations	2018 Total
General needs	**53,502**	**207**	**909**	**54,618**	53,316	207	805	54,328
Affordable rent	**4,835**	**4**	**11**	**4,850**	4,373	-	4	4,377
Intermediate rent	**2,191**	**-**	**294**	**2,485**	2,115	-	294	2,409
Housing for older people	**2,539**	**20**	**11**	**2,570**	2,294	265	11	2,570
Supported housing	**814**	**1,700**	**60**	**2,574**	1,154	1,499	53	2,706
Care homes	**88**	**283**	**-**	**371**	88	287	-	375
Total social housing	**63,969**	**2,214**	**1,285**	**67,468**	63,340	2,258	1,167	66,765

In addition to the above, L&Q Group owns or manages the following homes and units:

	2019	2018
Other social housing accommodation		
Key worker accommodation	**857**	915
Low-cost home ownership	**9,058**	8,670
Shared equity	**2,486**	2,351
Other social homes	**354**	641
Total other social housing	**12,755**	12,577
Non-social housing accommodation		
Leaseholders	**10,458**	9,678
Market rent	**2,364**	1,705
Student accommodation	**632**	632
Other landlords	**1,862**	1,670
Commercial	**126**	71
Total non-social housing	**15,442**	13,756
Total homes owned or managed	**95,665**	93,098
Garages, parking spaces and other non-habitable units	**8,252**	8,151
Total homes and units owned or managed	**103,917**	101,249
Homes in development pipeline	**50,400**	46,500
Strategic land plots	**46,800**	46,700

5. Operating surplus on ordinary activities before tax

	Group 2019 £m	Group 2018 £m	LQHT 2019 £m	LQHT 2018 £m
Operating surplus is stated after charging/(crediting):				
Depreciation on social housing properties	**78**	75	**78**	75
Depreciation other non-social housing	**1**	1	**1**	1
Depreciation on other fixed assets	**8**	11	**8**	10
Surplus on sale of fixed assets				
• Housing properties	**(50)**	(54)	**(49)**	(50)
Impairment charge on fixed assets housing properties	**4**	9	**4**	9
Impairment release on fixed assets housing properties	**-**	-	**-**	-
Operating lease rentals				
• Land and buildings	**1**	1	**1**	1
Change in valuation of investment property	**(37)**	(48)	**-**	2

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

	Group 2019 £'000	Group 2018 £'000	LQHT 2019 £'000	LQHT 2018 £'000
Auditor's remuneration (excluding VAT):				
• In their capacity as auditor	**410**	390	**259**	240
• In respect of other services	**152**	233	**152**	233

Notes to the financial statements for the year ended 31 March 2019

6. Surplus on disposal of fixed assets and other investments

Disposals

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

Group	Housing properties £m	Investment disposals £m	HomeBuy £m	2019 Total £m	2018 Total £m
Sales proceeds	85	-	13	**98**	124
Cost of sales	(37)	-	(7)	**(44)**	(52)
Grant recovered	(1)	-	-	**(1)**	(3)
Grant abated	-	-	-	**-**	1
Incidental sale expense and write downs	(3)	-	-	**(3)**	(16)
Total	**44**	**-**	**6**	**50**	54

LQHT	Housing properties £m	Investment disposals £m	HomeBuy £m	2019 Total £m	2018 Total £m
Sales proceeds	85	-	13	**98**	169
Cost of sale	(38)	-	(7)	**(45)**	(101)
Grant recovered	(1)	-	-	**(1)**	(3)
Grant abated	-	-	-	**-**	1
Incidental sale expense and write downs	(3)	-	-	**(3)**	(16)
Total	**43**	**-**	**6**	**49**	50

7. Interest receivable and similar income

	Group 2019 £m	Group 2018 £m	LQHT 2019 £m	LQHT 2018 £m
Bank interest receivable	**1**	1	**1**	1
Other interest receivable	**-**	-	**43**	40
	1	1	**44**	41

Within other interest receivable for LQHT is £7m (2018: £nil) relating to distributions in specie with Gallagher Estates Holding Limited, as a result of a Group restructuring exercise.

8a. Interest payable and similar charges

Interest payable

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

Interest capitalised

Interest on borrowings is capitalised to housing properties during the course of construction up to the date of completion of each scheme. The interest capitalised is either on borrowings specifically taken to finance a scheme or on net borrowings to the extent that they are deemed to be financing a scheme. This treatment applies irrespective of the original purpose for which the loan was raised. For the year ending 31 March 2019, interest has been capitalised at an average rate of 3.4% (2018: 3.6%) that reflects the weighted average effective interest rate on the Group's borrowings required to finance housing property developments.

Interest is not capitalised on strategic land developments.

Release of loan fair values

Where loans have been fair valued on acquisition of another entity, the difference on fair value at the time of acquisition is released to the statement of comprehensive income in line with the repayment profile of the specific loans. Where the loan is fully repaid, the full amount of fair value remaining is released.

	Group 2019 £m	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
Interest expense on liabilities at amortised cost	**144**	129	**133**	117
Less: interest capitalised in housing properties	**(33)**	(38)	**(14)**	(16)
	111	91	**119**	101

8b. Other finance income and costs

	Group 2019 £m	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
Change in value of gilt locks	**-**	16	**-**	15
Movements in financial instruments relating to deferred land payments	**(10)**	(1)	**(4)**	(1)
Release of loan fair values on repayment and refinancing	**4**	9	**-**	(3)
Other charges	**(3)**	-	**(3)**	-
	9	24	**(7)**	11

Notes to the financial statements for the year ended 31 March 2019

9. Employee information

	Group 2019 No.	Group 2018 No.	LQHT 2019 No.	LQHT 2018 No.
The average full-time equivalent employees based on their individual contracted hours:				
Chief executive department	**19**	30	**16**	27
Development and sales	**474**	344	**446**	318
Finance, treasury and insurance	**136**	124	**128**	117
Human resources, facilities and learning and development	**73**	71	**71**	69
Neighbourhoods	**370**	471	**370**	471
Strategy and operations	**302**	358	**302**	358
Customer services and direct maintenance	**544**	429	**544**	429
Information technology	**86**	114	**86**	114
Care and support	**302**	295	**8**	7
Community foundation and academy	**60**	51	**60**	51
Private rented sector	**41**	27	**41**	27
Governance, strategy and communications	**35**	-	**35**	-
	2,442	2,314	**2,107**	1,988

During 2019 a new team 'Governance, strategy and communications' was established, and staff transferred from strategy and operations.

	Group 2019	Group 2018	LQHT 2019	LQHT 2018
Staff costs (for the above persons)	**£m**	£m	**£m**	£m
Wages and salaries	**97**	99	**94**	88
Social security costs	**11**	11	**11**	10
Other pension costs	**9**	9	**9**	9
	117	119	**114**	107

Holiday pay accrual

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

L&Q Staff Benefits Plan

The Group operates the London & Quadrant Housing Trust pension scheme (the LQHT scheme), providing benefits based on final pensionable pay. The LQHT scheme has 15 active members (2018: 15). The assets of the scheme are held separately from those of the Group. This scheme has been closed to new entrants since 2001.

The pension cost is assessed in accordance with the advice of an independent professionally qualified actuary using the projected unit method and is not materially different from that arising from the current employer's contribution rate.

The pension contributions payable by the Group to the LQHT scheme during the accounting period were equal to 24.5% (2018: 24.5%) of pensionable salary as recommended by the actuary. Surpluses and deficits are reviewed at each triennial actuarial valuation, and the pensions charge recorded by the Group during the accounting period was equal to the contributions payable.

The Group also participates in three defined benefit pension schemes ("LGPS") which are administered by:

- London Borough of Waltham Forest scheme with one active members (2018: 3)
- Buckinghamshire County Council scheme with no active members (2018: 1)
- London Borough of Bexley scheme with two active members (2018: 2).

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

- London Borough of Waltham Forest scheme 16.7% (2018: 16.7%)
- Buckinghamshire County Council scheme 27.6% (2018: 27.6%)
- London Borough of Bexley Scheme 26.5% (2018: 26.5%).

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

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

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

The Social Housing Pension Scheme

SHPS is a multi-employer scheme which provides benefits to non-associated employers. The scheme is classified as a defined benefit scheme. At 31 March 2018 it was not possible for the Association to obtain sufficient information to account for the liability on a full FRS 102 valuation basis so it was accounted for as a defined contribution scheme where the net present value of the deficit contributions were recognised in the accounts as creditors falling within and more than one year.

As a result of additional information, SHPS are now able to split the pension liability by employer which has resulted in the scheme liability being accounted for adopting a full FRS 102 valuation at 31 March 2019. In accordance with FRED 71, no restatement of prior year figures has been made in these accounts. A reconciliation between the liability at 31 March 2018 and the provision at 31 March 2019 is shown in Note 9 below.

The Group operates two separate SHPS schemes, one in LQHT and one in L&Q Living Limited.

9. Employee information (continued)

NHS Pension Scheme

The NHS pension scheme is a statutory multi-employer scheme, with benefits fully guaranteed by the government. Contributions from both members and employers are paid to the exchequer, which meets the cost of the scheme benefits. The exchequer also pays for the costs of increasing benefits each year by the rate of inflation. This cost is not met by contributions from scheme members or employers and consequently the scheme is accounted for as a defined contribution scheme. This scheme relates to employees of L&Q Living Limited only and has been closed to new and existing employees not already in the scheme since 1 April 2008.

Money purchase scheme

The Group also participates in defined contribution schemes where the amount charged to the statement of consolidated income represents the contributions payable to the scheme in respect of the accounting period.

GMP Equalisation

In October 2018 the High Court published its judgement on the case of Lloyds Banking Group and the equalisation of Guaranteed Minimum Pensions ('GMP'). This has consequently been assessed against the Group's defined benefit schemes. The potential estimated impact of GMP equalisation in respect of SHPS and L&Q Housing Trust Staff Benefits Plan has been recognised in the year.

A review of the impact of GMP equalisation in respect of the Group's participation in 3 Local Government Pension Schemes has identified that a range of approaches has been adopted by the 3 scheme actuaries. They have confirmed their understanding that the judgement does not impact on the current method used to achieve equalisation and indexation in public service pension schemes. No further adjustments have been made to the present value of obligations as the effect is not considered material.

