Financial statements 2017

L&Q

A RANGE OF AFFORDABLE HOMES ON A LARGER DEVELOPMENT AT ARBORETUM, IN THE HEART OF EPPING.

Contents

THE OVERDRAUGHT IS A SMALL DEVELOPMENT OF NINE HOMES FOR SALE BY THE TRANQUIL REGENTS CANAL IN HAGGERSTON, EAST LONDON. THE SCHEME INCLUDES APARTMENTS, DUPLEXES AND A FOUR-BEDROOM TOWNHOUSE.

01

01 About L&Q

The L&Q Group (the Group) is formed of London & Quadrant Housing Trust (LQHT), one of the UK's leading housing associations, and its subsidiaries.

The Group has over 90,000 homes under management located in London and the South East of England. We are also one of London's largest residential developers with over 44,000 units in our development pipeline, and hold a further 42,500 land plots currently going through various phases of promotion for planning. We employ over 2,300 people and are a leading investor in community initiatives and apprenticeships.

We build high-quality homes to meet a range of needs and incomes. We provide affordable and social rented homes as well as supported and sheltered housing. We have a range of services for our customers such as managing and maintaining their homes and providing care and support services. We also offer high quality sustainable homes for sale, shared ownership and private rent.

+2,300

employees and we are a leading investor in community initiatives and apprenticeships

+90,000

homes under management located in London and the South East of England

+44,000

residential units in our development pipeline

OUR VISION

Our vision is that **everyone has a quality home they can afford.**

OUR MISSION

Our mission is to combine our **social purpose** and **commercial drive** to create homes and neighbourhoods to be proud of.

We do so through our values centred on People, Passion, Inclusion, Responsibility and Impact.

Performance against our strategic plan objectives in 2016/17

Retaining our charitable status, social mission, vision and values

All of our surpluses are reinvested in our social mission through investments in our existing homes, building much needed affordable homes and investing in communities.

During the year East Thames Limited, a specialist care and support provider joined the Group. We launched L&Q Living on 3 April 2017, a new arm of the business committed to delivering quality care and support to our vulnerable and older residents.

Committing to growth

The Group delivered 2,552 homes, approved another 4,190 and started on site on 2,590 in the past year. The acquisition of Gallagher Estates, a portfolio of strategic land companies that controls 42,500 development plots adds land supply to our portfolio. This provides L&Q with the potential to substantially deliver against our growth plans to enable the development of 100,000 new homes.

Maintaining a minimum output of truly affordable homes

The Group has committed to maximise our annual output of truly affordable rented homes, with a minimum target that at least 50% of housing completions should be for affordable homes every year. This year we delivered 1,536 affordable home completions, including 917 for rent and 619 for shared ownership.

Helping to create sustainable communities

The Group is committed to adopting responsible business practices as well as continuous care and maintenance of our customers' homes. This year we spent £52m on routine maintenance repairs, £30m on planned maintenance and £39m in capital expenditure on improvements to ensure the quality of our homes.

Through the L&Q Foundation, our community investment work in support of the Group's objectives has centred on tackling financial exclusion, unemployment, enhancing community cohesion and providing positive opportunities for young people. This year we have invested £7m in community investment projects through the L&Q Foundation.

Rooting our growth and operations in London and the wider south east of England

The Group has announced that it will be working with London Mayor, Sadiq Khan, to build 20,000 new homes across the city, contributing towards an £8bn investment in order to tackle the housing shortage in the capital. L&Q is the first housing association to work with the mayor after he secured a £3.15bn deal with the government to build 90,000 new affordable homes of which at least 60% will be truly affordable. The Group and the Greater London Authority have been forging closer ties over many years to tackle London's housing crisis, including our joint venture to deliver 11,000 homes at Barking Riverside. This strategic partnership takes our ambition to an exciting new level. By working together, we will guarantee more investment in apprenticeships, jobs, innovative methods of construction, economic growth, communities and homes for years to come.

Staying focused on the provision of quality homes and quality services

Examples of new developments can be found throughout this publication including some award winning Shared Ownership schemes from our Priced In campaign that has helped hundreds of people get on the property ladder.

For information:

Performance measures

At L&Q, the performance of the Group is measured using a variety of alternative performance measures which are not recognised by FRS 102, but are derived from information in the financial statements and are therefore termed as "non-GAAP" measures. These measures provide additional useful information regarding ongoing operating and financial information including underlying trends and do not have standardised definitions prescribed by FRS 102.
The non-GAAP measures used throughout these financial statements and defined in note 35 of these financial statements are:

- Exceptional items
- Pre-exceptional surplus before tax
- Surplus for the year before exceptional items


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

CHIEF EXECUTIVE AND
DEPUTY CHIEF EXECUTIVE
DAVID MONTAGUE AND
YVONNE ARROWSMITH.

02

02 Group board and Executive officers

Board

Aubrey Adams OBE *(Group Chairman)*
David Montague CBE *(Chief Executive)*
Waqar Ahmed *(appointed 6 December 2016)*
Anne Elizabeth Bassis
Tracey Fletcher-Ray
Samantha Hyde
Larissa Joy *(appointed 6 December 2016)*
Michael More
Trevor Moross
Simon Rubinsohn
Tina Tietjen OBE *(appointed 6 December 2016)*
Robert Cooper *(resigned 8 September 2016)*
Frank Chersky *(resigned 6 December 2016)*

Executive officers

David Montague CBE *(Chief Executive)*
Waqar Ahmed *(Group Finance Director)*
Yvonne Arrowsmith *(appointed 6 December 2016)*
Mike Donaldson
Jerome Geoghegan
Diane Hart
Rahul Jaitly *(appointed 17 October 2016)*
Tim Mulvenna
Tom Nicholls
Olu Olanrewaju *(appointed 6 December 2016)*

Secretary and registered office

Emuoborohwo Siakpere
One Kings Hall Mews
London, SE13 5JQ

Statutory auditor

KPMG LLP
15 Canada Square
London, E14 5GL

Registrations

Registered Society number 30441R
Homes and Communities Agency number L4517

THURSTON POINT, A SHARED OWNERSHIP AND PRIVATE RENTED DEVELOPMENT IN LEWISHAM, SOUTH EAST LONDON.

03

03 Chair's statement

This is a pivotal moment in the history of the Group.

This year we have built strategic partnerships and expanded our horizons, focusing all the while on our main objectives of providing affordable quality homes, improving customer experience and investing in communities. In December 2016, L&Q and East Thames came together to create one of the largest providers of new affordable homes in the country.

The recent snap election and the resulting hung parliament, which may potentially impact on Brexit negotiations and financial markets, will not change the fact we remain in a housing crisis. We are committed more than ever to the delivery of quality affordable homes. However, the health and safety of our residents is a key priority for the Board, and the recent tragic events at Grenfell Tower in Kensington are a sharp reminder that we must always invest in the quality and safety of our homes.

