



Financial Statements 2003

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Executive and Advisers

GOVERNING BOARD

Robert Appleyard (Chairman)
Irene Addis
Eric Byers
Peter Dixon
Ainsley Forbes
Stuart Fraser
Kevin Ireland
Rodney Morton
Gillian Nester-Smith
Atul Patel
Diane Phillips CB
Jan Pitchell
Michael Richardson (Deputy Chair)
Peter Robinson
Peter Stredder

EXECUTIVE GROUP

Don Wood (Chief Executive)
Mike Donaldson
David Gannicott
Charlie Grimble
Sally Jacobson
Paul Kingsley
David Montague
Steve Walker
Steve Yianni

SECRETARY AND REGISTERED OFFICE

Jan Quirke
Osborn House
Osborn Terrace
London
SE3 9DR

PRINCIPAL SOLICITORS

Devonshires
Salisbury House
London Wall
London
EC2M 5QY

Prince Evans
77 Uxbridge Road
London
W5 5ST

Trowers & Hamlins
Sceptre Court
40 Tower Hill
London
EC3N 4DX

BANKERS

Barclays Bank plc
PO Box 427
Maidstone
Kent
ME14 1TW

STATUTORY AUDITORS

KPMG LLP
1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

Report of the Governing Board

Year ended 31 March 2003 L&Q Group

The Governing Board presents its report and the audited consolidated financial statements of the Trust and its subsidiary undertakings (the L&Q Group) for the year ended 31 March 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Trust is the provision of accommodation for people in housing need. The Trust controls the management committees of the following which, under Financial Reporting Standard 2, makes them subsidiary undertakings:

- > Tower Homes Limited
- > L&Q Bexley Homes Limited
- > Quadrant Housing Finance Limited
- > Crawley Foyer Limited
- > Change Community Finance Limited
- > Ravensbourne Projects Limited

The principal activity of Tower Homes Limited is the provision of low cost home ownership through shared ownership leases. The principal activity of L&Q Bexley Homes Limited is the

provision of affordable rented housing predominantly in the London Borough of Bexley. The principal activity of Quadrant Housing Finance Limited is to provide finance for members of the L&Q Group. The principal activity of the Crawley Foyer is to provide a high tech solution to youth homelessness. Ravensbourne Projects Limited has not yet commenced trading. During the year Osborn Services Limited changed its name to Change Community Finance Limited, it has not yet commenced trading.

REVIEW OF RESULTS

The Group made a surplus for the year after tax of £21.1 million of which £16.7 million was made by the Trust, compared to a surplus of £12.8 million made by the Trust in the previous year.

The Group has initiated a programme of significant regular expenditure on major repairs and improvements to its older stock, and during the year under review such expenditure amounted to

£14.2 million, compared to £15.3 million in the previous year. This continued expenditure on improving older stock has reduced surpluses to a level which the Governing Board believes to be appropriate in the light of the Trust's size and its obligations to private finance providers.

The Group took transfer of 2,544 units from the London Borough of Waltham Forest. The results are reported as a large scale regeneration project.

In line with the Housing Corporation's recommendations the Group has transferred £786,000 to a restricted reserve, this amount representing a contribution from rental surpluses to future major repairs. The Governing Board does not propose to make any other specific transfers to restricted reserves.

On the capital side, the Group spent £131 million on acquisition, development and improvement of properties and received £68 million social housing grant.

THE GOVERNING BOARD'S STATUTORY FINANCIAL RESPONSIBILITIES

Housing association law requires the Governing Board to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and the Trust and of the surplus or deficit for that period. In preparing those financial statements, the Board is required to:

- > Select suitable accounting policies and then apply them consistently
- > Make judgements and estimates that are reasonable and prudent
- > State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- > Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Trust will continue in business.

The Governing Board is responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enables its members to ensure that the financial statements comply with all relevant requirements. It is also responsible for maintaining a satisfactory system of control over the accounting records and transactions and for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Governing Board

Year ended 31 March 2003 L&Q Group

INTERNAL CONTROL

The Governing Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide the Governing Board with reasonable and not absolute assurance against material mis-statement or loss.

The main policies which the Governing Board has established, and which are designed to provide effective internal control, are summarised below:

Audit

The Governing Board has delegated responsibility for overseeing the adequacy and effectiveness of the Group's internal control system to the Audit & Risk Committee. The Group's internal audit team reports directly to the Audit & Risk Committee and meets regularly with the chairman of the Governing Board. An annual assurance

report is produced by the internal auditors, summarising the systems audit programme and confirming that the Group has a satisfactory internal control system in place. Quarterly Housing Corporation returns are also presented to the Committee.

Management assurances

Management assurances are received by the Audit & Risk Committee to confirm that recommendations have been implemented by the agreed target date. Subsequent internal audit reviews are undertaken to check those recommendations have been properly implemented.

Risk management

Audit & Risk Committee oversees the risk management cycle which governs the ongoing process of establishing and communicating responsibilities, identifying risks and establishing a risk management framework to mitigate those risks. Management responsibility for the identification of strategic risks is

clearly defined and operates through a rolling risk assessment exercise. Operational risks are identified through the internal audit and best value processes. The Group has introduced a system of control risk self-assessment. Executive Group members have provided self certification on compliance with key aspects of the internal control framework in the Group.

External audit

The work of the external auditors provides some assurance through the interim and final audit visits and the provision of an audit strategy, audit report and management letter. Quarterly meetings are held with the external auditors to provide an update on changes in the business and to discuss strategic and technical matters.

Quality management systems

The quality of the Group's management systems is acknowledged by its Charter Mark and Investors in People accreditation.

Regulatory report

The Group reports to the Housing Corporation through a range of regulatory returns. The Group's internal regulation panel ensures that regulatory matters are dealt with promptly and efficiently, co-ordinates the self monitoring system operated by the Governing Board, and monitors compliance with performance standards. Following the introduction of the Housing Corporation's new regulatory framework in April 2002, the Group has introduced a self appraisal mechanism. Reports on the three key elements of the regulatory code (viability, proper governance and proper management) have been reported to the Governing Board.

Performance indicators

Key performance indicator reports are produced monthly for the Group and are reported through the Executive Group to the Governing Board. These reports include performance monitoring on housing management, maintenance, development, customer satisfaction, staff and financial results.

Audit & Risk Committee

The Audit & Risk Committee meets regularly with the members of Executive Group, the internal auditors and external auditors to review specific reporting and internal control matters and to satisfy itself that the systems are operating effectively.

The Governing Board, through the reports of the Audit & Risk Committee, for the year to 31 March 2003 and up to the date of approval of the accounts, has carried out regular reviews of the effectiveness of the Group's system of internal control.

Report of the Governing Board

Year ended 31 March 2003 L&Q Group

DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Financial Reporting Standard FRS13 applies to all entities which have capital instruments listed on a stock exchange. It requires these entities to provide information about the impact of financial instruments on their risk profile, how the risks arising from financial instruments might affect performance and financial condition, and how these risks are being managed. In the case of consolidated financial statements, capital instruments include those issued by subsidiaries.

The bond issued by Quadrant Housing Finance Limited (QHF), a subsidiary of the Trust, is classified as a capital instrument. The requirements of FRS13 therefore apply to the L&Q Group.