In December 2018 the Court of Appeal ruled against the Government in two linked cases (the Sergeant and McCloud cases). In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful discrimination. There may be knock-on effects for other public service schemes such as the LGPS. The directors are satisfied that when fully accounted in the financial statements the impact will not be material to the Group or Association Financial Statements as at 31 March 2019.

a) L&Q Staff Benefits Plan - Group and LQHT

	2019	2018
Financial assumptions	**2.4%**	2.6%
Discount rate	**3.3%**	3.4%
Inflation (RPI)	**2.5%**	2.4%
Inflation (CPI)	**3.3%**	3.4%
Salary growth		
Mortality assumptions		
• Base table	**S2PA**	S2PXA
• Improvement method	**CMI 2018 with 1.25% LTR 7**	CMI2016 with 1.25% LTR
• Projection	**Year of birth**	Year of birth

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

b) Social Housing Pension Scheme Plan - Group and LQHT

	2019	2018
Financial assumptions	**2.4%**	-
Discount rate	**3.3%**	-
Inflation (RPI)	**2.3%**	-
Inflation (CPI)	**3.3%**	-
Salary growth		-
Mortality assumptions		
• Base table	**S2PA**	-
• Improvement method	**CMI 2018 with 1.25% LTR**	-
• Projection	**Year of birth**	-

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

As SHPS moved from a defined contribution scheme to a defined benefit scheme in the year, there are no assumption comparatives available.

Notes to the financial statements for the year ended 31 March 2019

9. Employee information (continued)

	Group 2019 £m	Group 2018 £m	**Trust 2019 £m**	Trust 2018 £m
Summary of net pension liability				
LGPS schemes	**2**	3	**2**	3
LQHT staff benefits plan	**12**	15	**12**	15
SHPS	**30**	18	**27**	17
Net pension liability	**44**	36	**41**	35

	Group 2019 £m	Trust 2019 £m
SHPS reconciliation between the liability at 31 March 2018 and the provision at 31 March 2019		
At 31 March 2018 liability	**(18)**	(17)
Derecognition of the defined contribution provision	**18**	17
Recognition of net defined benefit liability at 1 April 2018	**(27)**	(25)
Net amount recognised in other comprehensive income	**(9)**	(8)
Net comprehensive income movement in the year	**(2)**	(1)
Net other comprehensive movement in the year	**(1)**	(1)
At 31 March 2019 liability	**(30)**	(27)

Defined benefit scheme pensions

	Group 2019 £m	Group 2018 £m	**Trust 2019 £m**	Trust 2018 £m
Analysis of the amount recognised in comprehensive income				
Current service cost	**-**	-	**-**	-
Past Service cost	**-**	-	**-**	-
Net interest on the defined liability	**(2)**	(1)	**(1)**	(1)
	(2)	(1)	**(1)**	(1)

	Group 2019 £m	Group 2018 £m	Trust 2019 £m	Trust 2018 £m
Analysis of amount recognised in other comprehensive income				
Actual return less expected return on plan assets	**12**	-	**12**	-
Amount included in net interest on net defined benefit liability	**(6)**	(4)	**(6)**	(4)
Remeasurements – return on plan assets excluding interest income	**6**	(4)	**6**	(4)
Changes in assumptions underlying the present value of the plan liabilities	**(2)**	6	**(2)**	6
Changes due to experience	**(5)**	1	**(5)**	1
Remeasurements recognised	**(1)**	**3**	**(1)**	**3**

	Group 2019 £m	Group 2018 £m	Trust 2019 £m	Trust 2018 £m
Movement in deficit during the year				
Net deficit at beginning of the year	**(45)**	**(23)**	**(43)**	**(23)**
Movement in year:				
Current service cost	**-**	**-**	**-**	**-**
Employer contributions	**5**	**2**	**5**	**2**
Past service costs	**-**	**-**	**-**	**-**
Other finance costs	**(3)**	**-**	**(2)**	**-**
Remeasurements	**(1)**	**3**	**(1)**	**3**
Net deficit at end of the year	**(44)**	**(18)**	**(41)**	**(18)**

	Group 2019 £m	Group 2018 £m	Trust 2019 £m	Trust 2018 £m
Movement in fair value of plan assets				
At beginning of the year	**232**	141	**226**	141
Expected return on assets	**-**	-	**-**	-
Net interest income	**6**	4	**6**	4
Remeasurements	**6**	(3)	**6**	(3)
Assets distributed on settlements	**-**	-	**-**	-
Employer contributions	**5**	2	**54**	2
Plan participant contributions	**-**	-	**-**	-
Benefits paid	**(7)**	(5)	**(7)**	(5)
At end of the year	**242**	139	**235**	139

Notes to the financial statements for the year ended 31 March 2019

9. Employee information (continued)

	Group 2019 £m	Group 2018 £m	Trust 2019 £m	Trust 2018 £m
Movement in liabilities during the year				
Past service liability at beginning of the year	**278**	**164**	**268**	**164**
Service cost	**-**	**-**	**-**	**-**
Interest cost	**7**	**5**	**7**	**5**
Plan participant contributions	**-**	**-**	**-**	**-**
Remeasurement:				
- Due to changes in assumptions	**2**	**(6)**	**2**	**(6)**
- Due to experience	**5**	**(1)**	**5**	**(1)**
Liabilities extinguished on settlements	**-**	**-**	**-**	**-**
Benefits paid	**(7)**	**(5)**	**(7)**	**(5)**
Other costs	**1**	**-**	**1**	**-**
Past service liability at end of the year	**286**	**157**	**276**	**157**

Group

The fair value of the plan assets and the return on those assets was as follows:	**Group 2019 £m**	**Group 2019 %**	Group 2018 £m	Group 2018 %
Equities	**34**	**14%**	16	12%
Gilts	**10**	**4%**	11	8%
Corporate bonds	**28**	**12%**	21	15%
Property	**5**	**2%**	1	1%
Cash	**4**	**2%**	5	3%
Other assets	**161**	**66%**	85	61%
	242	**100%**	139	100%

Trust

The fair value of the plan assets and the return on those assets was as follows:	**Trust 2019 £m**	**Trust 2019 %**	Trust 2018 £m	Trust 2018 %
Equities	**33**	**14%**	16	12%
Gilts	**10**	**4%**	11	8%
Corporate bonds	**28**	**12%**	21	15%
Property	**5**	**2%**	1	1%
Cash	**4**	**2%**	5	3%
Other assets	**155**	**66%**	85	61%
	235	**100%**	139	100%

10. Board members and executive directors

Group Board remuneration for the year was:

	2019 £	2018 £
Aubrey Adams (Chair)	**32,541**	31,670
David Montague (Chief Executive)	**-**	-
Waqar Ahmed (Group Finance Director)	**-**	-
Anne Elizabeth Bassis	**18,831**	18,327
Tracey Fletcher–Ray	**16,062**	15,632
Samantha Hyde	**13,292**	12,936
Rajiv Jaitly	**13,292**	9,008
Larissa Joy	**13,292**	15,632
Michael More	**18,831**	18,327
Trevor Moross	**20,216**	19,675
Simon Rubinsohn	**18,831**	18,327
Fayan Simpson	**12,184**	-
	177,372	159,534

Board expenses of £1,630 (2018: £1,661) were incurred in the year.

- The Chief Executive and Group Finance Director receive no remuneration in respect of being members of the Board,
- Remuneration is pro-rated from date of appointment to Board or committee,
- Fayann Simpson was co-opted to the Board as a resident member with effect from May 2018,
- Tina Tietjen was formerly the Group Chair of East Thames Ltd and resigned on 31 March 2018 (2018: 19,675).

Notes to the financial statements for the year ended 31 March 2019

10. Board members and executive directors (continued)

Directors Emoluments

The directors are defined as the Chief Executive and the Executive Group

	Group 2019 £'000	Group 2018 £'000	**LQHT 2019 £'000**	LQHT 2018 £'000
Aggregate emoluments payable to directors (including benefits in kind)	**1,717**	1,990	**1,717**	1,990
Pension contributions in respect of services as directors	**191**	271	**191**	271
	1,908	2,261	**1,908**	2,261
Emoluments payable to the Chief Executive who was also the highest paid director (excluding pension contributions but including benefits in kind)	**343**	350	**343**	350

Director emoluments include accrued bonuses for the year and any adjustments to the actual bonus paid in respect of the previous year.

The Chief Executive received cash in lieu of pension payment of £67,141 (2018: £65,344). The Chief Executive has no individual pension arrangement (including a personal pension) to which LQHT or any of its subsidiaries makes a contribution.

During the year, the aggregate compensation for loss of office of key management personnel was £176,346 (2018: £326,704).

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

Salary banding for key management personnel, considered as Board members and Executive Directors, earning over £60,000 (including salaries, performance related pay, benefits in kind, compensation for loss of office and pension contributions paid by the employer) is set out over the page:

	Group 2019 No.	Group 2018 No.	LQHT 2019 No.	LQHT 2018 No.
Salary Banding				
£60,001 to £100,000	**-**	-	**-**	-
£100,001 to £110,000	**1**	-	**1**	-
£110,001 to £120,000	**-**	-	**-**	-
£120,001 to £130,000	**-**	-	**-**	-
£130,001 to £140,000	**-**	1	**-**	1
£140,001 to £150,000	**-**	-	**-**	-
£150,001 to £160,000	**-**	-	**-**	-
£160,001 to £170,000	**-**	2	**-**	2
£170,001 to £180,000	**-**	-	**-**	-
£180,001 to £190,000	**-**	-	**-**	-
£190,001 to £200,000	**1**	1	**1**	1
£200,001 to £210,000	**1**	1	**1**	1
£210,001 to £220,000	**1**	1	**1**	1
£220,001 to £230,000	**-**	-	**-**	-
£230,001 to £240,000	**-**	1	**-**	1
£240,001 to £270,000	**-**	-	**-**	-
£270,001 to £280,000	**1**	-	**1**	-
£280,001 to £290,000	**1**	-	**1**	-
£290,001 to £300,000	**-**	-	**-**	-
£300,001 to £310,000	**-**	1	**-**	1
£310,001 to £320,000	**-**	-	**-**	-
£320,001 to £330,000	**1**	1	**1**	1
£330,001 to £400,000	**-**	-	**-**	-
£400,001 to £410,000	**1**	-	**1**	-
£410,001 to £430,000	**-**	1	**-**	1
	8	10	**8**	10

Notes to the financial statements for the year ended 31 March 2019

11. Tax on surplus on ordinary activities

Current and deferred taxation

The tax expense for the year comprises both current and deferred tax.

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

Deferred tax is recognised when income or expenses from a subsidiary or associate have been recognised, and will be assessed for tax in a future period, except where:

- the Group is able to control the reversal of the timing difference
- it is probable that the timing difference will not reverse in the foreseeable future.

Deferred tax relating to investment property that is measured at fair value is measured using the tax rates and allowances that apply to the sale of the asset.