All our fire risk assessments are currently up to date, and we visit sheltered housing schemes and tower blocks over six storeys high once a year to review fire safety. However, we are now taking another look at what more we can do to ensure the safety of our residents.

We are carrying out additional safety reviews of all blocks over six storeys. And, while the circumstances behind the fire are still unclear, we have taken the extra precaution of surveying the cladding on these blocks.

We will consider all possible methods of mitigating fire risk - cost will not, and never has been, a barrier to providing the most appropriate solution. This work is an immediate priority for L&Q and we have set aside the necessary staffing and budgetary resources to deliver solutions quickly.

Looking to the future, the opportunities for the Group are not solely confined to growth in London and the South East of England. In February 2017, we acquired Gallagher Estates, a strategic land business that controls 42,500 land plots in the South and South Midlands. This will help us unlock land for development to meet our growth objectives and our vision for everyone to have a quality home that they can afford.

Work has also started on our first development under a new joint venture partnership with Trafford Housing Trust in Manchester, an area that faces the same housing and affordability crisis as London. Our joint venture with Trafford Housing Trust is a leading example of how we can help other like minded charitable organisations unlock additional development capacity to build more homes. These events have significantly changed the Group in terms of size, geography and customer profile, and are in line with our ambition to enable the delivery of 100,000 new homes.

Recently, the Mayor of London released "Housing in London" which sets out the key challenges for his housing policies and the development of his housing strategy:

- The skills gap in meeting additional demands on the construction industry and the ability for London to attract the talent it needs post-Brexit,
- Londoners' increasing housing concerns with housing supply failing to keep up with economic and population growth,
- The rapid growth in the private rented market, and
- The dramatic change in the type of households who rent with families with children accounting for more than a third of private rental households in London.

WE HAVE BUILT STRATEGIC PARTNERSHIPS AND EXPANDED OUR HORIZONS, FOCUSING ALL THE WHILE ON OUR MAIN OBJECTIVES OF PROVIDING AFFORDABLE QUALITY HOMES, IMPROVING CUSTOMER EXPERIENCE AND INVESTING IN COMMUNITIES.

Chair's statement
(continued)

As a strategic partner of the Mayor, the Group is committed to tackling these challenges in the capital and contributing towards the Mayor's ambition of 90,000 affordable starts on sites by 2021.

We welcome the Government's recent Housing White Paper "Fixing our broken housing market" and are working with the g15 (a group of London's largest housing associations) and the National Housing Federation on a formal sector and London-wide response. The Group's view is that we would prefer freedom from decades of rent policies that have proven confusing and unfair for tenants. We would like to see charitable housing associations working with local authorities to create an affordable housing market, balancing need with affordability and viability.

With this flexibility, the Group would have the potential to create additional financial capacity and deliver even more homes.

This was a truly remarkable and exceptional year for us:

- The Group delivered a record pre-exceptional surplus before tax of £332m, a £53m increase from the previous year. Our sole purpose is to re-invest our surpluses back into our social mission,
- Exceptional refinancing costs of £548m were incurred as we took the positive step to reshape the structure of our debt with a £2.6bn strategic refinance, one which delivers real value in lowering our cost of borrowing and a flexibility which, with the acquisition of Gallagher Estates, creates a platform to deliver against our growth objectives,
- An exceptional gain of £441m was recorded following East Thames joining the Group, allowing the launch of L&Q Living to spearhead our care and support services as we recognise the growing needs of our vulnerable and older residents,
- We built 2,552 new properties of which 1,536 were social and affordable homes,
- We carried out £82m repairs and invested a further £39m in our existing properties. We delivered more than 7,000 new individual components such as kitchens, bathrooms and boilers for the benefit of our residents. The standard of our estates are continuously improving with 68% achieving gold status on inspection.

These solid results were delivered on the back of a 20% growth in turnover and a 50% operating margin on our core social housing lettings activities. Our headline social housing cost per home was £3,043, which is 8% lower than last year and amongst the lowest in the housing sector.

I am also pleased to announce that the Board has recently approved formal plans to integrate the operations of L&Q and East Thames and to create a new regional structure by April 2018, in order to deliver a common approach to local housing management and maintenance. We aim to build a customer service organisation that is a leader in the sector, providing good quality homes and services at the lowest cost possible.

As part of the joining together with East Thames, L&Q will be delivering annual efficiencies of £38m by the end of the financial year 2020.

These efficiencies will allow us to set aside an Investment Fund of £250m for community investment to enhance the aspirations and opportunities for those living in our homes and communities. We will also create a training academy for staff and residents, increasing investment over existing training budgets.

My thanks goes to all the staff at L&Q who have made this successful financial year possible, working tirelessly in pursuit of our objectives whilst keeping the show on the road because, for them, homes matter.

This is also an opportunity for me to pay tribute to the late Reverend Nicolas Stacey, co-founder of L&Q and previous Chair of East Thames, who sadly passed away recently. Without Nick's vision, inspiration and devotion, L&Q would never have come into existence. I echo Nick's final message to L&Q in December 2016:

"L&Q is doing probably the most important sort of job that there is to be done in our country, which is to provide homes for people. Life without a home, a settled home, is incredibly difficult.
The consequences of homelessness are absolutely devastating and what L&Q is doing is something that is the basic need of human beings, a roof over their head at a price that they can afford to pay."

Aubrey Adams
Group Chairman

L&Q GROUP CHAIRMAN
AUBREY ADAMS.

LOOKING OUT FROM THE KITCHEN INTO THE GARDEN AT ST AGNES PLACE IN KENNINGTON, A DEVELOPMENT OF HOMES FOR SALE ON THE OPEN MARKET.

04

04 Strategic report

Business overview 2017

The Group's portfolio of properties and areas of operation are geographically focussed in London and the South East of England with the total number of homes under management increasing to 90,571 (2016: 73,070) during the year.

This increase was delivered through organic growth, whereby L&Q delivered 871 social and affordable rent units, 447 shared ownership units and 515 market rented units, and through East Thames joining the Group on 6 December 2016 with its asset base of over 15,000 homes, and delievering 218 social units.

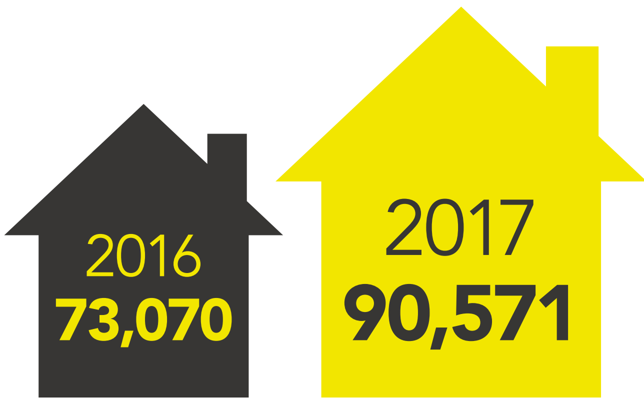
In August 2016 we announced a new partnership with the Manchester based Trafford Housing Trust to deliver 2,000 new homes across Greater Manchester and the North West of England over the next four years.