The Group's financial instruments are restricted to the QHF bond, other Group borrowings, cash and working capital arising from the operations of Group members. The sole purpose of these instruments is to assist in financing the operations of Group members.

Group members are permitted under their rules to enter into a limited number of derivative transactions to manage interest rate risk. Group members are not permitted to trade in financial instruments.

Responsibility for managing interest rate and liquidity risk is delegated to the Treasury Committee. Approved policies for managing these risks are summarised here:

Interest rate risk

The Group finances its operations through a combination of borrowing and investment of revenue reserves. The amount of borrowing and its terms are determined and regularly reviewed by the Treasury Committee. Exposure to floating rates of interest is controlled through the use of interest rate swaps, caps and collars.

Liquidity risk

Short-term liquidity risk is managed through the use of short-term loan facilities and working capital management. Longer-term liquidity risk is controlled by the application of limits to the amount of short-term debt as a proportion of total debt. Group investment and borrowing policies are regularly reviewed by the Treasury Committee.

Currency risk

The Group does not engage in foreign currency transactions.

DISABLED EMPLOYEES

Applications for employment from disabled persons are given full and fair consideration for all vacancies, having regard to their particular abilities. In the event of employees becoming disabled, every effort is made to retain them in order that their employment within the organisation may continue. It is the policy of the Group that training, career development and promotion opportunities should be available to all employees.

HEALTH & SAFETY

The Group takes its responsibilities for health and safety very seriously and has established a training programme, led by a working party dedicated to this topic.

Report of the Governing Board

Year ended 31 March 2003 L&Q Group

EMPLOYEE INVOLVEMENT

The Group has continued its practice of consulting and keeping employees informed on matters affecting and on the progress of the Group. This is carried out in a number of ways including a formal forum for consultation, departmental meetings and a variety of newsletters.

GOING CONCERN

The Governing Board has a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, the Group continues to adopt the going concern basis in preparing the financial statements.

THE GOVERNING BOARD AND EXECUTIVE GROUP

The Governing Board members and Executive Group of the Trust are listed on page 2. Each member of the Governing Board holds one fully paid share of £1 in the Trust, which is cancelled on cessation as a member. The Executive Group members hold no interest in the Trust's share capital and are not members of the Governing Board.

AUDITORS

Auditors KPMG LLP have expressed their willingness to continue in office. Accordingly a resolution is to be proposed at the Annual General Meeting for the re-appointment of KPMG LLP as auditors of the Trust.

On behalf of the Governing Board

ROBERT APPELYARD

Chairman

Date of approval: 3rd July 2003

Report of the Independent Auditors

Year ended 31 March 2003 L&Q Group

Report of the independent auditors to the members of London & Quadrant Housing Trust

We have audited the financial statements on pages 8 to 36.

This report is made solely to the Trust's members as a body in accordance with schedule 1 paragraph 16 to the Housing Act 1996 and with section 9 of the Friendly & Industrial & Provident Act 1968. Our audit work has been undertaken so that we might state to the Trust's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Trust's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Governing Board and Auditors

The Trust's Governing Board is responsible for preparing the Governing Board's report and, as described on page 3, the financial statements, in accordance with applicable United

Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Housing Corporation, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Act 1965 to 1978, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2000. We also report to you if, in our opinion, a satisfactory system of control over transactions has not been maintained, if the Trust has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the directors' remuneration and transactions with the Trust is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report and if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Governing Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and disclosed.

We planned and performed our audit so as to obtain all the information and explanations, which we considered necessary in order to provide us with sufficient evidence, to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Trust as at 31 March 2003 and of their surplus for the year then ended and have been properly prepared in accordance with the Industrial and Provident Societies Act 1965 to 1978, the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 2000.

KPMG LLP

Chartered Accountants
Registered Auditor
1 Forest Gate
Brighton Road
Crawley
West Sussex RH11 9PT

3 July 2003

Income and Expenditure Account

Year ended 31 March 2003 L&Q Group

L&Q Group

	note	2003 £'000	2002 £'000
Turnover	2	111,946	104,358
Operating costs	2	(75,183)	(73,053)
Operating surplus	2	36,763	31,305
Surplus on sale of housing properties	4	9,658	7,765
Interest receivable		1,294	2,332
Interest payable and similar charges	7	(25,242)	(24,783)
Surplus on ordinary activities before tax	2 & 8	22,473	16,619
Tax on surplus on ordinary activities	9	(1,276)	(855)
Surplus for the year		21,197	15,764
Net transfer from restricted reserves	16	1,264	563
		22,461	16,327
Revenue reserves brought forward		114,684	98,357
Revenue reserves carried forward	17	137,145	114,684

All amounts relate to continuing activities.

All recognised surpluses and deficits have been included in the income and expenditure account.

The notes on pages 13 to 36 form part of these financial statements.

Balance Sheet

Year ended 31 March 2003 L&Q Group

L&Q Group

	note	2003		2002	
		£'000	£'000	£'000	£'000
Fixed assets	10				
Tangible assets					
Housing properties					
Cost less depreciation			1,405,731		1,309,255
Less: Social Housing Grant			(897,814)		(835,549)
			507,917		473,706
Other fixed assets			3,862		3,653
Total fixed assets			511,779		477,359
Investments					
Homebuy/Starter Home Initiative			22,837		8,629
Social Housing Grant			(22,837)		(8,629)
Current assets					
Debtors	11		23,400		13,517
Cash at bank and in hand	19(c)		51,616		40,008
			75,016		53,525
Creditors: amounts falling due within one year	12		(50,746)		(42,893)
Net current assets			24,270		10,632
Total assets less current liabilities			536,049		487,991
Creditors: amounts falling due after more than one year	12		395,370		368,186
Provisions for liabilities and charges	14		837		1,160
Capital and reserves					
Share capital	15		-		-
Restricted reserves	16		2,697		3,961
Revenue reserves	17		137,145		114,684
			536,049		487,991

In view of the constitution of the Trust all shareholdings relate to non-equity interests, as disclosed in note 15. These financial statements were approved by the Governing Board and signed on its behalf by:

Robert Appleyard
Chairman

Rodney Morton
Honorary Treasurer

Jan Quirke
Secretary

Date of approval: 3 July 2003

The notes on pages 13 to 36 form part of these financial statements.

Cashflow Statement

Year ended 31 March 2003 L&Q Group

L&Q Group

	note	2003		2002	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	19(a)		49,306		35,967
Returns on investments and servicing of finance					
Interest received		2,045		2,648	
Interest paid (including capitalised interest)		(24,577)		(27,602)	
			(22,532)		(24,954)
Corporation tax paid			(1,224)		(811)
Capital expenditure and financial investment					
Cash paid for construction and purchase of housing properties (excluding capitalised interest)		(129,171)		(125,255)	
Capital grants received		54,814		56,681	
Capital grants repaid		-		-	
Cash paid for purchase of other assets		(1,649)		(1,122)	
Net proceeds on sale of housing properties		41,186		31,094	
Proceeds on sale of other fixed assets		590		364	
			(34,230)		(38,238)
Cash outflow before use of liquid resources and financing			(8,680)		(28,036)
Cash withdrawn from notice deposits		7,686		8,491	
Cash placed on notice deposits		(4,322)		(9,423)	
Net cash inflow/(outflow) from management of liquid resources			3,364		(932)
Financing					
Loans received		21,919		23,463	
Loans repaid		(1,631)		(1,734)	
			20,288		21,729
Increase/(Decrease) in cash and cash equivalents	19(b)		14,972		(7,239)

The notes on pages 13 to 36 form part of these financial statements.