	Group 2019 £m	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
Current tax				
UK corporation tax	**1**	(3)	**1**	-
Total current tax	**1**	(3)	**1**	-
Deferred tax				
Net origination and reversal of timing difference	**(17)**	(7)	**-**	-
Total tax on results on ordinary activities	**(16)**	(10)	**1**	-

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom at 19% (2018: 19%). The differences are explained as follows:

	Group 2019 £m	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
Surplus/(deficit) on ordinary activities before tax	**186**	340	**282**	319
Surplus multiplied by 19% (2018: 19%) the standard rate of UK corporation tax	**35**	65	**54**	61
Effects of:				
Non-taxable income from investment in joint venture	**(5)**	1	**-**	-
Origination and reversal of timing differences	**1**	(11)	**-**	-
Non-taxable charitable activities	**(47)**	(65)	**(53)**	(61)
Total tax charge for the year	**(16)**	(10)	**1**	-

The rate of the corporation tax for the year ending 31 March 2020 will remain at 19% and will decrease to 17% for the year ending 31 March 2021. The change in the rate of UK corporation tax to 17% from 1 April 2020 was substantively enacted by the reporting date.

LQHT, having a charitable status is exempt from corporation tax on income and gains falling within Sections 466-493 Corporation Tax Act 2010 and Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that these are applied to its charitable objects. Where income and gains received by the Trust do not attract the tax exemption, the UK corporation tax rate applicable from 1 April 2018 was 19% (2018: 19%).

Deferred tax has been provided in the year to reflect the timing difference between the accounting and taxable profits on the revaluation of our investment properties. Although a provision is made it is not expected that the tax charge will materialise in the foreseeable future as the underlying assets are held principally for lettings at market rates. When disposal profits do materialise these profits are gifted to LQHT, effectively creating a tax credit which offsets the current tax. A total deferred tax asset of £4m is included in other debtors and is included in note 16a and 16b).

The deferred tax liability as at 31 March 2019 has been calculated based on tax rate that is expected to apply to the reversal of the timing differences.

12. Fixed assets – Housing properties

Housing properties

Housing properties in the course of construction are stated at either historic or deemed cost on conversion to FRS102. Cost includes the cost of acquiring land and buildings, development costs, and interest charges incurred during the development period. Staff costs and overheads which are directly attributable to bringing housing properties into working condition for their intended use are capitalised.

Under low-cost home ownership arrangements, the Group disposes of a long lease on low-cost home ownership housing units to people who occupy them at a share equal to between 25% and 75% of value. The occupier has the right to purchase further proportions up to 100% at the then current valuation. Low-cost home ownership properties are split between current and fixed assets on initial recognition. The proceeds from the sale of the current asset element ('first tranche') are included in turnover and the related asset expensed through the profit and loss statement as a cost of sale. The remaining element of the property ("staircasing element") is accounted for as a fixed asset and any subsequent tranche sale treated as a part disposal of a fixed asset, shown in note 6. Social housing grant in respect of low-cost home ownership properties is allocated against the retained element of the low-cost home ownership property and is treated as a deferred grant income, shown in note 20.

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

Where land has been acquired with the intention to develop as mixed tenure schemes but the precise mix is yet to be finalised, the land is treated as a fixed asset until certainty of tenure mix is established at which point the portion of land that relates to properties held for sale is transferred to current assets. All other development costs are allocated proportionately based on the floor area of each tenure type intended to be developed at each scheme. Other housing property costs for mixed tenure schemes in management are allocated proportionately based on number of homes of each tenure at the scheme.

Non-component works to existing properties

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

Fixed assets and depreciation

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

Housing property components are depreciated from the year following replacement year. The ranges of estimated useful economic lives are assumed as follows:

Major components

• Housing properties structure	100 years
• Kitchens	18-20 years
• Bathrooms, electrical, heating, windows and doors	30 years
• Boilers	15 years
• Roofs	30 to 60 years

Low-cost home owners and leaseholders are responsible for the costs of maintenance and replacement of components.

All social housing grant (SHG) is amortised to income over 100 years for social housing lettings and over 25 years for low cost home ownership. Accumulated grant amortisation and any grant recognised through the performance method in equity is recorded as a contingent liability in the notes to the accounts (note 25).

Impairment of fixed assets

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

An annual review is undertaken of existing social housing properties to determine if there has been any indicator of impairment in the current financial year. This review is done at a scheme level, which is deemed to be an appropriate level of a cash generating unit of housing property assets.

Where any potential indicator as defined in FRS 102.27 'Impairment of Assets' is identified, a review of the affected scheme is undertaken to determine if an impairment is required.

Examples of key indicators or impairment include:

- Change in government policy, regulation or legislation which has a material detrimental impact
- A change in demand for a property that is considered irreversible
- Material reduction in the market value of properties intended to be sold or the resident has the right to purchase
- Obsolescence of a property or part of a property.

Group additions to new housing properties during the year include capitalised interest of £33m (2018: £38m) and capitalised directly attributable internal costs of £29m (2018: £24m). The amount of cumulative interest capitalised in housing properties is not separately identifiable.

Group expenditure on works to existing properties during the year amounted to £251m (2018: £173m) of which £92m (2018: £65m) was capitalised and included as additions to properties held for lettings.

Notes to the financial statements for the year ended 31 March 2019

12. Fixed assets – Housing properties (continued)

Housing properties - Group	Properties under construction			Properties held for lettings			
	Social housing lettings £m	Low-cost home ownership £m	Non-social housing lettings £m	Social housing lettings £m	Low-cost home ownership £m	Non-social housing lettings £m	Total £m
Cost							
At 1 April 2018	**242**	**99**	**292**	**8,089**	**860**	**66**	**9,648**
Reclassifications	43	(3)	(36)	(9)	5	-	**-**
Reclassifications from/(to) investments	-	-	(177)	1	-	-	**(176)**
Schemes completed in the year	(194)	(80)	(15)	194	80	15	**-**
Additions	294	246	77	87	4	1	**709**
Transfer from/(to) current assets	(35)	2	-	-	-	-	**(33)**
Disposals	-	-	-	(9)	(35)	-	**(44)**
At 31 March 2019	**350**	**264**	**141**	**8,353**	**914**	**82**	**10,104**
Depreciation							
At 1 April 2018	**-**	**-**	**-**	**536**	**5**	**3**	**544**
Charge for year	-	-	-	78	-	1	**79**
Eliminated in respect of disposals	-	-	-	(6)	-	-	**(6)**
At 31 March 2019	**-**	**-**	**-**	**608**	**5**	**4**	**617**
Impairment							
At 1 April 2018	**3**	**-**	**-**	**10**	**1**	**-**	**14**
Charge for year	-	4	-	-	-	-	**4**
At 31 March 2019	**3**	**4**	**-**	**10**	**1**	**-**	**18**
Net book value:							
At 31 March 2019	**347**	**260**	**141**	**7,735**	**908**	**78**	**9,469**
At 31 March 2018	239	99	292	7,542	854	63	9,089

For the Group, a total funding value of £8,360m (2018: £7,146m) has been pledged as security on debt.

Housing properties – LQHT	Properties under construction			Properties held for lettings			
	Social housing lettings £m	Low-cost home ownership £m	Non-social housing lettings £m	Social housing lettings £m	Low-cost home ownership £m	Non-social housing lettings £m	Total £m
Cost							
At 1 April 2018	**218**	**86**	**71**	**7,985**	**826**	**61**	**9,247**
Reclassifications	43	(3)	(36)	(9)	5	-	**-**
Reclassifications from/(to) investments	-	-	-	1	-	-	**1**
Schemes completed in the year	(194)	(80)	(15)	194	80	15	**-**
Additions	268	199	19	87	4	1	**578**
Transfer from current assets	(35)	2	-	-	-	-	**(33)**
Disposals	-	-	-	(8)	(35)	-	**(43)**
At 31 March 2019	**300**	**204**	**39**	**8,250**	**880**	**77**	**9,750**
Depreciation							
At 1 April 2018	**-**	**-**	**-**	**562**	**5**	**4**	**571**
Charge for year	-	-	-	78	-	1	**79**
Eliminated in respect of disposals	-	-	-	(6)	-	-	**(6)**
At 31 March 2019	**-**	**-**	**-**	**634**	**5**	**5**	**644**
Impairment							
At 1 April 2018	**3**	**-**	**-**	**10**	**1**	**-**	**14**
Charge for year	-	4	-	-	-	-	**4**
At 31 March 2019	**3**	**4**	**-**	**10**	**1**	**-**	**18**
Net book value:							
At 31 March 2019	**297**	**200**	**39**	**7,606**	**874**	**72**	**9,088**
At 31 March 2018	215	86	71	7,413	820	57	**8,662**

In LQHT, a total funding value of £7,908m (2018: £5,583m) has been pledged as security on debt.

Notes to the financial statements for the year ended 31 March 2019

12. Fixed assets – Housing properties (continued)

Impairment

An assessment was carried out to identify impairment triggers linked to the fixed assets at year end. There were none identified that required a full impairment review to be carried out using the depreciated replacement cost methodology. There was £nil impairment (2018: £2m) recognised in the year under other social housing activities.

During the year the Group and LQHT recognised a further £4m (2018: £7m) of impairment on housing properties in relation to low-cost home ownership properties under construction (2018: £4m social housing properties held for letting, £3m social housing homes under construction). The number of homes under construction impacted by this impairment loss was 21, and the carrying value prior to impairment was £9m.