This is our first partnership outside the South East of England, which supports our long standing commitment to work with local housing associations to deliver more homes and support local communities. Work began in April 2017 on Spinning Gate which will provide 45 affordable homes completing in early 2018. This is the first of many potential developments under this exciting and innovative partnership where profits will be reinvested in the North West of England.

The acquisition of Gallagher Estates in February 2017 added 42,500 land plots to our growth plans.

This takes our total development plots to over 86,000 as we explore new ways of increasing the number of homes we build. Currently, this acquisition will remain a wholly owned standalone business, run by its current management team with a strong track record of delivery and ability to source future plots.

L&Q's expectation is that existing working capital within Gallagher Estates will be recycled such that the business is self-financing going forward.

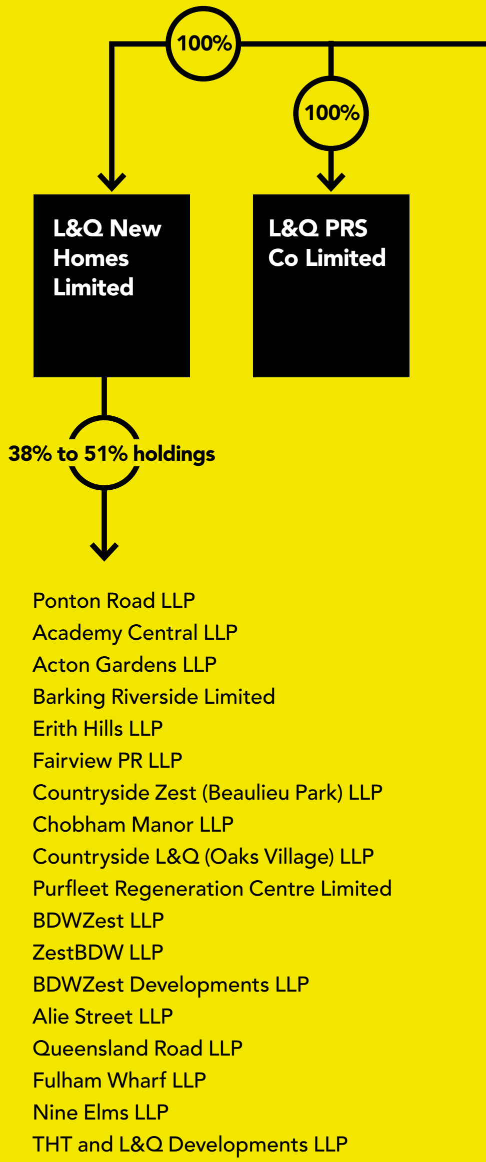


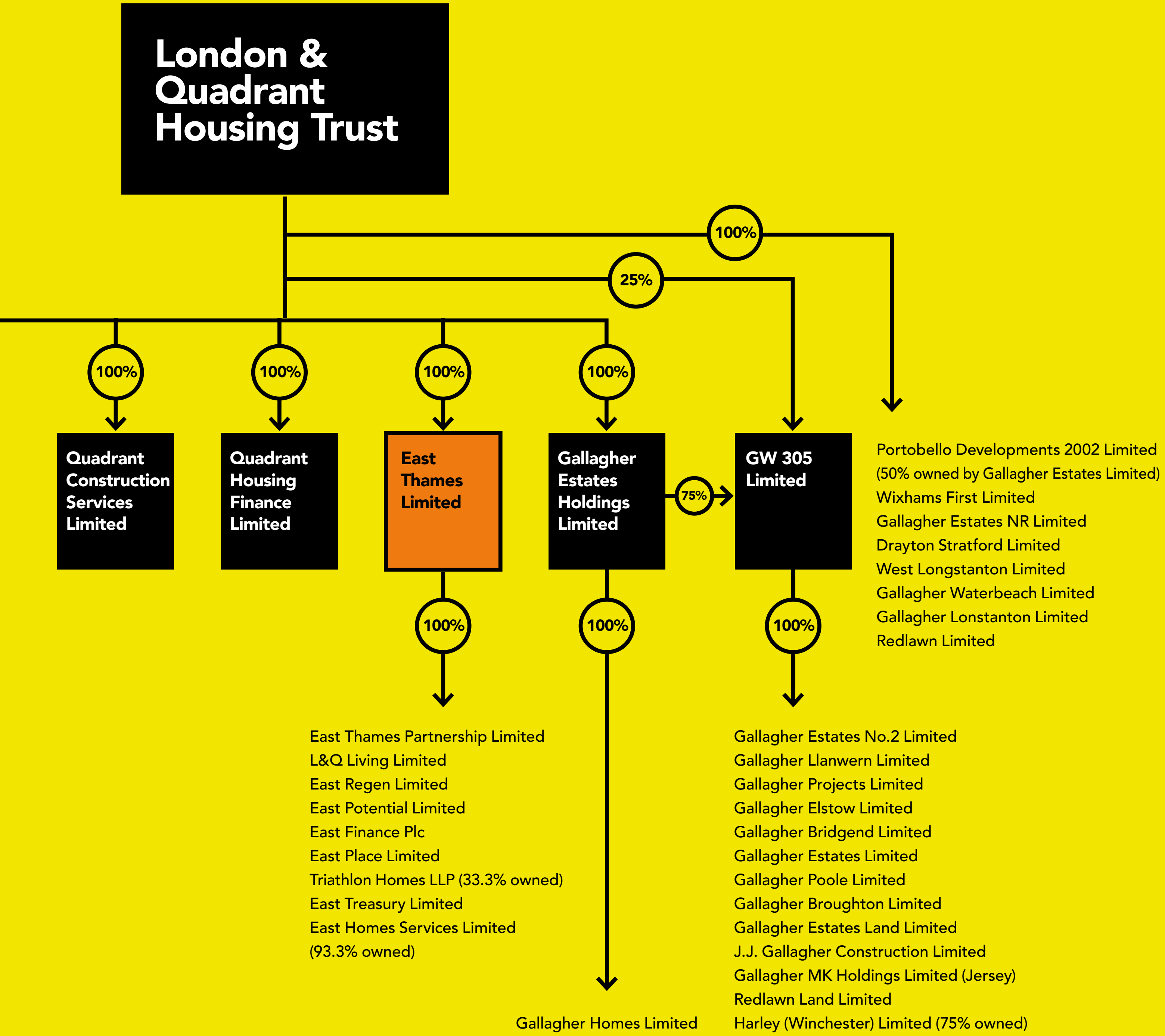
Total number of homes managed from 2016 to 2017

Group structure as at 31 March 2017

London & Quadrant Housing Trust (LQHT) remains the social landlord parent of the Group providing central corporate services and strategic direction to the rest of the Group. A full list of the Group subsidiaries and their activities are set out in note 34 of these Financial Statements.