Income and Expenditure Account

Year ended 31 March 2003 L&Q Group

London & Quadrant Housing Trust

	note	2003 £'000	2002 £'000
Turnover	2	90,345	83,400
Operating costs	2	(60,445)	(58,480)
Operating surplus	2	29,900	24,920
Surplus on sale of housing properties	4	4,586	5,394
Interest receivable		1,449	1,648
Interest payable and similar charges	7	(19,226)	(19,134)
Surplus on ordinary activities	2 & 8	16,709	12,828
Net transfer from restricted reserves	16	947	513
		17,656	13,341
Revenue reserves brought forward		97,349	84,008
Revenue reserves carried forward	17	115,005	97,349

All amounts relate to continuing activities.

All recognised surpluses and deficits have been included in the income and expenditure account.

The notes on pages 13 to 36 form part of these financial statements.

Balance Sheet

Year ended 31 March 2003 L&Q Group

London & Quadrant Housing Trust

	note	2003		2002	
		£'000	£'000	£'000	£'000
Fixed assets	10				
Tangible assets					
Housing properties					
Cost less depreciation			1,193,257		1,112,136
Less: Social Housing Grant			(805,548)		(751,334)
			387,709		360,802
Other fixed assets			3,139		2,858
Total fixed assets			390,848		363,660
Current assets					
Debtors	11	33,377		22,103	
Cash at bank and in hand		25,735		22,807	
		59,112		44,910	
Creditors: amounts falling due within one year	12	(40,501)		(34,896)	
Net current assets			18,611		10,014
Total assets less current liabilities			409,459		373,674
Creditors: amounts falling due after more than one year	12		291,692		272,544
Provision for liabilities and charges	14		65		137
Capital and reserves					
Share capital	15		-		-
Restricted reserves	16		2,697		3,644
Revenue reserves	17		115,005		97,349
			409,459		373,674

In view of the constitution of the Trust all shareholdings relate to non-equity interests, as disclosed in note 15. These financial statements were approved by the Governing Board and signed on its behalf by:

Robert Appleyard
Chairman

Rodney Morton
Honorary Treasurer

Jan Quirke
Secretary

Date of approval: 3 July 2003

The notes on pages 13 to 36 form part of these financial statements.

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

1. Principal Accounting Policies

The financial statements have been prepared in accordance with applicable Accounting Standards, the Statement of Recommended Practice 'Accounting by Registered Social Landlords', and on the historical cost basis. Accounting policies are consistently applied. The Trust has adopted FRS18 'Accounting Policies' and FRS19 'Deferred Tax' in these financial statements. Any change in policy is reflected in the financial statements by way of a prior year adjustment. A summary of the more important accounting policies is set out here:

BASIS OF CONSOLIDATION

The consolidated accounts incorporate the financial statements of London & Quadrant Housing Trust and its subsidiary undertakings, being Tower Homes Limited, L&Q Bexley Homes Limited, Crawley Foyer Limited and Quadrant Housing Finance Limited.

TURNOVER

Turnover represents rental and service charge income receivable, fees receivable and revenue grants from the Housing Corporation and other public authorities.

FIXED ASSETS AND DEPRECIATION

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

Depreciation values

Housing properties	between 80 and 100 years
Short leasehold premises	over 10 years
Furniture and equipment	12.5%
Motor vehicles	25%
Computer equipment	20%

HOUSING PROPERTIES

Housing properties in the course of construction are stated at cost and are not depreciated. Housing properties are transferred to completed properties when they are ready for letting and are stated at cost less depreciation. Where it is considered that there has been any impairment in value this is provided for accordingly.

INVESTMENTS

Tower Homes Limited retains a 25% stake in homes purchased through the Homebuy scheme, a variable percentage is retained on the Starter Home Initiative scheme. Investment in Homebuy and the Starter Home Initiative is funded through Social Housing Grant and held in the balance sheet at historical cost.

These figures have been grossed up and this represents a change in presentation in line with the updated SORP.

SOCIAL HOUSING GRANT

Where developments have been financed wholly or partly by Social Housing Grant the cost of those developments has been reduced by the amount of grant receivable. Social Housing Grant is credited to the income and expenditure account to the extent that it is claimed in respect of development administration costs which are not capitalised. When a Social Housing Grant funded property is sold the grant becomes 'recyclable' and is transferred to a recycled capital grant fund until it is reinvested into a replacement property. Social Housing

Grant may be repayable in certain circumstances such as when a property is no longer used for social housing. When Social Housing Grant becomes repayable it is included as a current liability until it is repaid. The repayment of Social Housing Grant is generally subordinated to the repayment of housing loans as agreed with the Housing Corporation.

LEASE OBLIGATIONS

Finance leases are recorded in the balance sheet as assets and as an obligation to pay future rentals. The finance charges are allocated on a straight line basis over the term of the lease.

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

1. Principal Accounting Policies continued

PENSION

Contributions to the defined benefit pension scheme are calculated as a percentage of pensionable salaries of the employees, determined in accordance with actuarial advice. The actual pension cost is charged to the income and expenditure account based on spreading the cost of pensions over the service lives of employees. Contributions to the defined contribution scheme are calculated as a percentage of pensionable salaries of the employees. The actual cost is charged to the income and expenditure account.

RESTRICTED RESERVES AND MAJOR REPAIR EXPENDITURE

Restricted reserves are set aside annually to reflect that proportion of net rental income in the Reinvestment Fund calculation which is required under Housing Corporation rules to be set aside for future major repairs expenditure on

schemes developed before 1988. Where major repairs expenditure is not directly recoverable from leaseholders and not considered to be an improvement to the property it is charged to the income and expenditure account and restricted reserves are released to meet the expenditure where appropriate.

DEFERRED INCOME AND EXPENDITURE

Premiums on debt issues and other contributions to future expenditure made by third parties are treated as deferred income. Deferred income is released to the income and expenditure account over the period when the expenditure to which it relates is incurred. Financing costs such as indemnity and insurance premiums payable on debt issues are held against issue proceeds as deferred expenditure and amortised over the term of the loan.

CAPITALISATION OF INTEREST AND DEVELOPMENT ADMINISTRATION COSTS

Interest on borrowings is charged to housing properties under construction up to the date of completion of each scheme. The interest charged is either on borrowings specifically financing 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.

Staff costs which are directly attributable to bringing housing properties into working condition for their intended use are capitalised.

INTEREST PAYABLE

In accordance with FRS4, interest payable on stepped interest loans is allocated to the income and expenditure account at a constant rate equal to the effective

annual rate of interest. The additional interest cost accruing as a result of this treatment is added to the loan outstanding, and will be released to the income and expenditure account when actual payments exceed the effective annual rate.

PROVISIONS

The Trust only provides for contractual liabilities which exist at the balance sheet date.

HOSTELS MANAGED BY AGENCIES

Social Housing Grant claimed and capital expenditure incurred on hostels owned by the Trust are included in the balance sheet of the Trust. The treatment of other income and expenditure is determined by whether day to day financial risk has been substantially transferred or retained by the Trust.