13a. Other tangible fixed assets

Group	Freehold office premises £m	Leasehold office premises £m	Office furniture and equipment £m	Computer equipment £m	Total £m
Cost					
At 1 April 2018	**52**	**1**	**6**	**7**	**66**
Additions	-	1	1	8	**10**
Transfer from fixed assets	-	-	-	-	**-**
Disposals	-	-	-	-	**-**
At 31 March 2019	**52**	**2**	**7**	**15**	**76**
Depreciation					
At 1 April 2018	**5**	**1**	**3**	**2**	**11**
Charge for year	-	-	1	7	**8**
Eliminated in respect of disposals	-	-	-	-	**-**
At 31 March 2019	**5**	**1**	**4**	**9**	**19**
Net book value:					
At 31 March 2019	47	1	3	6	**57**
At 31 March 2018	47	-	3	5	**55**

LQHT	Freehold office premises £m	Leasehold office premises £m	Office furniture and equipment £m	Computer equipment £m	Total £m
Cost					
At 1 April 2018	**54**	**1**	**8**	**10**	**73**
Additions	-	1	1	8	**10**
Transfer from fixed assets	-	-	-	-	**-**
Disposals	-	-	-	-	**-**
At 31 March 2019	**54**	**2**	**9**	**18**	**83**
Depreciation					
At 1 April 2018	**13**	**1**	**5**	**5**	**24**
Charge for year	1	-	-	7	**8**
Eliminated in respect of disposals	-	-	-	-	**-**
At 31 March 2019	**14**	**1**	**5**	**12**	**32**
Net book value:					
At 31 March 2019	40	1	4	6	**51**
At 31 March 2018	41	-	3	5	**49**

Other fixed assets

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

• Freehold premises	25-100 years
• Short leasehold premises	Shorter of 10 years or life of lease
• Furniture and equipment	7-8 years
• Motor vehicles	4 years
• Computer equipment	3 years
• Service equipment	5 years

Notes to the financial statements for the year ended 31 March 2019

13b. Intangible assets

Group	Computer software £m	Total £m
Cost		
At 1 April 2018	**22**	**22**
Additions	7	**7**
Disposals	-	**-**
At 31 March 2019	**29**	**29**
Amortisation		
At 1 April 2018	**12**	**12**
Charge for year	5	**5**
Eliminated in respect of disposals	-	**-**
At 31 March 2019	**17**	**17**
Net book value:		
At 31 March 2019	**12**	**12**
At 31 March 2018	10	**10**

LQHT	Computer software £m	Total £m
Cost		
At 1 April 2018	**22**	**22**
Additions	7	**7**
Disposals	-	**-**
At 31 March 2019	**29**	**29**
Amortisation		
At 1 April 2018	**12**	**12**
Charge for year	5	**5**
Eliminated in respect of disposals	-	**-**
At 31 March 2019	**17**	**17**
Net book value:		
At 31 March 2019	**12**	**12**
At 31 March 2018	10	**10**

Intangible assets

Depreciation on intangible assets is charged on a straight-line basis from the year after the financial purchase is made and spread over the expected useful economic lives of the intangible assets to write down the cost less estimated residual values at the annual rates set out below.

- Software development 7 years

14. Investments

a) Investment in jointly controlled entities (joint ventures)

An entity is treated as jointly controlled entity where the Group is party to a contractual agreement with one or more parties from outside the Group to undertake an economic activity that is subject to joint control by virtue of voting rights or degree of influence exercisable.

In the consolidated accounts, interests in jointly controlled entities are accounted for using the equity method of accounting. Under this method an equity investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investor's share of the profit or loss, other comprehensive income and equity of the jointly controlled entities. The consolidated statement of comprehensive income includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings applying accounting policies consistent with those of the Group. In the consolidated statement of financial position, the interests in jointly controlled entity undertakings are shown as the Group's share of the identifiable net assets, including any unamortised premium paid on acquisition.

Notes to the financial statements for the year ended 31 March 2019

14. Investments (continued)

Group	Barking Riverside Ltd	Limited Liability Partnerships	Associates	Total
	£m	£m	£m	£m
Cost				
At 1 April 2018	25	340	3	**368**
Additions	8	70	6	**84**
Repayments	-	(45)	-	**(45)**
At 31 March 2019	**33**	**365**	**9**	**407**
Goodwill				
At 1 April 2018	**18**	**1**	**-**	**19**
Additions	1	-	-	**1**
Amortisation	(2)	-	-	**(2)**
At 31 March 2019	**17**	**1**	**-**	**18**
Impairment				
At 1 April 2018	-	(16)	-	**(16)**
Charge for the year	-	-	-	**-**
Release in the year	-	12	-	**12**
At 31 March 2019	**-**	**(4)**	**-**	**(4)**
Share of reserves				
At 1 April 2018	-	60	-	**60**
Share of profit in the year	3	22	-	**25**
Profit distributed	-	(28)	-	**(28)**
At 31 March 2019	**3**	**54**	**-**	**57**
Net book value:				
At 31 March 2019	53	416	9	**478**
At 31 March 2018	43	385	3	**431**

Included in the share of profit from joint ventures as shown in the group statement of comprehensive income is a release of impairment of £12m (2018: impairment charge of £16m). Also included in the share of profits from joint ventures in the statement of comprehensive income are adjustments for intragroup transactions with joint ventures that do not get adjusted for in the investment in jointly controlled entities in the statement of financial position.

Active trading joint ventures, all established in the UK, as at 31 March 2019 were as follows:

Joint venture	Partner	Group interest	Group voting rights	Total investment £m
Barking Riverside Limited	Greater London Authority	51%	50%	**54**
BDWZest Developments LLP	BDW Trading Limited	50%	50%	**2**
Alie Street LLP	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**-**
Queensland Road	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**-**
Fulham Wharf	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**11**
Nine Elms	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**75**
Academy Central LLP	George Wimpey East London Ltd	38%	50%	**-**
Chobham Manor LLP	Taylor Wimpey UK Limited	50%	50%	**24**
Countryside Zest (Beaulieu Park) LLP	Countryside Properties (Joint Venture) Ltd	50%	50%	**96**
Countryside L&Q (Oaks Village) LLP	Countryside Four Ltd	50%	50%	**15**
Acton Gardens LLP	Countryside Properties (Joint Venture) Ltd	50%	50%	**30**
Ponton Road LLP	Bellway Homes Limited	50%	50%	**45**
Erith Hills LLP	Anderson Design Limited	50%	50%	**31**
Fairview L&Q PR LLP	Fairview New Homes Limited	50%	50%	**25**
Triathlon Homes LLP	Southern Space Ltd and First Base 4 Stratford LLP	33%	33%	**-**
THT and L&Q Developments LLP	Trafford Housing Trust	50%	50%	**35**
Stepney Way 1 & 2 LLP	Mount Anvil	50%	50%	**26**
Investments in Associates				
Harley Winchester Ltd	Harley Property Investors LLP	75%	75%	**3**
THT & L&Q Community Ltd	Trafford Housing Trust	50%	50%	**6**
Jointly Controlled Assets				
Beam Park	Countryside Properties (UK) Ltd	50%	50%	**-**
Total				**478**

Notes to the financial statements for the year ended 31 March 2019

14. Investments (continued)

L&Q has not entered into any new joint ventures or associates within the year.

The group has 50% voting rights in most jointly controlled entities, except for a 33% voting right in Triathlon Homes LLP. Apart from Barking Riverside, which is a limited company, all of the jointly controlled entities are limited liability partnerships, therefore not limited by share. All jointly controlled entities have a March year end except for Academy Central LLP which has a 31 December year end, Countryside Zest (Beaulieu) LLP, Countryside L&Q (Oaks Village) LLP and Acton Gardens LLP which have a 30 September year end, and Ponton Road LLP which has a 31 July year end.

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

The group has an investment in a registered social housing provider, THT & L&Q Community Company, where control resides with our partner Trafford Housing Trust. This investment is accounted for as an associate. As part of L&Q's safeguards of its investments, L&Q does hold veto over director appointments. LQHT has invested £6m in the associate within the year (2018: £nil).

The Group has a one-third interest in Triathlon Homes LLP, which is jointly formed with Southern Space Ltd (part of Southern Housing Group) and First Base 4 Stratford LLP. Triathlon owns or manages 1,379 affordable homes in the former Olympic Athletes Village in Stratford.

b) Investments - HomeBuy equity loans

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

In the accounting of the HomeBuy equity loan investment, the group has opted to adopt paragraphs PBE34.90 to PBE 34.97 of FRS 102. All are non-current loans, as they are not redeemable on demand.

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

As at 31 March 2019, HomeBuy equity loans amounted to £111m for the Group and LQHT (2018: £119m) and HomeBuy grant amounted to £98m for the Group and LQHT (2018: £104m).

c) Investment properties

Investment properties (Private Rented Sector, "PRS") are valued externally in the year of acquisition or transfer on an annual basis by a qualified RICS Chartered Surveyor.

Changes in the value of market rented properties are taken to the income statement. PRS properties under construction are stated at cost and all commitments in respect of these are included as capital commitments (see note 27).

Investment properties – Market rented	**Group 2019 £m**	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
At 1 April	**670**	466	**7**	27
Additions	**59**	2	**-**	-
Transfer (to)/from fixed assets	**176**	(23)	**(1)**	(18)
Transfer from current assets	**-**	177	**-**	-
Revaluation	**37**	48	**-**	(2)
Disposal	**-**	-	**-**	-
At 31 March	**942**	670	**6**	7

d) Investments - Real Lettings property fund

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

e) Equity investment in subsidiaries

All equity investments in subsidiaries are eliminated on consolidation. The amounts presented in LQHT are direct investments in subsidiary undertakings.

As at March 2019, LQHT held £300m in PRS Co Ltd (2018: £59m), £312m in Gallagher Estates Ltd (2018: £304m), £550m in L&Q New Homes Ltd (2018: £550m) and £2m in L&Q Energy Ltd (2018: nil).

f) Goodwill

Goodwill arose on the acquisition of 100% of the shares of Gallagher Estates group of companies on 1 February 2017. The principal activity of these companies is property development, specifically around land parcels and servicing.

The expected useful life of goodwill is 5 years from the date of acquisition.

Notes to the financial statements for the year ended 31 March 2019

15. Land and properties for sale and work in progress

Land and properties for sale and work in progress

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

Group	Land and properties under construction		Completed properties for sale		Total
	Low-cost home ownership	Open market sales	Low-cost home ownership	Open market sales	
	£m	£m	£m	£m	£m
At 1 April 2018	**154**	**661**	**6**	**106**	**927**
Completed in the year	(55)	(298)	55	298	**-**
Additions	105	263	-	11	**379**
Reclassification (to)/from fixed assets	(2)	35	-	-	**33**
Transfer to investments	-	-	-	-	**-**
Cost of properties sold	-	(172)	(46)	(71)	**(289)**
Write down	-	-	-	-	**-**
At 31 March 2019	**202**	**489**	**15**	**344**	**1,050**

LQHT	Properties under construction		Completed properties for sale		Total
	Low-cost home ownership	Open market sales	Low-cost home ownership	Open market sales	
	£m	£m	£m	£m	£m
At 1 April 2018	**60**	**-**	**5**	**-**	**65**
Completed in the year	(55)	(38)	55	38	**-**
Additions	113	3	-	-	**116**
Reclassification (to)/from fixed assets	(2)	35	-	-	**33**
Cost of properties sold	-	-	(45)	(38)	**(83)**
At 31 March 2019	**116**	**-**	**15**	**-**	**131**

Stock is stated at the lower of cost and estimated selling price less costs to complete and sell. Significant judgement is required in determining the selling price of certain items of stock, specifically the land parcel stock of £364m (2018: £432m) included in Group land and properties under construction – open market sales. In determining the selling price a number of factors were considered such as planning status, the number of properties that could be built on the sites and increased construction costs.