In 2017/18 our focus will be on consolidation, by starting to rationalise the number of entities in the Group and removing duplication of activities between entities. We will also target the amalgamation of LQHT and East Thames Limited (ETL), thereby simplifying the Group structure as soon as practically feasible.




London & Quadrant Housing Trust
100%
25%
100%
100%
100%
100%
Quadrant Construction Services Limited
Quadrant Housing Finance Limited
East Thames Limited
Gallagher Estates Holdings Limited
75%
GW 305 Limited
Portobello Developments 2002 Limited
(50% owned by Gallagher Estates Limited)
Wixhams First Limited
Gallagher Estates NR Limited
Drayton Stratford Limited
West Longstanton Limited
Gallagher Waterbeach Limited
Gallagher Lonstanton Limited
Redlawn Limited
100%
100%
100%
East Thames Partnership Limited
L&Q Living Limited
East Regen Limited
East Potential Limited
East Finance Plc
East Place Limited
Triathlon Homes LLP (33.3% owned)
East Treasury Limited
East Homes Services Limited
(93.3% owned)
Gallagher Homes Limited
Gallagher Estates No.2 Limited
Gallagher Llanwern Limited
Gallagher Projects Limited
Gallagher Elstow Limited
Gallagher Bridgend Limited
Gallagher Estates Limited
Gallagher Poole Limited
Gallagher Broughton Limited
Gallagher Estates Land Limited
J.J. Gallagher Construction Limited
Gallagher MK Holdings Limited (Jersey)
Redlawn Land Limited
Harley (Winchester) Limited (75% owned)

Strategic report
(continued)

Summary of financial performance

Statement of consolidated income (£m)	2017 [1]	2016	2015	2014
Turnover	**756**	628	518	546
Operating costs and cost of sales	**(457)**	(371)	(299)	(341)
Surplus on disposal of assets	**53**	41	24	20
Share of profits from joint ventures	**13**	23	34	14
Operating surplus	**365**	**321**	**277**	**239**
Net interest charge and other finance costs	**(69)**	(65)	(66)	(64)
Change in valuation of investment properties	**36**	23	4	8
Taxation	**(5)**	(5)	-	(6)
Surplus for the year before exceptional items [2]	**327**	**274**	**215**	**177**
Exceptional items				
- Refinancing costs	**(548)**	-	-	-
- Gift on acquisition	**441**	-	-	-
Surplus for the year after tax	**220**	**274**	**215**	**177**

Statement of financial position (£m)	2017	2016	2015	2014
Housing properties at cost less depreciation	**8,671**	7,024	6,875	6,708
Other tangible fixed assets, investments and joint ventures	**1,128**	723	530	398
Net current assets	**1,000**	265	314	176
Total assets less current liabilities	**10,799**	**8,012**	**7,719**	**7,282**
Loans due after one year	**4,530**	2,110	2,042	1,824
Unamortised grant	**1,777**	1,744	1,800	1,780
Other long-term liabilities and provisions	**261**	302	283	215
Cash flow hedge reserve	**-**	(159)	(147)	(71)
Total reserves	**4,231**	4,015	3,741	3,534
Total assets less current liabilities	**10,799**	**8,012**	**7,719**	**7,282**

Number of homes managed	**90,600**	73,100	71,500	70,600
Estimated open market value	**£22.7bn**	£17.5bn	£16.3bn	£12.7bn

[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. 'Exceptional items' is considered a non-GAAP measure as defined in note 35 of the financial statements.

Group financial performance

Social housing activities that remain the core of L&Q's business contributed 74% of turnover (2016: 77%) and including surplus on disposal of fixed assets, 83% of the operating surplus (2016: 83%). Turnover from social housing lettings increased by 9% from £423m to £462m, generating operating margins of 50% (2016: 49%) through a combination of additional units handed over and the inclusion of the post acquisition results of East Thames Limited.

Post acquisition results of East Thames Limited from 6 December 2016 contributed £70m to turnover and £27m of pre-exceptional surpluses.

Shared ownership sales increased by 64% from £58m to £95m generating margins of 35% (2016: 50%) and remain an attractive proposition for first time buyers in L&Q's areas of operation who are not able to buy outright.

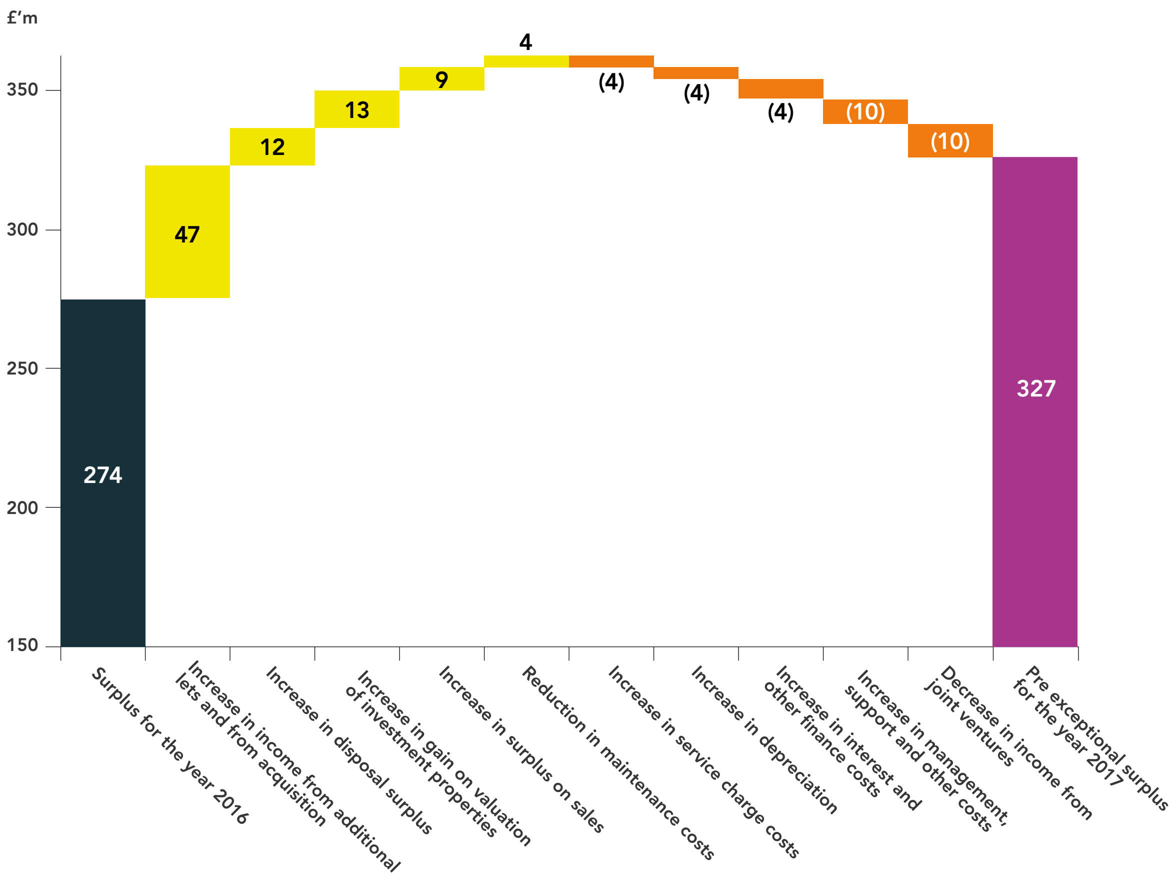
On non social housing activities, turnover on open market sales (excluding joint ventures) has remained static at £119m (2016: £119m) generating margins of 25% (2016: 25%). Returns on joint ventures were significantly reduced with the Group's share of profits declining to £13m (2016: £23m). This signals tougher market conditions at the high end of the property spectrum, although these schemes were performing above their respective approved hurdle rates.