Where risk has been retained by the Trust all the hostel's income, expenditure, assets and liabilities are included in the Trust's financial statements.

Where risk has been substantially transferred to the agency, the Trust's financial statements include only the income, expenditure, assets and liabilities arising directly from Trust operations.

TAXATION

The charge for taxation is based on the surplus for the year and takes into account taxation deferred. Deferred taxation on differences between the treatment of certain items for accounting and taxation purposes is accounted for to the extent that a liability or asset is expected to be payable or recoverable in the foreseeable future.

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

2. Turnover, operating surplus and surplus before tax

L&Q Group

	2003			2002		
	Turnover £'000	Operating costs £'000	Operating surplus £'000	Turnover £'000	Operating costs £'000	Operating surplus £'000
Social housing lettings (Note 3)						
General needs housing	89,176	(58,907)	30,269	84,327	(55,834)	28,493
Quadrant Supported Living	6,304	(5,872)	432	6,317	(6,316)	1
Temporary social housing	840	(980)	(140)	1,983	(2,071)	(88)
Key worker accommodation	575	(292)	283	403	(132)	271
Residential care homes	-	-	-	1,946	(1,986)	(40)
Shared ownership	4,797	(1,344)	3,453	4,335	(1,063)	3,272
Leaseback schemes	1,928	(259)	1,669	1,925	(222)	1,703
Large scale regeneration	4,086	(1,815)	2,271	-	-	-
Total social housing	107,706	(69,469)	38,237	101,236	(67,624)	33,612
Other social housing activities						
Development administration	1,367	(3,619)	(2,252)	862	(3,678)	(2,816)
Non-social housing activities						
Market renting	168	(111)	57	184	(45)	139
Student accommodation	1,688	(540)	1,148	1,498	(517)	981
Total non social housing	1,856	(651)	1,205	1,682	(562)	1,120
Other income and expenditure	1,017	(1,444)	(427)	578	(1,189)	(611)
	111,946	(75,183)	36,763	104,358	(73,053)	31,305
Surplus on sale of housing properties			9,658			7,765
Interest receivable			1,294			2,332
Interest payable			(25,242)			(24,783)
Surplus on ordinary activities before tax			22,473			16,619

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

2. Turnover, operating surplus and surplus before tax

London & Quadrant Housing Trust

	2003			2002		
	Turnover £'000	Operating costs £'000	Operating surplus £'000	Turnover £'000	Operating costs £'000	Operating surplus £'000
Social housing lettings (Note 3)						
General needs housing	72,900	(48,101)	24,799	68,281	(44,677)	23,604
Quadrant Supported Living	5,732	(5,326)	406	5,882	(5,886)	(4)
Temporary social housing	840	(980)	(140)	1,983	(2,071)	(88)
Key worker accommodation	575	(292)	283	403	(132)	271
Residential care homes	-	-	-	1,946	(1,986)	(40)
Leaseback schemes	1,928	(259)	1,669	1,925	(222)	1,703
Large scale regeneration	4,086	(1,815)	2,271	-	-	-
Total social housing	86,061	(56,773)	29,288	80,420	(54,974)	25,446
Other social housing activities						
Development administration	1,198	(2,414)	(1,216)	641	(2,034)	(1,393)
Non-social housing activities						
Market renting	168	(111)	57	184	(45)	139
Student accommodation	1,688	(540)	1,148	1,498	(517)	981
Total non social housing	1,856	(651)	1,205	1,682	(562)	1,120
Other income and expenditure	1,230	(607)	623	657	(910)	(253)
	90,345	(60,445)	29,900	83,400	(58,480)	24,920
Surplus on sale of housing properties			4,586			5,394
Interest receivable			1,449			1,648
Interest payable			(19,226)			(19,134)
Surplus on ordinary activities before tax			16,709			12,828

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

3. Income and expenditure from social housing lettings

L&Q Group

	General needs housing	Quadrant Supported Living	Temporary social housing	Key worker accommodation	Shared ownership accommodation	Leaseback schemes	Large scale regeneration	Total 2003	Total 2002
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable net of identifiable service charges	86,315	3,167	968	538	4,032	1,780	4,126	100,926	92,653
Service income	3,737	302	-	109	765	148	55	5,116	4,885
Gross rental income	90,052	3,469	968	647	4,797	1,928	4,181	106,042	97,538
Less: rent losses from voids	(1,063)	(96)	(128)	(72)	-	-	(95)	(1,454)	(1,314)
Net rental income	88,989	3,373	840	575	4,797	1,928	4,086	104,588	96,224
Housing Corporation revenue grants	187	380	-	-	-	-	-	567	2,481
Other revenue grants	-	2,551	-	-	-	-	-	2,551	2,531
Turnover from social housing lettings	89,176	6,304	840	575	4,797	1,928	4,086	107,706	101,236
Management	10,942	2,295	215	93	646	80	607	14,878	13,951
Services	7,062	974	10	128	323	144	114	8,755	9,381
Routine maintenance	22,908	1,077	229	2	51	-	812	25,079	22,243
Planned maintenance	1,826	230	-	-	-	-	-	2,056	1,976
Major repairs expenditure	13,082	1,170	-	-	-	-	-	14,252	15,311
Bad debts	568	85	(47)	14	3	-	282	905	658
Property lease charges	-	-	573	-	-	-	-	573	1,295
Depreciation on housing properties	2,519	41	-	55	321	35	-	2,971	2,809
Operating costs on social housing lettings	58,907	5,872	980	292	1,344	259	1,815	69,469	67,624
Operating surplus/(deficit) on social housing lettings	30,269	432	(140)	283	3,453	1,669	2,271	38,237	33,612

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

3. Income and expenditure from social housing lettings

London & Quadrant Housing Trust

	General needs housing	Quadrant Supported Living	Temporary social housing	Key worker accommodation	Leaseback schemes	Large scale regeneration	Total 2003	Total 2002
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Rent receivable net of identifiable service charges	69,931	2,995	968	538	1,780	4,126	80,338	72,841
Service income	3,387	248	-	109	148	55	3,947	3,812
Gross rental income	73,318	3,243	968	647	1,928	4,181	84,285	76,638
Less: rent losses from voids	(605)	(62)	(128)	(72)	-	(95)	(962)	(1,015)
Net rental income	72,713	3,181	840	575	1,928	4,086	83,323	75,638
Housing Corporation revenue grants	187	-	-	-	-	-	187	2,265
Other revenue grants	-	2,551	-	-	-	-	2,551	2,517
Turnover from social housing lettings	72,900	5,732	840	575	1,928	4,086	86,061	80,420
Management	9,162	1,874	215	93	80	607	12,031	11,329
Services	5,230	947	10	128	144	114	6,573	7,591
Routine maintenance	19,364	1,047	229	2	-	812	21,454	18,657
Planned maintenance	1,826	230	-	-	-	-	2,056	1,976
Major repairs expenditure	9,842	1,170	-	-	-	-	11,012	11,426
Bad debts	515	17	(47)	14	-	282	781	560
Property lease charges	-	-	573	-	-	-	573	1,295
Depreciation on housing properties	2,162	41	-	55	35	-	2,293	2,140
Operating costs on social housing lettings	48,101	5,326	980	292	259	1,815	56,773	54,974
Operating surplus/(deficit) on social housing lettings	24,799	406	(140)	283	1,669	2,271	29,288	25,446

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

4. Surplus on sale of housing properties

	Group 2003 £'000	Trust 2003 £'000	Group 2002 £'000	Trust 2002 £'000
Sale proceeds	21,232	7,536	23,338	14,990
Grant abated	183	-	158	-
Homebuy disposals	242	-	-	-
Cost of sale	(11,238)	(2,576)	(15,036)	(9,138)
Incidental sale expenses	(761)	(374)	(695)	(458)
Surplus on sale	9,658	4,586	7,765	5,394

Included in sale proceeds for the L&Q Group and the London & Quadrant Housing Trust is £626,185 (2002: £1,350,740) relating to the transfer of housing properties to other housing associations.