Notes to the financial statements for the year ended 31 March 2019

16a. Debtors due after more than one year

On-lending loans made to subsidiaries by London and Quadrant Housing Trust are classified as a long term debt as formal agreements deem them not to be repayable within one year. These are shown at cost with interest between 2.6% and 6.0% (2018: 2.3% and 5.0%) charged at arm's length.

All deferred land payments with fixed dates of more than one year under the land sale contracts are presented at a discounted rate of 3.5% per annum (2018: 3.6%).

	Group 2019 £m	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
Amounts owed from subsidiaries	**-**	-	**1,009**	950
Forward funding of land purchase	**65**	23	**-**	-
Deferred land payments	**24**	61	**-**	-
Shared equity	**2**	2	**2**	2
Deferred tax asset	**1**	-	**-**	-
	92	86	**1,011**	952

Shared equity relates to loans provided on the same basis as the HomeBuy scheme to leasehold residents covering the shortfall in purchase price as a result of decants for demolition at Ocean Estate.

16b. Debtors

	Group 2019 £m	Group 2018 £m	LQHT 2019 £m	LQHT 2018 £m
Amounts receivable within one year:				
Former tenant arrears	**9**	7	**9**	7
Less: provision for bad and doubtful debts	**(9)**	(7)	**(9)**	(7)
	-	-	**-**	-
Current tenant arrears	**45**	35	**44**	35
Less: provision for bad and doubtful debts	**(6)**	(8)	**(6)**	(8)
	39	27	**38**	27
Social housing grant receivable	**-**	3	**-**	3
Other debtors and prepayments	**165**	156	**22**	19
Amount owing from subsidiaries	**-**	-	**30**	10
Deferred tax asset	**3**	2	**-**	-
	207	188	**90**	59

Other debtors and prepayments include deferred land debtors of £116m (2018: £113m), development debtors of £7m (2018: £22m).

17. Cash and cash equivalents

	Group 2019 £m	Group 2018 £m	LQHT 2019 £m	LQHT 2018 £m
Cash and cash equivalents	**171**	222	**86**	128
Bank overdrafts	**-**	-	**-**	-
	171	222	**86**	128

Restrictions on cash and cash equivalents include £18m (2018: £18m) held in debt service reserve, £11m (2018: £11m) as held funds. All cash and cash equivalents mature in three months or less, or are convertible to cash within three months or less. Financial assets pledged as collateral can be replaced subject to negotiations.

Notes to the financial statements for the year ended 31 March 2019

18. Creditors: amounts falling due within one year

	Group 2019 £m	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
Debenture loans (see note 23)	**12**	33	**12**	33
Bank loans and overdrafts (see note 23)	**14**	-	**14**	-
Trade creditors	**83**	75	**49**	9
Other taxation and social security	**2**	4	**2**	2
Accruals and deferred income	**74**	75	**65**	62
Amounts due to subsidiaries	**-**	-	**5**	34
Other creditors	**253**	263	**71**	115
Social housing grant (see note 20)	**24**	24	**24**	24
	462	474	**242**	279

All accrued costs to complete on strategic land development are treated as amounts falling due within one year as their nature and timing are uncertain.

Included in other creditors is £3m of costs to complete relating to land sales (2018: £93m) and development related creditors of £163m (2018: £96m).

Social housing grant due within one year is detailed in Note 20.

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

	Group 2019 £m	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
Debenture loans (see note 23)	**2,843**	2,730	**2,544**	2,555
Bank loans and overdrafts (see note 23)	**2,123**	1,584	**1,998**	1,421
Total housing loans	**4,966**	4,314	**4,542**	3,976
Net issue premium	**(45)**	(41)	**(41)**	(36)
Loan fair value adjustments	**90**	94	**-**	-
Total loans measured at amortised cost	**5,011**	4,367	**4,501**	3,940
Deferred income	**-**	-	**-**	-
Other creditors	**46**	66	**41**	33
Recycled capital grant fund (see note 21)	**84**	87	**84**	87
Disposal proceeds fund (see note 22)	**-**	5	**-**	5
	5,141	4,525	**4,626**	4,065

20. Social Housing Grant

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

For items where on transition to FRS 102 an election was taken to treat fair value as deemed cost, the performance method for accounting for grant has been applied as the fair value application as deemed cost is treated as a revaluation at the transition date and SHG in respect of those items has been taken to revenue reserves. An amount equivalent to SHG taken to revenue reserves is disclosed as a contingent liability reflecting the potential future obligation to repay SHG where properties are disposed.

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

Social Housing Grant – Group	**Properties under construction**			**Properties held for lettings**			
	Social housing lettings £m	**Low-cost home ownership £m**	**Non-social housing lettings £m**	**Social housing lettings £m**	**Low-cost home ownership £m**	**Non-social housing lettings £m**	**Total £m**
Cost							
At 1 April 2018	**419**	**35**	**-**	**1,701**	**197**	**-**	**2,352**
Reclassification	(26)	27	-	(2)	1	-	**-**
Schemes completed in the year	(21)	(5)	-	21	5	-	**-**
Received during the year	29	1	-	-	-	-	**30**
Recycled on disposal	-	-	-	-	(9)	-	**(9)**
At 31 March 2019	**401**	**58**	**-**	**1,720**	**194**	**-**	**2,373**
Amortisation							
At 1 April 2018	**-**	**-**	**-**	**205**	**82**	**-**	**287**
Amortised in the year	-	-	-	16	7	-	**23**
At 31 March 2019	**-**	**-**	**-**	**221**	**89**	**-**	**310**
Net book value:							
At 31 March 2019	**401**	**58**	**-**	**1,499**	**105**	**-**	**2,063**
At 31 March 2018	419	35	-	1,496	115	-	2,065

Notes to the financial statements for the year ended 31 March 2019

20. Social Housing Grant (continued)

Ageing analysis - Group	**Group 2019**	Group 2018
Social Housing Grant		
Within one year	**24**	24
Greater than one year	**2,039**	2,041
Total	**2,063**	2,065

Social Housing Grant – LQHT	**Properties under construction**			**Properties held for lettings**			
	Social housing lettings £m	**Low-cost home ownership £m**	**Non-social housing lettings £m**	**Social housing lettings £m**	**Low-cost home ownership £m**	**Non-social housing lettings £m**	**Total £m**
Cost							
At 1 April 2018	**418**	**35**	**-**	**1,726**	**203**	**-**	**2,382**
Reclassification	(26)	27	-	(2)	1	-	**-**
Schemes completed in the year	(21)	(5)	-	21	5	-	**-**
Received during the year	29	1	-	-	-	-	**30**
Recycled on disposal	-	-	-	(1)	(8)	-	**(9)**
At 31 March 2019	**400**	**58**	**-**	**1,744**	**201**	**-**	**2,403**
Amortisation							
At 1 April 2018	**-**	**-**	**-**	**205**	**82**	**-**	**287**
Charge for the year	-	-	-	17	7	-	**24**
At 31 March 2019	**-**	**-**	**-**	**222**	**89**	**-**	**311**
Net book value:							
At 31 March 2019	**400**	**58**	**-**	**1,522**	**112**	**-**	**2,092**
At 31 March 2018	418	35	-	1,521	121	-	2,095

Ageing analysis – LQHT	**LQHT 2019**	LQHT 2018
Social Housing Grant		
Within one year	**24**	24
Greater than one year	**2,068**	2,071
Total	**2,092**	2,095

21. Recycled capital grant fund

The Regulator of Social Housing can direct the Group to recycle SHG or to repay the recoverable capital grant back. Where the grant is recyclable the recoverable capital grant is credited to the recycled capital grant fund (RCGF), which is included as a creditor due either within one year or after more than one year as appropriate.

	Group 2019 £m	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
At beginning of the year	**87**	78	**87**	78
Net HomeBuy grant abated	**-**	(1)	**-**	(1)
Net SHG recovered	**1**	3	**1**	3
Transferred to fund during year	**15**	19	**15**	19
Utilised during the year against new build	**(19)**	(12)	**(19)**	(12)
At end of the year	**84**	87	**84**	87

There are no amounts 3 years old or older where repayment may be required (2018: £nil).

22. Disposal proceeds fund

Receipts from Right to Acquire sales are required to be retained in a ring-fenced fund that can only be used for providing replacement housing. These sale receipts less eligible expenses are credited to the disposal proceeds fund (DPF).

	Group 2019 £m	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
At beginning of the year	**5**	7	**5**	7
Transferred to fund during year	**-**	-	**-**	-
Utilised during the year against new build	**(5)**	(2)	**(5)**	(2)
At end of the year	**-**	5	**-**	5

There are no amounts 3 years old or older where repayment may be required (2018: £nil). Following deregulatory measures introduced by the RSH on 6 April 2017, no new proceeds from relevant disposals will be paid into the DPF. Remaining DPF funds continued to be managed in accordance with current requirements, and all remaining funds were utilised in the year.

Notes to the financial statements for the year ended 31 March 2019

23. Debt analysis – on loans measured at amortised cost

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

Debenture and bank loans are secured by way of a first fixed charge over housing properties and include an asset cover test based on the ratio on the value of properties secured to the carrying value of the loan. Bank loans include interest cover and gearing covenants each of which is tested annually against relevant disclosures within the statement of comprehensive income and statement of financial position.

	Group 2019 £m	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
Creditors falling due within one year				
Debenture loans	**12**	33	**12**	33
Bank loans	**14**	-	**14**	-
	26	33	**26**	33
Creditors falling due after more than one year				
Debenture loans	**2,843**	2,730	**2,544**	2,555
Bank loans and overdrafts	**2,123**	1,584	**1,998**	1,421
	4,966	4,314	**4,542**	3,976
Total housing loans	**4,992**	4,347	**4,568**	4,009

The following is an analysis of the anticipated contractual cash flows for the Group's drawn loans measured at amortised cost and derivative financial instruments held as at 31 March 2019 excluding deferred finance, capitalised costs and fair value adjustments.

Interest is calculated on an undiscounted basis whereby floating rate loans are determined using the prevailing implied forward rates as at 31 March 2019.