Gallagher Estates post acquisition results from 1 February 2017 contributed land sales turnover of £42m and a profit after tax of £13m which were consolidated within the Group.

The re-financing costs of £548m are made up of loan breakage costs of £362m, in effect "make-whole" provisions that allowed the Group to redeem loans and cash flow hedges prior to maturity as agreed with our lenders, release of previously capitalised costs of £4m, and a reclassification of cash flow hedge reserve through the statement of comprehensive income of £182m.

The exceptional gain of £441m is the effect of East Thames Limited joining the Group. The treatment, as a gift to the Group, is made up of £396m reserves of East Thames Limited on 6 December 2016, adjusted upward by £45m, being the difference between the fair value of net assets and net liabilities acquired.

How our pre-exceptional surplus has changed from last year



Group financial position

The Group strengthened its financial position with total assets net of current liabilities increasing to £10,799m (2016: £8,012m). Our development pipeline added £542m to housing properties sites under construction whilst completed properties to the value of £493m were made available for let in the year. The Group took possession of a further £1,212m of housing properties as East Thames Limited joined the Group.

The Group's investment property portfolio in the private rented sector increased from £267m to £466m with additions and acquisitions amounting to £163m and a year end uplift on the valuation of market rented properties of £36m.

Properties and land held for sale increased to £1,120m (2016: £388m) as a result of pipeline additions of £310m in the year, whilst the acquisition of Gallagher Estates and East Thames Limited added a further £635m. Completed stock of £242m was made available for sale in the year of which £78m remains unsold at the year end.

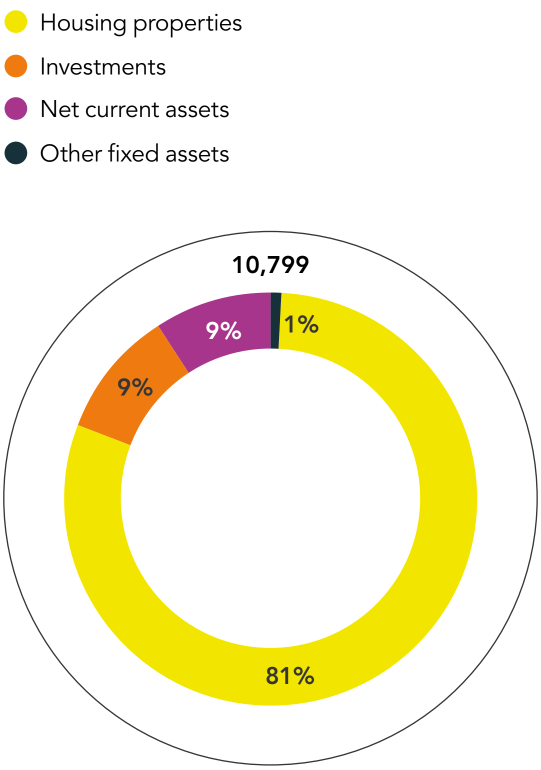
Net current assets increased to £1,000m (2016: £265m) as a result of land held for sale in Gallagher Estates being classified as current assets until such time as requisitioned by the Group to be developed as Housing properties.

Long term creditors consist mostly of external loans at amortised cost of £4,530m (2016: £2,110m). The £2,420m increase results from growth in capital expenditure, the acquisition of Gallagher Estates, and the £2.6bn strategic re-financing exercise that materially lowered the percentage of fixed debt and weighted cost of debt, whilst providing a simple capital structure that has leverage flexibility.

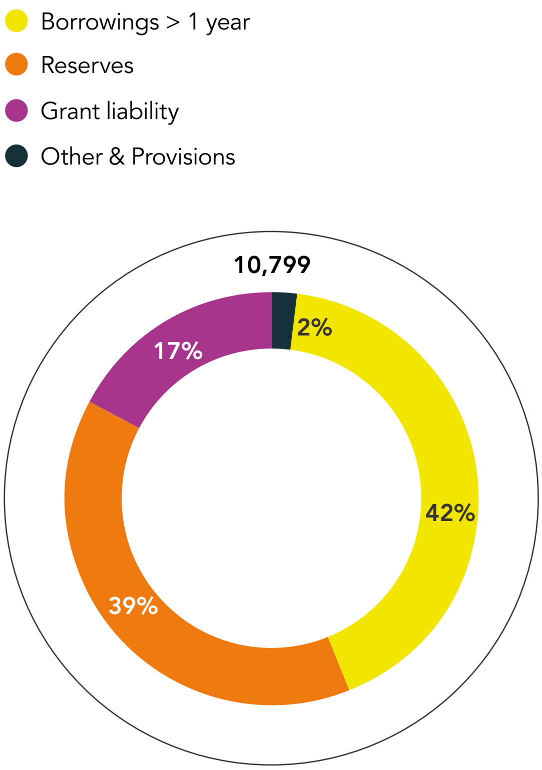
Deferred grant income net of accumulated amortisation as at 31 March 2017 was £1,691m (2016: £1,661m) of which £24m (2016: £22m) is shown as a current liability. The static movement reflects the accounting treatment applied to social housing grant held in East Thames Limited that was fair valued at nil on consolidation and treated as a contingent liability.

Total reserves increased to £4,231m (2016: £3,856m). The movement reflects £220m surplus for the year after tax, reclassification of the £159m of cash flow hedge reserve and other movements that reduced reserves by £4m.

Assets (£m)



Liabilities (£m)



Capital Structure and Treasury

The purpose of the treasury strategy is to support the delivery of the Group's strategic objectives and financial plan. It is approved semi-annually by the executive group and the Board and details how we mitigate and manage treasury related risk defined as liquidity risk, interest rate risk, covenant risk and counterparty risk.

The role of treasury is to ensure that the Group has sufficient liquidity to fund its operations and investments for a minimum of 15 months, mitigating the impact of adverse movements in interest rates, ensuring that loan covenants are met at all times and ranking the preservation of capital ahead of returns when making investment decisions.

The Group is financed by a combination of retained reserves, loan facilities and social housing grant.