5. Directors' emoluments

	L&Q Group	
	2003 £'000	2002 £'000
Aggregate emoluments payable to directors (including pension contribution and benefits in kind)	915	947
Emoluments payable to the highest paid director (excluding pension contributions but including benefits in kind)	133	124
Total expenses reimbursed to the directors not chargeable to United Kingdom income tax	19	19

The directors are defined as the members of the Governing Board, the Chief Executive and any other person reporting directly to the Chief Executive or the Board and any member of the senior management team.

No emoluments (2002: £145,000) were paid to a director on redundancy and no payments (2002: £104,000) were paid in lieu of notice.

As a member of the Trust pension scheme the pension entitlements of the Chief Executive are identical to those of all other members.

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

6. Employee information

The average weekly number of persons employed during the year

	Group 2003		Trust 2003		Group 2002		Trust 2002	
	Persons	FTE	Persons	FTE	Persons	FTE	Persons	FTE
Office staff and care support workers	559	543	559	543	602	565	602	565
Wardens, caretakers and cleaners	104	88	104	88	98	83	98	83
	663	631	663	631	700	648	700	648
Staff costs (for the above persons)	£'000		£'000		£'000		£'000	
Wages and salaries	13,578		13,578		13,492		13,492	
Social security costs	1,096		1,096		1,076		1,076	
Other pension costs	1,622		1,622		1,552		1,552	
Total for L&Q Group	16,296		16,296		16,120		16,120	
Less amount payable by subsidiaries			(3,600)				(3,327)	
Total for London & Quadrant Housing Trust			12,696				12,793	

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

7. Interest payable and similar charges

	Group	Trust	Group	Trust
	2003	2003	2002	2002
	£'000	£'000	£'000	£'000
On loans repayable within one year	-	-	26	-
On loans repayable between one year and five years	1,662	1,005	-	-
On loans wholly or partly repayable in more than five years	25,741	19,429	27,281	20,266
	27,403	20,434	27,307	20,266
Less: capitalised in housing properties	(2,161)	(1,208)	(2,524)	(1,132)
	25,242	19,226	24,783	19,134

8. Surplus on ordinary activities before tax

	Group	Trust	Group	Trust
	2003	2003	2002	2002
	£'000	£'000	£'000	£'000
Surplus on ordinary activities before tax is stated after charging/(crediting):				
Depreciation	3,765	3,087	3,350	2,681
Auditors' remuneration				
- in their capacity as auditors	83	63	81	61
- in respect of other services	386	381	72	39
Surplus on sale of housing properties	(9,658)	(4,586)	(7,765)	(5,394)
Surplus on sale of other fixed assets	(12)	(13)	(10)	(10)

Included in auditors' remuneration in respect of other services is £300k relating to tax and VAT advice, this was tendered in 2001 and will be retendered in 2005. This advice resulted in savings of £4.3 million.

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

9. Tax on surplus on ordinary activities

	Group	Trust	Group	Trust
	2003	2003	2002	2002
	£'000	£'000	£'000	£'000
UK corporation tax	1,545	-	936	-
Adjustment in respect of prior year	(18)	-	74	-
Deferred tax (note 14)	(251)	-	(155)	-
	1,276	-	855	-

The Trust is exempt from UK corporation tax due to its charitable objects. The charge relates to the Trust's subsidiary undertakings, Tower Homes Limited and Quadrant Housing Finance.

L&Q Group	2003	2002
	£'000	£'000
Surplus on ordinary activities before tax	4,064	3,299
Surplus on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	1,220	990
Effects of:		
Capital allowances for period less than depreciation	7	30
Adjustment to tax changes in respect of previous periods	(18)	74
Other timing differences	67	(239)
Current tax charge for the year	1,276	855

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained in the figures (left).

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

10. Tangible assets - L&Q Group

	Housing properties under construction	Social housing properties held for letting	Non-social housing properties held for letting	Long leasehold social housing properties	Freehold office premises	Leasehold office premises	Office furniture and equipment	Motor vehicles	Total 2003
Cost	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2002	137,147	1,162,798	14,389	1,227	1,514	1,399	2,048	532	1,321,054
Schemes completed in the year	(83,607)	83,607	-	-	-	-	-	-	-
Additions	124,059	7,435	(162)	-	-	224	1,257	168	132,981
Disposals	-	(11,246)	-	-	(418)	-	-	(160)	(11,824)
Proceeds from first tranche shared ownership sales	(20,715)	-	-	-	-	-	-	-	(20,715)
At 31 March 2003	156,884	1,242,594	14,227	1,227	1,096	1,623	3,305	540	1,421,496
Social Housing Grant									
At 1 April 2002	83,649	751,900	-	-	-	-	-	-	835,549
Schemes completed in the year	(47,406)	47,406	-	-	-	-	-	-	-
Received during year	66,747	1,706	-	-	-	-	-	-	68,453
Transferred to other RSLs	-	(626)	-	-	-	-	-	-	(626)
Grant abated	-	(183)	-	-	-	-	-	-	(183)
Recycled on disposals	-	(5,379)	-	-	-	-	-	-	(5,379)
At 31 March 2003	102,990	794,824	-	-	-	-	-	-	897,814
Depreciation									
At 1 April 2002	-	6,012	226	68	-	423	1,143	274	8,146
Charge for year	-	2,779	98	26	-	116	737	9	3,765
Eliminated in respect of disposals	-	(8)	-	-	-	-	-	-	(8)
At 31 March 2003	-	8,783	324	94	-	539	1,880	283	11,903
Net book value									
At 31 March 2003	53,894	438,987	13,903	1,133	1,096	1,084	1,425	257	511,779
At 31 March 2002	53,498	404,886	14,163	1,159	1,514	976	905	258	477,359

Additions to housing properties during the year include capitalised interest of £2,161,000 (2002: £2,524,000) and capitalised administration costs of £1,856,000 (2002: £1,821,000).

At 31 March 2003 the open market vacant possession value of the L&Q Group's completed housing properties was estimated by the Governing Board to be £2,985 million (2002: £2,565 million) compared with a cost of £1,399 million (2002: £1,177 million).

The completed stock of the Trust was evaluated by Messrs. Knight Frank on 2nd May 2003 and was reported to have an open market vacant possession value in the region of £2,400 million (2002: £2,045 million) compared with a cost of £1,080 million (2002: £1,009 million).