Group Debt analysis – interest-bearing loans and borrowings

As at 31 March 2019	**Total loans £m**	**Interest on loans £m**	**Interest on derivative financial instruments £m**	**Total £m**
Due less than one year	(26)	(147)	-	**(173)**
Between one and two years	(188)	(147)	-	**(335)**
Between two and three years	(710)	(142)	-	**(852)**
Between three and five years	(488)	(256)	-	**(744)**
In five years or more	(3,580)	(1,607)	-	**(5,187)**
Gross contractual cash flows	**(4,992)**	**(2,299)**	**-**	**(7,291)**

As at 31 March 2018	Total loans £m	Interest on loans £m	Interest on derivative financial instruments £m	Total £m
Due less than one year	(33)	(137)	-	(170)
Between one and two years	(22)	(141)	-	(163)
Between two and three years	(223)	(142)	-	(365)
Between three and five years	(535)	(261)	-	(796)
In five years or more	(3,534)	(1,736)	-	(5,270)
Gross contractual cash flows	(4,347)	(2,417)	-	(6,764)

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

LQHT Debt analysis – interest-bearing loans and borrowings

As at 31 March 2019	**Total loans £m**	**Interest on loans £m**	**Interest on derivative financial instruments £m**	**Total £m**
Due less than one year	(26)	(133)	-	**(159)**
Between one and two years	(64)	(135)	-	**(199)**
Between two and three years	(710)	(133)	-	**(843)**
Between three and five years	(488)	(238)	-	**(726)**
In five years or more	(3,280)	(1,574)	-	**(4,854)**
Gross contractual cash flows	**(4,568)**	**(2,213)**	**-**	**(6,781)**

As at 31 March 2018	Total loans £m	Interest on loans £m	Interest on derivative financial instruments £m	Total £m
Due less than one year	(33)	(127)	-	(160)
Between one and two years	(22)	(130)	-	(152)
Between two and three years	(59)	(133)	-	(192)
Between three and five years	(535)	(252)	-	(787)
In five years or more	(3,360)	(1,717)	-	(5,077)
Gross contractual cash flows	(4,009)	(2,359)	-	(6,368)

The weighted average cost of fixed rate loans was 3.9% (2018: 3.9%), and variable rate loans was 1.9% (2018: 2.2%) inclusive of lending margins. 57% of the Group's debt, including the use of financial instruments (see note 30) was fixed (2018: 65%). Interest rates on fixed rate debt range from 2.3% to 11.5% (2018: 2.3% to 11.5%).

	Loans at amortised cost £m	**Floating rate £m**	**Fixed rate £m**	**Weighted average interest rate %**	**Weighted average life of loan Years**
At 31 March 2019	**4,992**	**2,137**	**2,855**	**3.5**	**13**
At 31 March 2018	4,347	1,533	2,814	3.6	15

CASE STUDY:

L&Q Academy

L&Q's Academy will give people the skills to make their aspirations a reality, while creating a workforce that can get Britain Building.

Officially launched in January 2018, the L&Q Academy provides opportunities for our residents and others living in our communities through apprenticeships to gain skills and enter sustainable employment.

L&Q's graduate scheme has been adopted by the academy to attract high performing graduates to L&Q through an enhanced programme with clear career progression routes and opportunities.

Location:

London, Slough and the Counties.

£1.5m
spent on programmes

Highlight:

The academy is promoting graduate positions and apprenticeships to women in areas where they are underrepresented. Through the year, 13 of the 49 new apprentices and 9 of the 13 new graduates were female. They have been recruited across the business in areas such as finance, Design and Planning, and Construction.

Notes to the financial statements for the year ended 31 March 2019

24. Provisions for liabilities and charges

The Group recognises provisions and liabilities of uncertain timing or amounts. Provisions are made for specific and quantifiable liabilities, measured at the best estimate of expenditure and only where probable that it is required to settle a legal or constructive obligation that existed at the Statement of Financial Position date.

	Group 2019 £m	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
At beginning of the year	**65**	67	**16**	13
Increase in provision	**17**	16	**16**	9
Release of provision	**(27)**	(18)	**(7)**	(6)
At end of the year	**55**	65	**25**	16

An analysis of the movement in each specific provision is set out below.

A provision in respect of the works required to replace ACM cladding and other major works required.

The majority of ACM cladding works were carried out in the year and therefore £3m of the provision released in line with these works. Further obligations arose in the year being works that were identified as either legally required or for which the Group had a constructive obligation. An additional provision in respect of major works to be expensed through the income and expenditure on further cladding removals and roof repairs on specific schemes was recognised in the year:

Major works obligation				
At beginning of the year	**4**	-	**4**	-
Increase in provision	**16**	4	**15**	4
Release of provision	**(3)**	-	**(3)**	-
At end of the year	**17**	4	**16**	4

A self-insurance amount of £5m with no net movement in the year:

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

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

Warranties on newbuild properties				
At beginning of the year	**4**	5	**4**	5
Increase in provision	**1**	2	**1**	2
Release of provision	**(1)**	(3)	**(1)**	(3)
At end of the year	**4**	4	**4**	4

A restructuring provision was made in 2018 for announced and ongoing team specific restructuring plans, and any provision made in respect of completed restructures has been released:

Restructuring provision				
At beginning of the year	**3**	3	**3**	3
Increase in provision	**-**	2	**-**	2
Release of provision	**(3)**	(2)	**(3)**	(2)
At end of the year	**-**	3	**-**	3

A deferred tax provision has been made for changes in valuation of the Group's Private Rented Sector portfolio and in relation to the fair value gain arising on the acquisition of Gallagher Estates:

Deferred tax				
At beginning of the year	**49**	54	**-**	-
Increase in provision	**-**	7	**-**	-
Release of provision	**(20)**	(12)	**-**	-
At end of the year	**29**	49	**-**	-

Notes to the financial statements for the year ended 31 March 2019

25. Contingent liabilities

A contingent liability is disclosed for a possible obligation, for which it is not yet confirmed that a present obligation exists that could lead to an outflow of resources; or for a present obligation that does not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation or when a sufficiently reliable estimate of the amount cannot be made. This includes a contingent liability reflecting the potential future obligation to repay social housing grant where properties are disposed of.

	Group 2019 £m	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
At start of the year	**1,723**	1,702	**1,692**	1,671
Increase in the year	**23**	21	**23**	21
At end of the year	**1,746**	1,723	**1,715**	1,692

26. Share capital

	Group 2019 £	Group 2018 £	**LQHT 2019 £**	LQHT 2018 £
Shares of £1 each issued and fully paid				
At beginning of the year	**9**	9	**9**	9
Issued during year	**2**	-	**2**	-
Cancelled or eliminated during the year	**(1)**	-	**(1)**	-
At end of the year	**10**	9	**10**	9

27. Capital commitments

Capital commitments are disclosed in respect capital expenditure toward fixed assets which have been contracted and predominantly relate to developments where known contractors have been appointed and which have started on site.

	Group 2019 £m	Group 2018 £m	LQHT 2019 £m	LQHT 2018 £m
Expenditure that has been contracted for but has not been provided for in these financial statements	**1,374**	822	**1,283**	740
Expenditure that has been authorised by the Governing Board but has not yet been contracted for	**1,971**	1,131	**1,951**	1,119
	3,345	1,953	**3,234**	1,859

	Group 2019 £m	Group 2018 £m	LQHT 2019 £m	LQHT 2018 £m
The Group expects to finance contracted commitments through:				
Social housing grant	**182**	133	**182**	133
Surpluses and borrowings	**1,192**	689	**1,101**	607
	1,374	822	**1,283**	740

The development pipeline as at 31 March 2019 had an estimated cost of £7 billion (2018: £5 billion) and currently spans 14 years. This includes fixed and current assets relating to ongoing construction as well as developments not yet on site which will be funded primarily through accumulated reserves and borrowings.

Our approved development pipeline has the following projections:

	Group 2019	Group 2018
Homes in the development pipeline	**50,400**	45,100
	£m	£m
Projected pipeline cost	**6,995**	4,795
Projected source of funding		
Social housing grant	**492**	307
Surpluses and borrowings	**6,503**	4,488
	6,995	4,795

Notes to the financial statements for the year ended 31 March 2019

28. Commitments under operating leases

	Group and LQHT		Group and LQHT	
	2019	**2019**	2018	2018
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Total commitments under operating leases are as set out below:				
Operating leases which expire:				
In less than one year	**-**	**-**	-	-
Between one and five years	**1**	**-**	1	-
After five years	**1**	**-**	1	-
	2	**-**	2	-

29. Related party transactions

All transactions in respect of tenant board members and other related public or commercial entities are carried out at arm's length and under normal commercial terms. The Group has taken advantage of the exemption contained in FRS 102 33.1(A) Related Party Disclosures and has therefore not disclosed transactions or balances between entities which are 100% owned. Per requirements of the Accounting Direction 2015, transactions between registered providers and other non-registered entities in the Group are disclosed below.

Intra-group transactions between the Group's registered providers and its non-regulated subsidiaries for the year ended 31 March 2019:

2019	**Sales income**	**Cost of sales**	**Operating costs**	**Gift aid**	**Loan interest payable**	**Loan interest receivable**	**Loan creditors**	**Loan debtors**	**Other creditors**	**Other debtors**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Subsidiaries to LQHT										
Quadrant Construction Services Ltd	232	(227)	-	-	(20)	-	(494)	-	(6)	-
L&Q New Homes Ltd	1	(1)	(1)	(35)	(5)	-	(205)	-	(15)	-
L&Q PRS Co Ltd	-	-	(2)	(7)	(8)	-	(308)	-	(8)	-
Quadrant Housing Finance Ltd	-	-	-	-	-	10	-	133	-	1
East Place Ltd	-	-	-	-	-	-	(1)	-	(1)	-
East Regen Ltd	21	(21)	-	(2)	-	-	(1)	-	-	3
East Thames Partnership Ltd	19	(20)	-	(15)	(1)	-	-	-	-	1
East Finance plc	-	-	-	-	-	10	-	-	-	-
Gallagher Estates Ltd	-	-	-	(31)	-	-	-	-	-	-
Gallagher Estates NR Ltd	-	-	-	(27)	-	-	-	-	-	-
Gallagher Longstanton Ltd	-	-	-	(15)	-	-	-	-	-	-
Redlawn Land Ltd	-	-	-	(9)	-	-	-	-	-	-
Gallagher Llanwern Ltd	-	-	-	(2)	-	-	-	-	-	-
Gallagher Projects Ltd	-	-	-	-	-	-	-	-	-	-
LQHT to non-registered provider subsidiaries	47	(38)	3	143	(20)	34	(133)	1,009	(5)	30

Notes to the financial statements for the year ended 31 March 2019

29. Related party transactions (continued)

Intra-group transactions between the Group's registered providers and its non-regulated subsidiaries for the year ended 31 March 2018:

2018	Sales income £m	Cost of sales £m	Operating costs £m	Gift aid £m	Loan interest payable £m	Loan interest receivable £m	Loan creditors £m	Loan debtors £m	Other creditors £m	Other debtors £m
Subsidiaries to LQHT										
Quadrant Construction Services Ltd	236	(224)	-	(6)	(15)	-	(369)	-	-	21
L&Q New Homes Ltd	-	-	(2)	(59)	(21)	-	(271)	-	(12)	-
L&Q PRS Co Ltd	-	-	(2)	(6)	(4)	-	(278)	-	(6)	-
Quadrant Housing Finance Ltd	-	-	-	-	-	10	-	138	-	1
East Place Ltd	-	-	-	-	-	-	(2)	-	(1)	-
East Regen Ltd	61	(60)	-	-	-	-	(1)	-	(2)	7
East Thames Partnership Ltd	-	-	-	(7)	(1)	-	(24)	-	(2)	-
East Finance plc	-	-	-	-	-	14	-	250	-	4
Gallagher Estates Ltd	-	-	-	(20)	-	-	-	-	-	-
Gallagher Estates NR Ltd	-	-	-	-	-	-	-	-	-	-
Gallagher Longstanton Ltd	-	-	-	(3)	-	-	-	-	-	-
Redlawn Land Ltd	-	-	-	(2)	-	-	-	-	-	-
Gallagher Llanwern Ltd	-	-	-	-	-	-	-	-	-	-
Gallagher Projects Ltd	-	-	-	(1)	-	-	-	-	-	-
LQHT to non-registered provider subsidiaries	62	(62)	4	104	(24)	41	(388)	945	(33)	23

Quadrant Construction Services Ltd operates on a cost-plus basis in recharging all of its direct costs to LQHT as the parent currently using a 2% mark-up (2018: 2%)..