During the course of the financial year the Group secured an additional £300m of debenture loans, £175m of finance directly into L&Q PRS Co Limited under the Government Guarantee Scheme for the private rented sector, conducted a £2.6bn strategic refinance and added a £300m loan facility directly into Gallagher Estates. At 31 March 2017 the Group had total loan facilities of £5,014m of which £4,496m (2016: £2,208m) were drawn and £518m (2016: £269m) were undrawn. All undrawn facilities are fully secured and committed revolving credit facilities (RCF) are available within 48 hours. Cash equivalents held were £215m, leaving net debt (excluding any net issue premium, fair value adjustments and mark to market exposure on interest rate hedges) at £4,281m (2016: £2,098m). Available liquidity (defined as available undrawn loan facilities and available cash that are not secured in held funds) was £708m (2016: £378m).

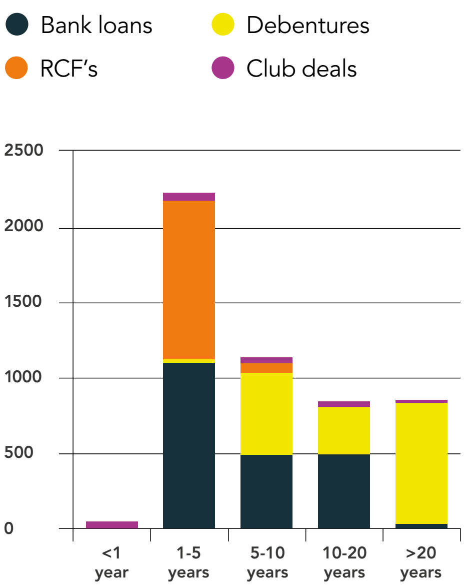
The weighted average cost of drawn debt decreased in the year to 3.9% (2016: 4.8%) as a result of the strategic refinancing whilst the weighted average duration of drawn debt across the Group fell to 11 years (2016: 17 years).

At 31 March 2017 the Group exposure to refinance risk within 1 year was £49m (2016: £110m), representing 1% of total debt facilities.

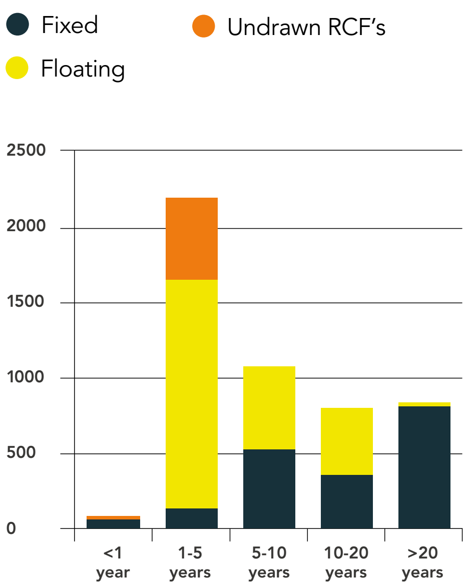
The Group manages its exposure to fluctuations in interest rates with a view to achieving a level of certainty in its net interest costs. The Group's interest rate strategy is focused on achieving the prescribed balance between fixed and floating rate debt at an acceptable level of risk and cost. At 31 March 2017, 42% of the Group's drawn debt (inclusive of £80m of fixed paying hedges) was fixed (2016: 84%).

Although the refinancing came at a one-off cost to the Group, future benefits will be achieved in the form of a lower weighted cost of borrowings whilst a higher proportion of variable debt provides the Group with the flexibility to manage interest rate risk in support of the Group's corporate objectives.

Debt maturity (£m)



Fixed floating maturity (£m)



As at 31 March 2017, L&Q had the following credit ratings:

Credit rating agency	Credit rating	Rating outlook
Standard & Poor's	A+	Negative
Moody's Investors Service	A2	Negative

Loan covenants are primarily based on interest cover, gearing ratios and asset cover. Covenants are monitored regularly in accordance with the governance framework and were met throughout the year for all loan facilities across the Group.

The Group operates a conservative counterparty policy and aims to minimise the risk of financial loss, reputational loss or liquidity exposure linked to any counterparty. Short term investments are well diversified and kept at a minimum by temporarily repaying revolving credit facilities in order to manage working capital and our interest budget. As at 31st March 2017 all cash investments are held with Counterparties who meet the criteria of our Treasury Policy.

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

Operational performance

The Group measures operational performance by setting strategic key performance indicators (KPI's) under a balanced scorecard approach that are linked to the Group's corporate objective and monitored monthly by the Executive Group and quarterly by the Board. In addition to the strategic KPIs, other operational measures are monitored monthly by the Operations Board with an escalation of significant exceptions to the Executive Group.

The key targets (set prior to the addition of East Thames Limited and Gallagher Estates to the Group) and how we delivered against those targets are set out below:

Balanced scorecard	Performance indicators	2017 Target	2017 Actual
Customer experience			
Consistently deliver an efficient, reliable and timely service to all our customers	Overall satisfaction with services	>= 80%	**79%**
	Satisfaction with repairs and maintenance service	>= 80%	**75%**
	Satisfaction with home	>= 80%	**82%**
Financial strength and growth			
Building the homes we need	Development handovers	>= 2,775	**2,266**
Maximise financial capacity in order to deliver as many homes as possible	Delivering surplus from sales and core activities	>= £282m	**£276m**
People and culture			
Engaging our people	Staff engagement in Great Places to Work (GPTW) survey	>= 81%	**78%**
Business excellence			
Key operational measures monitored by operational board	Current tenant arrears	=<3.6%	**3.5%**
	Abandoned call rate (contact centre)	=<10%	**9.9%**
	Valid gas certificates	=100%	**99.8%**
	Estates achieving gold standard	>=65%	**68%**
	Empty units (voids available to let)	=<1%	**0.6%**
	Staff sickness	=<2.8%	**2.8%**

We acknowledge that results were marginally below the challenging targets set in some areas of the balanced scorecard, with seven out of the above twelve not met. However, we recognise that during the course of the last year, the Group and the external environment has seen significant and material change, and as such, we can draw a lot of positives from these results.

Being just short of the target for overall satisfaction with the service we provide demonstrates that the culture within the Group remains customer focussed. In respect of our staff engagement, 78% still ranked us in 29th place in the Great Places to Work (GPTW) prestigious list this year.

Strategic report
(continued)

On development, we handed over 2,266 new homes, against a target of 2,775: 509 fewer homes than planned and only 82% of our target. Planning and construction delays meant that a number of sizeable joint venture scheme completions would necessarily slip into the next financial year.

These delays have had an impact on the surplus for the year as shown by the reported year-on-year reduction in share of profits from joint ventures. Including East Thames Ltd, the Group handed over a total of 2,552 new homes.