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

10. Tangible assets - London & Quadrant Housing Trust

	Housing properties under construction	Social housing properties held for letting	Non-social housing properties held for letting	Freehold office premises	Leasehold office premises	Office furniture and equipment	Motor vehicles	Total 2003
Cost	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2002	107,899	994,951	14,389	1,514	513	1,739	532	1,121,537
Schemes completed in the year	(72,996)	72,996	-	-	-	-	-	-
Additions	86,239	-	(162)	-	224	1,174	168	87,643
Disposals	-	(2,576)	-	(418)	-	-	(160)	(3,154)
At 31 March 2003	121,142	1,065,371	14,227	1,096	737	2,913	540	1,206,026
Social Housing Grant								
At 1 April 2002	62,743	688,591	-	-	-	-	-	751,334
Schemes completed in the year	(40,419)	40,419	-	-	-	-	-	-
Received during year	55,947	-	-	-	-	-	-	55,947
Transferred to other RSLs	-	(626)	-	-	-	-	-	(626)
Recycled on disposals	-	(1,107)	-	-	-	-	-	(1,107)
At 31 March 2003	78,271	727,277	-	-	-	-	-	805,548
Depreciation								
At 1 April 2002	-	4,877	226	-	251	915	274	6,543
Charge for year	-	2,282	98	-	50	648	9	3,087
Eliminated in respect of disposals	-	-	-	-	-	-	-	-
At 31 March 2003	-	7,159	324	-	301	1,563	283	9,630
Net book value								
At 31 March 2003	42,871	330,935	13,903	1,096	436	1,350	257	390,848
At 31 March 2002	45,156	301,483	14,163	1,514	262	824	258	363,660

Additions to housing properties during the year include capitalised interest of £1,208,000 (2002: £1,132,000) and capitalised administration costs of £871,000 (2002: £933,000).

The completed housing stock was evaluated by Messrs. Knight Frank on 2nd May 2003 and was reported to have an open market vacant possession value in the region of £2,400 million (2002: £2,045 million) compared with a cost of £1,080 million (2002: £1,009 million).

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

11. Debtors

	Group	Trust	Group	Trust
	2003	2003	2002	2002
	£'000	£'000	£'000	£'000
Arrears of rent and service charges	6,233	5,672	5,114	4,410
Less: provision for bad and doubtful debts	(2,619)	(2,335)	(1,735)	(1,416)
	3,614	3,337	3,379	2,994
Social Housing Grant receivable	10,930	7,652	2,083	1,088
Other debtors and prepayments	8,856	7,079	8,055	6,356
Amounts owing from subsidiaries	-	15,309	-	11,665
	23,400	33,377	13,517	22,103

Amounts owing from subsidiaries represent inter-company balances in respect of staff and administration costs and, in the case of Tower Homes Limited, includes on-lending from London & Quadrant Housing Trust of which £10 million (2002: £10.8 million) is repayable in more than one year.

Included in other debtors is £450,000 (2002: £300,000) start up investment in Passmore Urban Regeneration Limited, a regeneration partnership with three other Registered Social Landlords and the London Borough of Newham.

12. Creditors

Amounts falling due within one year

	Group	Trust	Group	Trust
	2003	2003	2002	2002
	£'000	£'000	£'000	£'000
Recycled capital grant fund (note 13)	1,006	125	1,161	-
Housing loans	2,651	1,649	2,119	1,284
Trade creditors	7,001	3,949	5,949	4,573
Other taxation and social security	401	401	132	132
Accruals	16,267	11,836	14,792	11,222
Other creditors	22,716	21,811	18,339	16,955
Corporation tax	704	-	401	-
Amounts due to subsidiaries	-	730	-	730
	50,746	40,501	42,893	34,896

Amounts due to subsidiaries represent interest payable on loans from Quadrant Housing Finance Limited and inter-company balances. The average number of days between receipt and payment of purchase invoices was 14 days (2002: 14 days)

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

12. Creditors continued

Amounts falling due after more than one year

	Group	Trust	Group	Trust
	2003	2003	2002	2002
	£'000	£'000	£'000	£'000
Housing loans:				
- repayable by annual instalments	304,199	208,261	281,189	189,208
- repayable on maturity	68,938	68,938	68,892	68,892
- guaranteed by local authorities	8,712	8,712	9,442	9,442
Total housing loans	381,849	285,911	359,523	267,542
Financing costs capitalised	(3,258)	(1,654)	(3,524)	(1,714)
Net housing loans	378,591	284,257	355,999	265,828
Deferred income	3,356	3,356	4,398	3,435
Other creditors	2,731	1,646	1,077	1,077
Recycled capital grant fund (note 13)	10,692	2,433	6,712	2,204
	395,370	291,692	368,186	272,544

Housing loans are secured by a combination of fixed and floating charges on properties and carry different, but largely fixed rates of interest. Loans repayable on maturity fall due between 1 and 25 years. Loans guaranteed by local authorities relate to properties which are leased to the relevant local authorities. They are repayable by instalments at a stepped rate of interest and the local authority is committed to pay rent which is sufficient to finance mortgage repayments and related management costs.

	Group	Trust	Group	Trust
	2003	2003	2002	2002
	£'000	£'000	£'000	£'000
Source of housing loans:				
Banks and building societies	158,108	127,754	136,596	108,160
Capital market issues	216,043	150,469	214,205	150,670
Public loans	10	-	10	-
Other	7,688	7,688	8,712	8,712
	381,849	285,911	359,523	267,542

Capital market issues include a £130 million guaranteed secured stepped coupon bond issued on 4 February 1998 through Quadrant Housing Finance Limited. The bond is repayable in annual instalments from 2018 to 2033.

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

12. Creditors continued

Amounts falling due after more than one year

	Group	Trust	Group	Trust
	2003	2003	2002	2002
	£'000	£'000	£'000	£'000
Loans repayable by instalments fall due as follows:				
- between one and two years	1,869	1,869	1,649	1,649
- between two and three years	8,229	2,123	7,945	1,869
- between three and five years	11,641	10,449	5,213	4,070
- in five or more years	282,460	193,820	266,382	181,620
	304,199	208,261	281,189	189,208

	2003		2002	
	Book value	Current value	Book value	Current value
	£'000	£'000	£'000	£'000
Short term debt and current portion of long term debt	2,003	2,003	1,626	1,626
Long term debt	378,591	440,560	355,999	403,089

	Total	Floating borrowings	Fixed borrowings	Weighted average interest rate	Weighted average time for which rate is fixed
	£'000	£'000	£'000	%	years
As at 31 March 2003:					
Loans	380,594	91,551	289,043	6.93%	18
As at 31 March 2002:					
Loans	357,625	80,109	277,516	7.16%	18

Set out left is a year end comparison of current and book values of all the L&Q Group's financial instruments by category. Where available, market rates have been used to determine current values. Where market rates are not available, current values have been calculated by discounting cash flows at prevailing interest rates.

Short term debtors and creditors are not treated as financial assets or financial liabilities. The fair value of cash was not materially different from its book value.

After taking into account the various interest rate swaps, caps and collars entered into by the L&Q Group, the interest rate exposure of the L&Q Group's borrowings is shown in the figures (left).