All transactions in respect of tenant board members and other related public or commercial entities are carried out at arm's length and under normal commercial terms. Rents received from tenant and leaseholder board members during the year are £5,782 (2018: £nil) of which £nil (2018: £nil) was included in amounts owing at the year end.

The defined benefit pension schemes are considered to be related parties, transactions between the group and the group's pensions plans are disclosed in note 9.

Through the declaration of interest from key management personnel, the following related party transactions are required to be disclosed:

29. Related party transactions (continued)

- LQHT paid membership and sponsorship fees to the Centre For London of £70,000 in the year with no further outstanding amounts. Fiona Fletcher-Smith is a board trustee of Centre For London.
- Housing For Women, a Housing Association, was invoiced by LQHT for rent and service charges to the amount of £78,371 in the year of which £19,593 remains outstanding at the year end. Diane Hart is a non-executive board member of Housing For Women.
- LQHT incurred membership fees and conference costs totalling £150,750 towards the National Housing Federation (NHF) of which £750 remains outstanding for those services at year end. David Montague is a board member of the NHF.
- Centrepoint was invoiced by LQHT for rent and service charges to the amount of £342,647 in the year of which £94,416 was included in amounts owing at the year end. David Montague is a board trustee for Centrepoint.
- LQHT was recharged by Buckinghamshire Healthcare NHS Trust a total of £33,582 for communal energy services with no amounts outstanding at year end. Rajiv Jaitly is a non-executive director of the Buckinghamshire Healthcare NHS Trust.
- LQHT was invoiced by the Housing Associations' Charitable Trust (HACT) a total of £116,610 for consulting services in the year of which £nil remains outstanding at year end. Samantha Hyde is a board trustee of HACT.
- LQHT incurred fees of £2,400 from Barking Riverside Limited (BRL) of which £2,400 remains outstanding at year end. BRL was recharged audit fees of £6,000 from LQHT with no further outstanding amounts for the year. Diane Hart is a board member of BRL.

30. Financial instruments

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

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

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

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

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

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

30. Financial instruments (continued)

Hedge accounting

The following table indicates the periods in which cash flows associated with cash flow hedging instruments are expected to occur.

Interest on financial instruments is calculated on an undiscounted basis using the prevailing implied forward rates as at the statement of financial position date for the floating rate leg and the fixed rate for the fixed rate leg.

	Group 2019 £m	Group 2018 £m
Interest Rate Swaps:		
Due within one year	-	-
Between one and two years	-	-
Between two and three years	-	-
Between three and five years	-	-
In five years or more	-	-
Gross contractual cash flows	**-**	-
Nominal values of the above		
Cash flow hedge	-	50
Fair value	-	-
Total	**-**	50

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

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

Hedging instruments

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

Hedged items

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

Hedged effectiveness

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

Accounting treatment - Cash flow hedges

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

A cash flow hedge is accounted for as follows:

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

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

Accounting treatment – Financial instruments measured at fair value through profit and loss

Some contracts that themselves are not financial instruments may nonetheless have financial instruments embedded in them. An embedded derivative is a feature within a contract, such that the cash flows associated with that feature behave in a similar fashion to a stand-alone derivative.

The Group will separate an embedded derivative from its host contract that is a financial liability when:

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

The Group does not separate embedded derivatives from host contracts that are financial assets. Instead, the asset as a whole is measured at fair value through profit or loss.

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

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

Notes to the financial statements for the year ended 31 March 2019

30. Financial instruments (continued)

Financial instruments	**Group 2019 £m**	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
Financial instruments measured at fair value through profit and loss	**-**	-	**-**	-
Total loans measured at amortised cost	**5,037**	4,401	**4,527**	3,972
At end of the year	**5,037**	4,401	**4,527**	3,972

Risk

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

Interest rate risk

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

Cash flow hedges are entered into to hedge exposure to the variability in cash flows attributable to movements in GBP interest rates using GBP interest rate swap contracts whereby the Group agrees to pay interest at a fixed rate and receive interest at a floating rate. The interest rate swaps are designated as a hedge of the variability in the debt interest payments due to changes in the benchmark interest rate (LIBOR). This method reflects the risk management objective of the hedging relationship that is to swap a series of future variable cash flows to a fixed rate. The periods in which the hedged variable rates of interest payments are expected to occur are set out in the maturity analysis in note 23. The movement through the cash flow reserve for the year ended 31 March 2019 was £nil (2018: £nil.)

The Group's cash flow interest rate risk exposure is managed in accordance with treasury policy. As at 31 March 2019 a 0.5% increase in interest rates would result in an additional charge to the statement of consolidated income of £11m (2018: £8m).

Liquidity risk

The Group has a policy to maintain sufficient liquidity in cash and undrawn lending facilities to cover 18 months of operational activity. At the year-end 72% of the Group's borrowings were due to mature in more than five years (2018: 81%). The liquidity risk of each Group entity is managed centrally by the Group treasury function in accordance with the Board approved Treasury Policy and Treasury Strategy.

31. Financial assets and liabilities

Financial assets

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

Fair value through profit and loss

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

Loans and receivables

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

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

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

Group	**Financial assets at fair value**		**Financial assets at amortised cost**	
Financial assets	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Investment properties and real lettings property fund	**952**	680	**-**	-
Cash and cash equivalents	**-**	-	**171**	222
Debtors	**-**	-	**298**	275
	952	680	**469**	497

	Financial assets at fair value		**Financial assets at amortised cost**	
Financial liabilities	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Trade and other payables	**-**	-	**508**	554
Loans and borrowings	**-**	-	**5,037**	4,401
Derivatives				
• Designated hedges	**-**	-	**-**	-
• Fair value through profit and loss	**-**	-	**-**	-
	-	-	**5,545**	4,955

31. Financial assets and liabilities (continued)

Valuation

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

Credit risk

Credit risk applies to all debtor balances, the majority relating to tenant and other arrears which are reported monthly with dedicated teams assigned to manage recovery of those arrears.

The Group fully provides for former tenant arrears except where recovery is assessed as likely. Provision against current tenant arrears is made based on experienced loss and the aged profile of the amounts due. So far, more than 70% of the arrears are collected directly from local authorities in the form of housing benefits therefore reducing the Group's exposure to individual tenants' credit risk.

'Arrears' includes rent, service charge and other amounts related to a tenancy sub-account such as major works costs, maintenance recharges and court fees.

Arrears provision	**Group 2019 £m**	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
At beginning of the year	**16**	15	**15**	15
Movement in provision	**(1)**	1	**-**	-
At end of the year	**15**	16	**15**	15

Arrears	**Group 2019 £m**	Group 2018 £m	**LQHT 2019 £m**	LQHT 2018 £m
Less than 30 days	**20**	16	**19**	15
30 to 60 days	**4**	4	**4**	4
60 to 90 days	**3**	3	**3**	3
More than 90 days	**27**	20	**27**	20
	54	43	**53**	42

Included in the above are £9m (2018: £7m) of former tenant arrears which are fully provided for through the statement of comprehensive income.

32. Ultimate holding entity

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

33. Post year end events

On 2 April 2019, the L&Q Group announced that it was in talks and intends to acquire Trafford Housing Trust (THT).

THT is a registered provider based in Manchester and will become a wholly-owned subsidiary of L&Q. Completion is expected during the financial year ending 31 March 2020, and the accounting treatment of this transaction is expected to be as a gift to the Group of the reserves of THT plus the difference in fair value of net assets and net liabilities at acquisition.

On 17 July 2019 L&Q's credit rating with Standard & Poor's was downgraded from A negative to A- stable. The change has no effect on the Statement of Financial Position as at 31 March 2019.

On 23 July 2019 L&Q's credit rating with Fitch was affirmed at A+/Stable.