The Group's strategic KPI's for 2017/18 are set out below:

Balanced scorecard	Performance indicators	2017/18 Target
Customers		
	Overall satisfaction with services	>= 79%
	Satisfaction with repairs and maintenance service	>= 75%
	Social return on investment (HACT)	£3 generated for £1 invested
Financial health and growth		
	Total starts on site	2,268
	Total handovers	2,232
	Group surplus	£324m
	Operating margin - social housing	50%
	Cash operating cost per unit - social housing	£3,284
	Regulatory viability rating	V1
Operations		
	Synergy efficiencies (in budget year)	£10m
	Regulatory governance rating	G1
	Corporate social responsibility	BITC accreditation
People and organisation		
	Investors in People	Gold
	Great Places to Work index	Accreditation
	Stonewall Equality Index	Accreditation
	Stakeholder perception survey	75% rated good/very good
	People engagement	74% GPTW survey

These targets for 2017/18 have been set for the enlarged Group taking a blended approach on current performance and also recognising the requirement to consolidate processes and activities in certain areas before improvements can be delivered.

Value for money

Value for money is fully integrated into the corporate planning of the Group, which means that the value we want to create is encapsulated in the Group wide corporate strategy and objectives.

Bringing East Thames Limited into the Group, acquiring Gallagher Estates and investing in a partnership with Trafford Housing Association were bold steps as part of L&Q's longer term vision to enable the Group and its partners to deliver value by producing more quality homes, delivering better services and having a greater impact on residents and communities.

The first Value for Money statement of the new Group has been finalised and published on the L&Q website. It supports the strategic framework and objectives around customers, operations, financial health and growth, and organisation and culture.

A summary of the progress made is tabled below and incorporates efficiency measures known as the "sector scorecard" that is being piloted with other housing associations. Set out below is the performance of L&Q and East Thames Limited on the proposed sector scorecard measures based mostly on the financial statements. From next year, subject to any requirements in a revised Value for Money standard set by the Homes and Communities Agency (HCA) in its role as regulator, and the agreement of the final methodology for the sector scorecard, we will be able to use these measures to help drive the Group's performance and draw comparison to relevant peer groups. These measures do not reflect calculations agreed in loan covenants.

Sector scorecard	L&Q[1] 2017	L&Q 2016	East Thames[2] 2017	East Thames 2016	G15 averages 2016
Business health					
Operating margin excluding surplus on disposals	41%	41%	33%	28%	32%
Operating margin - social housing lettings	51%	49%	35%	32%	36%
EBITDA MRI % interest cover[3]	270%	238%	225%	140%	192%
Development – capacity and supply					
Units developed	2,266	2,510	286	227	781
Units developed as a % of units owned	4%	4%	2%	2%	2%
Gearing[4]	49%	30%	61%	52%	45%
Outcomes delivered					
Customer satisfaction with services provided by landlord	79%	79%	71%	57%	76%
£s invested in new supply for every £ generated from operations	3.8	1.0	0.8	1.2	1.2
£s invested in communities for every £ generated from operations	0.1	0.0	0.1	0.2	n/a
Social value generated per £ invested (HACT[5])	5.0	3.5	n/a	n/a	n/a

[1]L&Q represents the Group results excluding the Group's share of East Thames post acquisition results

[2]East Thames consists of 12 months of East Thames Group consolidated results

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

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

[5]This is calculated using the HACT tool for return on social investment, which is a sector wide approach

Sector scorecard	L&Q 2017	L&Q 2016	East Thames 2017	East Thames 2016	G15 averages 2016
Effective asset management					
Return on capital employed[6]	2.9%	3.2%	4.6%	3.0%	4.5%
Occupancy	99%	99%	100%	n/a	n/a
Ratio of responsive repairs to planned maintenance	0.8	1.0	0.7	0.7	0.6
Operating efficiencies					
Headline social housing unit cost	3,043	3,322	3,628	4,297	4,933
• Management	554	525	818	1,022	1,320
• Service charge	555	561	754	726	613
• Maintenance	1,215	1,329	1,136	1,095	1,084
• Major repairs	526	714	451	551	855
• Other	193	193	469	903	860
Rent collected	99%	99%	100%	100%	98%
Overheads as a % of turnover	6%	7%	13%	14%	12%

In order to fund our ambition to build more homes, the Group needs to maintain a large, stable and well performing asset base from which we can receive stable revenue streams and raise finance against.

[6]Return on capital employed calculated as operating surplus ÷ total fixed assets + total current assets less total creditors due within one year

Social responsibility and community investment

The L&Q Foundation

Established in 2011, the L&Q Foundation focuses on tackling the underpinning issues causing the lack of opportunities and disadvantage among households and the communities in which we operate. Its vision is that 'no-one should be denied the opportunity to achieve their full potential because of where they live'.

In 2016/17 we invested over £7m in the work of the L&Q Foundation and the key outcomes were:

- 451 participants into paid work,
- £9m raised for residents as additional income through helping them access support and funding,
- 15,000 young people engaged,
- For every £1 invested £5 gained in social value

The L&Q Foundation's portfolio of community investment is delivered through strategic themes which align with the business needs of having stable tenancies, supporting vulnerable residents, and providing aspirational opportunities for residents. In 2016/17 we have delivered our investment through a mixture of in house services and commissioned work with strategic partnerships.

Our investment themes are:

Employment and skills

The key focus of this theme is to increase employment and skills amongst residents, and we do this through our in house job brokerage service called JobReady. We also develop tailored interventions which tackle specific barriers to employment faced by our residents, and commission services which support the employability of our residents.

In 2016/17 the L&Q Foundation's JobReady team have placed 451 people into employment. They have delivered projects which tackled complex barriers to employment such as low level mental health, access to affordable childcare, employability of vulnerable adults in supported living and physical disability.

Financial inclusion

This theme sets out to support residents move from financial exclusion to financial inclusion and stability, and consequently support residents to sustain their tenancies. Central to our financial inclusion offer is our Pound Advice service. In partnership with the Citizen's Advice Bureau it provides financial advice and debt support for residents, offering face to face support across 35 boroughs in London. Pound Advice has grown from strength to strength in recent years and in 2016 was shortlisted for two awards – 'Investing in People' at the NHF's Community Impact Awards and 'Best Tenant Support Advice Programme' at the Housing Excellence Awards.

In 2016/17, 2,400 residents took up Pound Advice, and around half of these were families with children. We also helped residents gain £9m of additional income and approximately £3m of that has impacted positively on rent balances, maintaining their tenancies.

Positive futures for young people

This theme drives to improve the life chances of our younger residents through supporting access to employment and educational opportunities. The Foundation's strategic investments have been focused on working with schools, educational charities, youth and sport organisations, as well as a unique intervention aimed at unidentified young carers living in communities. The Foundation goes further to help our young people make better and more informed decisions by linking our supply chain with the schools we support.

Our holiday programme, One Goal, provides multi-sports and creative arts activities across London. It is delivered in partnership with nine football clubs' community foundations and sessions run across most school holidays. In 2016/17, around 15,000 young people came to at least one session and most attended more than once. Our sporting programmes also offer young people the opportunity to volunteer and undertake training courses and coaching qualifications.