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

13. Recycled capital grant fund

	Group	Trust	Group	Trust
	2003	2003	2002	2002
	£'000	£'000	£'000	£'000
Fund at beginning of year	7,873	2,204	9,578	2,834
Homebuy	683	-	213	-
Net SHG abated/(recovered)	199	-	(80)	-
Transferred to fund during year	5,389	1,117	3,857	942
Interest credited to fund	251	56	314	68
Utilised during the year	(2,697)	(819)	(6,009)	(1,640)
Fund at end of year	11,698	2,558	7,873	2,204

14. Provision for liabilities and charges

	Deferred	Leasehold	Total	Deferred	Leasehold	Total
	taxation	repairs	2003	taxation	repairs	2002
	£'000	provision	£'000	£'000	provision	£'000
L&Q Group						
At beginning of year	1,023	137	1,160	1,178	217	1,395
(Released)/Charged to income and expenditure account	(251)	42	(209)	(155)	30	(125)
Expenditure during year	-	(114)	(114)	-	(110)	(110)
At end of year	772	65	837	1,023	137	1,160
London & Quadrant Housing Trust						
At beginning of year	-	137	137	-	217	217
(Released)/Charged to income and expenditure account	-	42	42	-	30	30
Expenditure during year	-	(114)	(114)	-	(110)	(110)
At end of year	-	65	65	-	137	137

The leasehold repairs provision represents the amounts set aside to meet a contractual liability for the repair of managed properties, the liability arising on handback of such properties to their owners.

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

15. Share capital

	Group 2003 Number	Trust 2003 Number	Group 2002 Number	Trust 2002 Number
Shares of £1 each issued and fully paid				
At beginning of year	115	59	89	46
Issued during year	20	9	33	20
Surrendered during year	(20)	(3)	(7)	(7)
At end of year	115	65	115	59

The share capital of the Trust consists of shares with a nominal value of £1 each which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. When a shareholder ceases to be a member, that person's share is cancelled and the amount paid up thereon becomes the property of the Trust. Therefore all shareholdings relate to non-equity interests.

16. Restricted reserves

	Group 2003 £'000	Trust 2003 £'000	Group 2002 £'000	Trust 2002 £'000
Rent surplus fund				
At beginning of year	3,961	3,644	4,524	4,157
Transferred from income and expenditure account	786	738	768	720
Transferred to income and expenditure account	(2,050)	(1,685)	(1,331)	(1,233)
At end of year	2,697	2,697	3,961	3,644

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

17. Revenue reserves

Although under its rules the L&Q Group does not trade for profit, its financial affairs are planned so that each year income exceeds expenditure. The annual surplus is vital to enable the Group to meet its commitments to providers of private finance, continue to raise further private finance and have reserves to provide for unexpected situations.

The Governing Board and the Committees of each Group member regularly review the Group's finances to determine the minimum amount of reserves required for day to day management and to provide for the future. Any amounts over and above this minimum are invested in the provision of social housing. The majority of the Group's reserves are not normally cash backed.

18. Housing stock

The number of units of accommodation at 31 March 2003 was:

Housing managed by the L&Q Group	Group 2003 Number	Trust 2003 Number	Group 2002 Number	Trust 2002 Number
Social housing				
General needs housing	23,672	19,449	23,292	19,048
Long leaseholders	854	33	836	31
Supported housing	2,068	2,026	2,091	2,049
Temporary social housing	94	94	240	240
Key worker accommodation	306	306	171	171
Large scale regeneration	2,544	2,544	-	-
Shared ownership accommodation	2,604	-	2,431	-
Leaseback schemes	157	157	157	157
Total social housing	32,299	24,609	29,218	21,696
Non-social housing				
Market renting	28	28	28	28
Student accommodation	630	630	630	630
Total non-social housing	658	658	658	658
Grand total	32,957	25,267	29,876	22,354
Being:				
Owned and managed	32,737	25,047	29,642	22,120
Managed only	220	220	234	234
	32,957	25,267	29,876	22,354
Housing under development	2,532	1,786	2,126	1,728

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

19. Notes on the cash flow statement

a) Reconciliation of operating surplus to net cash inflow from operating activities	2003	2002
	£'000	£'000
Operating surplus	36,763	31,305
Depreciation charges and amortisation of finance costs	3,765	3,350
Decrease/(Increase) in debtors	1,215	(2,047)
Increase in creditors	7,647	3,452
Surplus on sale of fixed assets	(12)	(13)
Decrease in provision	(72)	(80)
Net cash inflow from operating activities	49,306	35,967

Cash balances include £228,000 held in charged deposits to comply with funders' requirements.

b) Reconciliation of net cashflow to movement in net debt	2003	2002
	£'000	£'000
Increase/(Decrease) in cash in the year	14,972	(7,239)
Cash inflow from debt increase	(22,544)	(21,729)
Cash (inflow)/outflow from management of liquid resources	(3,364)	932
Change in net debt resulting from cash flows	(10,936)	(28,036)
Net debt at 1 April	(320,840)	(292,804)
Net debt at 31 March	(331,776)	(320,840)

c) Analysis of changes in net debt	At 31 March	Cashflow	At 31 March
	2002	£'000	2003
	£'000	£'000	£'000
Cash at bank and in hand	29,396	14,972	44,368
Debt due after one year	(359,523)	(22,326)	(381,849)
Debt due within one year	(1,325)	(218)	(1,543)
Current asset investments	10,612	(3,364)	7,248
	(320,840)	(10,936)	(331,776)

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

20. Pension costs

London & Quadrant Housing Trust operates a defined benefits scheme based on final pensionable salary. It is independently administered. This scheme was closed to new members during 2001. As at 31 March 2003 there were 273 (2002: 331) active members participating in this scheme.

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

There was no deficiency within the scheme on the Statutory Minimum Funding Requirement as at the date of the last review. Following the transfer of stock from the London Borough of Waltham Forest, some L&Q staff are members of the Waltham Forest Borough defined benefit scheme. The results from this scheme are not considered to be material to disclose. The results and assumptions of the most recent valuation of the London & Quadrant Housing Trust scheme are as follows (below):

Valuation

	L&Q Trust Scheme	Bexley London Borough Scheme
Valuation date	1 April 2001	1 April 2001
Valuation method	projected unit	projected unit
Value of assets	£23.4 million	£314 million
Funding level for accrued benefits	84%	104%
Investment return per annum	6%	5.5%
Salary scale increases per annum	4%	2.6%
Pension increases per annum	3%	2.7%

The pension contributions payable by L&Q during the accounting period were equal to 14.1% of pensionable salary for the accounting period as recommended by the actuary. Surpluses and deficits are spread over employees' future service lives, and the pensions charge recorded by L&Q during the accounting period was equal to the contributions payable.