Notes to the financial statements for the year ended 31 March 2019

34. Group entities

The entities forming the Group are:

Entity	Status	Activity
L&Q New Homes Limited	Limited company registered in England and Wales	Property development and housing for open market sales
Quadrant Construction Services Limited	Limited company registered in England and Wales	Provision of design and build services and acting as principal contractor to members of Group
Quadrant Housing Finance Limited	Registered in England & Wales under Co-operative and Community Benefit Societies Act 2014	Bond finance provided to Group members
L&Q PRS Co Limited	Limited company registered in England and Wales	Management and ownership of properties available for lettings in the private rental market
L&Q Living Limited	Registered in England & Wales under Co-operative and Community Benefit Societies Act 2014	Provision of care services and supported housing
L&Q Energy Limited	Limited company registered in England and Wales	Energy services company providing heat and power, incorporated November 2018
East Thames Partnership Limited	Limited company registered in England and Wales	Delivery of housing for sale
East Regen Limited	Limited company registered in England and Wales	Development, design and construction of housing schemes
East Finance plc	Public limited company registered in England and Wales	Onward lender of bond monies – dormant and in voluntary strike off
East Place Limited	Limited company in England and Wales	Housing for open market sales and partner in Triathlon Homes LLP
East Homes Services Limited	Limited company by shares registered in England and Wales	Provides services to East Thames Limited's estates and Triathlon Homes LLP
L&Q Estates Limited	Limited company by shares registered in England and Wales	Property development
Gallagher Estates Holdings Limited (previously Gallagher Estates No. 1 Limited)	Limited company by shares registered in England and Wales	Intermediate holding company
GW 305 Limited	Limited company by shares registered in England and Wales	Intermediate holding company
Gallagher Estates No. 2 Limited	Limited company by shares registered in England and Wales	Intermediate holding company
Gallagher Estates Limited	Limited company by shares registered in England and Wales	Intermediate holding company and property development

Entity	Status	Activity
Portobello Developments 2002 Limited	Limited company by shares registered in England and Wales	Property development
Wixams First Limited	Limited company by shares registered in England and Wales	Property development
Wixams NEA Management Company Limited	Limited company by guarantee registered in England and Wales	Incorporated to act as a property management company but currently dormant
Gallagher Estates NR Limited (previously Gardenvale Properties Limited)	Limited company by shares registered in England and Wales	Property development
Drayton Stratford Limited	Limited company by shares registered in England and Wales	Property development
West Longstanton Limited	Limited company by shares registered in England and Wales	Small company property development
Gallagher Homes Limited (previously) Gallagher Waterbeach Limited	Limited company by shares registered in England and Wales	Property development
Gallagher Longstanton Limited	Limited company by shares registered in England and Wales	Property development
Redlawn Limited	Limited company by shares registered in England and Wales	Former holding company
Gallagher Llanwern Limited	Limited company registers in England and Wales	Property development
Gallagher Projects Limited	Limited company by shares registered in England and Wales	Procurement and delivery of infrastructure and other construction activities
Gallagher Elstow Limited	Limited company by shares registered in England and Wales	Property development
Gallagher Bridgend Limited	Limited company by shares registered in England and Wales	Property development
Gallagher Poole Limited	Limited company by shares registered in England and Wales	Property development
Gallagher Broughton Limited	Limited company by shares registered in England and Wales	Property development
Gallagher Estates Land Limited	Limited company by shares registered in England and Wales	Dormant
J.J. Gallagher Construction Limited	Limited company by shares registered in England and Wales	Dormant
Redlawn Land Limited	Limited company by shares registered in England and Wales	Property development

Notes to the financial statements for the year ended 31 March 2019

35.Prior year adjustment

Group

i) During the year ended 31 March 2019, it was identified that the impairment assessment in one joint venture entity at 31 March 2018 had used out of date information. Had the appropriate information been used, there would have been a further impairment of £14m booked against the investment in this joint venture in the year ended in 31 March 2018.

ii) Prior year results are restated following the early adoption of paragraph 29.14A and 29.22A of FRS 102 in respect of payments by subsidiaries to their charitable parent that qualify for gift aid. The clarification of the accounting treatment states that a subsidiary can recognise a tax credit in the statement of comprehensive income so long that it is probable that a gift aid payment will be made in the next nine months that is a qualifying deduction for tax purposes. Under the accounting treatment as published in 2018, subsidiaries that did not previously recognise this tax credit have been restated accordingly for the year ended 31 March 2018.

	Surplus for the year Group 2018	**Net assets Group 2018**
	£m	**£m**
As previously reported in the statutory financial statements of the Group	348	4,582
Effect of the prior year restatement (i)	(14)	(14)
Effect of the prior year restatement (ii)	16	16
As restated	350	4,584

Further detailed analysis of impact of adjustment

	Group 2018 as reported	**Adjustment**	**Group 2018 as restated**
	£m		**£m**
Statement of comprehensive income			
Share of profits/(loss) from joint venture	16	(14)	**2**
Tax on surplus on ordinary activities	(6)	16	**10**
Statement of financial position			
Investments – jointly controlled entities	445	(14)	**431**
Creditors: amounts falling due within one year	(490)	16	**474**
Revenue reserves	2,698	2	**2,700**

LQHT

Following clarification on the treatment of gift aid in the publication of FRED68 gift aid receipts from subsidiaries should have been recognised in the period paid, resulting in a reduction in the amounts receivable from subsidiaries at 31 March 2018 of £15m and a reduction to revenue reserves as at 1 April 2017 of £42m. This has resulted in an increase of £27m in the gift aid amount recognised through the statement of comprehensive income in the year to 31 March 2018 from £77m to £104m (being the amount actually paid in the period).

	Net assets LQHT 1 April 2017	Surplus for the year LQHT 2018	Net assets LQHT 31 March 2018
	£m	£m	£m
As previously reported in the statutory financial statements of LQHT	4,132	292	4,427
Effect of prior year restatement	(42)	27	(15)
As restated	4,090	319	4,412

Further detailed analysis of impact of adjustment

	LQHT 2018 as reported	Adjustment	LQHT 2018 as restated
	£m		£m
Statement of comprehensive income			
Gift aid received	77	27	**104**
Statement of financial position			
Debtors	74	(15)	**59**
Revenue reserves as at 31 March 2018	2,362	(15)	**2,347**

36. Glossary including alternative performance measures

This section provides a glossary of unfamiliar or uncommon terms used throughout these financial statements and sets out definitions of non-GAAP measures and reconciliations to the nearest measure in accordance with FRS102.

The alternative performance measures ('APMs') used may not be directly comparable with similarly titled measures used by other companies, including those in the same industry. Management use these measures because they provide useful insight and monitoring of performance, as well as comparability to other registered providers where they report under the same metrics. APMs should be considered in addition to, and not as a substitute for or as superior to, measures of financial performance, financial position or cash flows reported in accordance with FRS102.

Net debt: represents total bank and debenture loans less cash and cash equivalents and is calculated as follows:

Housing loans due in less than one year	26
Housing loans due in more than one year	4,967
Less cash and cash equivalents	(171)
Net debt	**4,822**

Development pipeline: This is the current and future portfolio of approved construction projects.

Homes enabled: Includes homes built by L&Q or under joint ventures with other housebuilders as well as homes expected to be built on land sold by L&Q in the period, based on outline or detailed planning permission at the point of land sale. These exclude land sold within the L&Q Group and affordable homes on land sold to a third party where L&Q is acquiring the affordable homes.

Occupancy: Applies only to general needs and calculated as occupied units as a percentage of the sum of occupied units and vacant units that are available for letting.

Units managed: Units include homes as well as non-habitable units such as garages, parking spaces and sheds.

Social value: is a measure of value for money related to community investment activities. It is calculated using the Housing Association Charitable Trust (HACT) wellbeing valuation, the methodology of which is available on their website.

Sector scorecard: An initiative to benchmark housing associations' performance and check they are providing value for money. The measures used include the standard metrics as set out by the Social Housing Regulator to support the 2018 Value for Money Standard for Registered Providers of Social Housing. These may therefore be on a different basis to similar financial measures and can include relevant comparable information to aid understanding of performance. For the L&Q Group 2019 and adjusted column is presented to exclude the costs of fire risk assessment (FRA) and associated works which have had a material impact.

Calculations of the key measures included in the sector scorecard are below:

Sector scorecard	**L&Q 2019 adjusted**	**L&Q 2019**
Operating margin (overall) calculated as operating surplus excluding gain/(loss) on disposal of fixed asset, share of joint venture results and revaluation of investment properties ÷ turnover	£225m ÷ £937m =24%	£198m ÷ £937m =21%
Operating margin (social housing lettings "SHL" only) calculated as SHL operating surplus excluding gain/(loss) on disposal of fixed asset, share of joint venture results and revaluation of investment properties ÷ SHL turnover	£206m ÷ £528m = 39%	£195m ÷ £528m = 37%
EBITDA MRI (as % interest) EBITDA MRI represents earnings before interest, tax, depreciation and amortisation adding back major repair capitalised costs as prescribed in the current Sector Scorecard calculated as EBITDA MRI ÷ Gross interest payable x 100	£266m ÷ £143m = 186%	£236m ÷ £143m = 166%
Gearing as prescribed in the current Sector Scorecard calculated as net debt ÷ carrying value of housing properties (including investment properties) x 100 as prescribed in the current Sector Scorecard, where net debt represents total bank and debenture loans less cash and cash equivalents	n/a	£4,822m ÷ £10,411m = 46%
Return on capital employed calculated as total operating surplus including gain/(loss) on disposal of fixed assets and share of operating surplus/(deficit) in joint venture or associates ÷ total fixed assets + total current assets less current liabilities at end of year	n/a	£268m ÷ £12,153m =2.2%
Ratio of responsive repairs to planned maintenance calculated as routine maintenance as a percentage of planned maintenance + major repairs expenditure + capitalised major repairs and re-improvements expenditure	n/a	£83.5m ÷ (£66.2m + £91m) = 0.5
Headline social housing unit cost Total social housing cost (per Note 3 or adjusted for FRA work) Total social housing homes: (per note 4) Total	£352.4m ÷ 80,223 = £4,393	£378.7m ÷ 80,223 = £4,721
Management cost per unit Total management cost (per Note 3 or adjusted for FRA work) Total social housing homes: (per note 4) Total	£40.8m ÷ 80,223 = £508	£47.2m ÷ 80,223 = £588
Service charge cost per unit Total service charge cost (per Note 3 or adjusted for FRA work) Total social housing homes: (per note 4) Total	£59.8m ÷ 80,223 = £745	£59.8m ÷ 80,223 = £745
Maintenance cost per unit Total routine maintenance + planned maintenance cost (per Note 3 or adjusted for FRA work) Total social housing homes: (per note 4) Total	(£77.3m + £57.8m) ÷ 80,223 = £1,684	(£83.5m + £66.2m) ÷ 80,223 = £1,867
Major repairs cost per unit Total capitalised maintenance cost Total social housing homes (per note 4) Total	£81.3m ÷ 80,223 = £1,013	£86.5m ÷ 80,223 = £1,078
Other social housing costs per unit Total other social housing cost Divided by total social housing homes: (per note 4) Total	£35.5m ÷ 80,223 = £443	£35.5m ÷ 80,223 = £443
Rent collected as % of rent due (General needs)	n/a	£348.1m ÷ £352.6m = 99%
Overheads as a % of turnover Calculated as overheads ÷ turnover excluding amortised grant x 100	n/a	£53.9m ÷ £913m = 6%

Photo: a view of the private outdoor spaces at Erith Baths, Erith

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Other company information

Other company information

Executive Directors

David Montague CBE (Chief Executive)

Waqar Ahmed (Group Finance Director)

Andy Brown

Fiona Fletcher-Smith (appointed April 2018)

Diane Hart

Steve Moseley (appointed August 2018)

Tom Nicholls

Secretary and registered office

Emuoborohwo Siakpere
29-35 West Ham Lane
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E15 4PH

Statutory auditor

KPMG LLP
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London
E14 5GL

Banker

Barclays Bank plc
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E14 5HP

Registrations

Registered Society number:
30441R
Regulator of Social Housing number:
L4517

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