Financial Reporting Standard 17 - Retirement Benefits

Under the transitional requirements of FRS17, L&Q is required to disclose further information on the assets and liabilities of the scheme on a market value basis at the end of the accounting period. This information is set out below:

Actuarial assumptions

	L&Q Trust Scheme		Bexley London Borough Scheme	
	2003	2002	2003	2002
Discount rate	5.75%	6%	5.4%	6%
Salary increase rate	3.75%	4%	4.0%	4.2%
Pension increase rate	2.6%	3%	2.5%	2.7%
Rate of inflation	2.6%	3%	2.5%	2.7%

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

20. Pension costs continued

	L&Q Trust Scheme				Bexley London Borough Scheme			
	2003 value	2002 value	2003 expected rate of return	2002 expected rate of return	2003 value	2002 value	2003 expected rate of return	2002 expected rate of return
	£'000	£'000	%	%	£'000	£'000	%	%
Scheme assets and expected returns								
- equities	12,390	16,948	8%	8%	894	1,298	7.5%	7.5%
- bonds	7,942	6,779	5%	5.5%	514	333	4.5%	4.5%
- cash	39	143	3.75%	4%	31	144	3.75%	5.0%
Total	20,371	23,870			1,439	1,775		
Value of liabilities	(35,466)	(30,843)			(1,997)	(1,710)		
(Deficit)/Surplus in the plan	(15,095)	(6,973)			(558)	65		
Related deferred tax liability	4,529	2,092			-	-		
Net pension (liability)/asset	(10,566)	(4,881)			(558)	65		

	L&Q Trust Scheme		Bexley London Borough Scheme	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
L&Q Group balance sheet presentation				
Net assets excluding FRS17 pension liability	536,049	487,991	66,712	62,773
Net pension (liability)/asset	(10,566)	(4,881)	(558)	65
Net assets including FRS17 liability	525,483	483,110	66,154	62,838
Reserves note:				
Income and expenditure account excluding FRS17 pension (liability)/asset	137,145	114,684	2,797	1,115
Pension reserve	(10,566)	(4,881)	(558)	65
Income and expenditure account including FRS17 pension (liability)/asset	126,579	109,803	2,239	1,180

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

20. Pension costs continued

	L&Q Trust Scheme 2003 £'000	Bexley London Borough Scheme 2003 £'000
Analysis of amount charged to the income and expenditure account		
Service costs	1,570	68

	£'000	£'000
Analysis of net return on pension scheme		
Expected return on pension scheme assets	1,770	123
Interest on pension scheme liabilities	(1,877)	(104)
Net (loss)/gain	(107)	19

	£'000	£'000
Movement in surplus during the year		
Deficit in scheme at beginning of year	(6,973)	65
Movement in year:		
- current service costs	(1,570)	(68)
- contributions	1,215	43
- other finance costs	(107)	19
- actuarial gain or loss	(7,660)	(617)
Deficit in scheme at end of year	(15,095)	(558)

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

20. Pension costs continued

	L&Q Trust Scheme 2003 £'000		Bexley London Borough Scheme 2003 £'000	
History of experience gains or losses				
Difference between the expected and actual return on assets:				
- asset loss	(6,263)	30.7% of scheme assets	(468)	32.5% of scheme assets
- liability loss	(146)	0.4% of scheme liabilities	-	
- change in assumptions	(1,251)	3.5% of scheme liabilities	(149)	7.5% of scheme liabilities
Net loss	(7,660)		(617)	

The Trust set up a defined contribution pension scheme in 2001.

There were no outstanding or repaid contributions at either the beginning or end of the financial year.

21. Capital commitments

	Group 2003 £'000	Trust 2003 £'000	Group 2002 £'000	Trust 2002 £'000
Capital expenditure that has been contracted for but has not been provided for in these financial statements	44,000	23,000	41,000	28,000
Capital expenditure that has been authorised by the Governing Board but has not yet been contracted for	150,000	116,000	95,000	72,000

Notes on the Financial Statements

Year ended 31 March 2003 L&Q Group

22. Legislative provisions

The Trust is incorporated under the Industrial and Provident Societies Act 1965 with reference 20943 R and with the Housing Corporation under reference LH0115.

23. Commitments under operating leases

As at 31 March 2003 the L&Q Group and London & Quadrant Housing Trust had annual commitments under operating leases on land and buildings as set out below:

	2003 £'000	2002 £'000
Operating leases which expire:		
Less than one year	38	262
Between one and five years	337	459
Over five years	346	525
Total	721	1,246

24. Related party transactions

During the year inter-group charges of £9,803,000 (2002: £9,637,000) were made in respect of interest on loans from Quadrant Housing Finance Limited to London & Quadrant Housing Trust and L&Q Bexley Homes Limited, and from London & Quadrant Housing Trust to Tower Homes Limited.

All other inter-group charges relate to the recovery of common costs in the usual course of business.

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London & Quadrant Housing Trust

Don Wood: Chief Executive
Osborn House Osborn Terrace
London SE3 9DR
T: 020 8852 9181
F: 020 8852 1517
W: www.lqgroup.org.uk

North Thames Region

Steve Yianni: Group Director
4 Gainsborough Road
London E11 1HT
T: 020 8558 9266
F: 020 8558 9328

South East Thames Region

David Gannicott: Group Director
Renway House
36-38 Artillery Place
London SE18 4AB
T: 020 8557 2830
F: 020 8316 0262

South West Thames Region

Charlie Grimble: Group Director
Gabriel House
10-26 Wolfington Road
London SE27 0JF
T: 020 8225 3500
F: 020 8225 3501

L&Q Bexley Homes Ltd

David Gannicott: Group Director
Athena House 112 Station Road
Sidcup Kent DA15 7BT
T: 020 8308 3600
F: 020 8308 3601
W: www.bexleyhomes.org.uk

Tower Homes Ltd

Steve Walker: Chief Executive
70 Court Road Eltham
London SE9 5NP
T: 020 8850 9686
F: 020 8850 8684
W: www.towerhomes.org.uk

Green Horizons

Phyllida Culpin: Regeneration Manager
1st Floor St. Georges Chambers
23 South Mall Edmonton Green
London N9 0TS
T: 020 8803 9151
F: 020 8803 6404
W: www.greenhorizons.org.uk

Forest Homes

Paul Hackett: Operations Manager
2 Gainsborough Road
London E11 1HT
T: 020 8558 9266
F: 020 8558 9328
W: www.foresthomes.org.uk

Quadrant Community Investment

Jeremy Stibbe: Director
70 Court Road Eltham
London SE9 5NP
T: 020 8850 9686
F: 020 8850 8684

Crawley Foyer Ltd

Brendan McGowan: Manager
Horsham Road West Green
Crawley West Sussex RH11 7AU
T: 01293 514222
F: 01293 544872
E: crawleyfoyer@lqfoyers.org.uk
W: www.lqfoyers.org.uk

Quadrant Supported Living

Paul Kingsley: Group Director
Osborn House Osborn Terrace
London SE3 9DR
T: 020 8852 9181
F: 020 8852 1517

Change Community Finance Ltd

Andrew Chaplin: Project Manager
Osborn House Osborn Terrace
London SE3 9DR
T: 020 8852 9181
F: 020 8852 1517
E: change@lqgroup.org.uk
W: www.changefinance.org.uk

Group Financial Services

Sarah Smith: Assistant Director
Financial Services
Osborn House Osborn Terrace
London SE3 9DR
T: 020 8852 9181
F: 020 8852 1517
W: www.lqgroup.org.uk

Bankers

Barclays Bank plc
National Westminster Bank plc

Statutory Auditors

KPMG LLP
1 Forest Gate Brighton Road
Crawley West Sussex RH11 9PT

Principal Solicitors

Devonshires
Salisbury House London Wall
London EC2M 5QY

Prince Evans

77 Uxbridge Road
London W5 5ST

Company Secretary

Jan Quirke



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