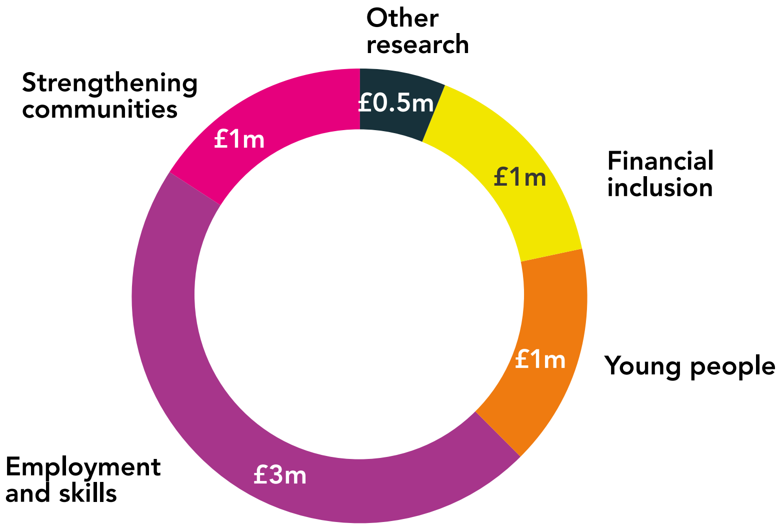
In 2017/18, we want to further develop our commitment to young people by offering ten L&Q young people the chance to receive a grant from us towards their university fees. The Turlogh O'Brien scholarship programme, named in honour of L&Q's previous chairman, will support students starting their courses in September 2017.

Strengthening communities

The key focus here is to deliver projects that aim to create sustainable and resilient communities. The projects that we run work towards developing grass roots interventions that are underpinned by our drive for community cohesion. In 2016 we focused on our befriending scheme to tackle social isolation. The L&Q Foundation is committed to further investment in supporting activities for our older residents.

East Thames Limited has also continued to provide more employment and enterprise support than in previous years. Support was provided to more than 650 people who received training and mentoring towards employment or advice and guidance for business and enterprise start ups. East Thames Limited secured employment for 274 of the people they supported in a range of sectors.

2016/17 L&Q Foundation expenditure against strategic themes



The year ahead

As the Group moves to a period of integration, the L&Q Foundation is also entering a time of change. Over 2017/18 it will be re-launched with an ambitious new strategy and a growing pipeline of work focused on three core themes;

- Independent lives – supporting residents to live economically and socially independent lives
- Successful places – developing aspirational and transformative opportunities with a focus on improving the quality of life of communities
- Social responsibility – increasing interventions that support the business to be socially responsible in the way it manages its operations

Our focus has widened so we can meet the changing needs of our residents, including those of older people and those facing particular barriers to opportunities available to their peers.

Social value

L&Q uses the Housing Associations Charitable Trust (HACT) Wellbeing Valuation approach to measure social value generated by the work the Foundation does. The approach uses the Social Value Bank, which places a monetary figure on social activities that are traditionally more difficult to quantify financially. It has been developed for the housing sector and includes the most common outcomes associated with community investment activities.

This includes the number of people taking up employment or training opportunities and those who have been helped to improve their financial circumstances, as well as people who become more involved in their local community. Using the principles of this methodology, we have calculated that for every £1 invested in Foundation activities we made a social return of £5.

Risk management

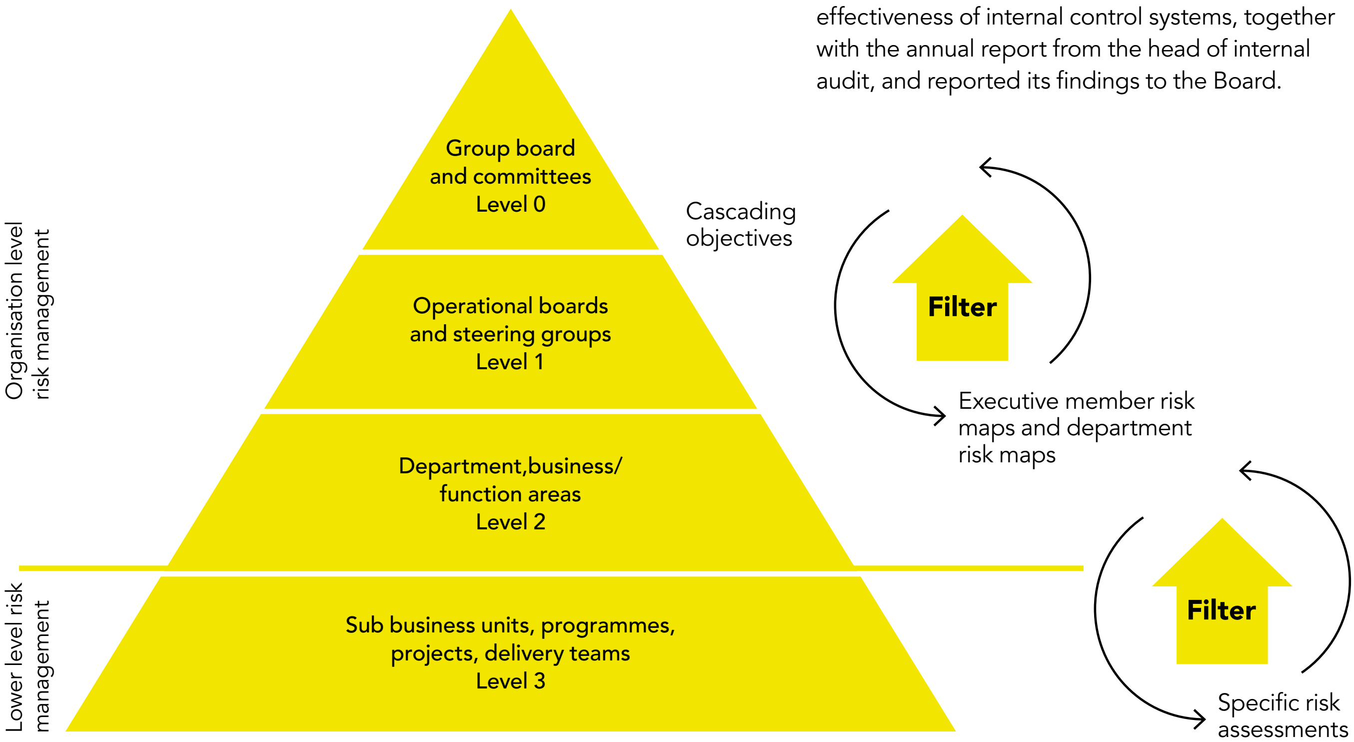
Risk management is fundamental to the achievement of our corporate objectives. We have an 'enterprise risk management' approach which embeds risk management across all operational functions and projects supported by a leading risk software system to provide oversight across the entire business. We have 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 risk management process is summarised in the graphic shown on this page. The filtering process works in such a way that all 'red risks', that is those above an internally agreed score are automatically escalated to the next management level for further scrutiny. The escalated risk will be reassessed and a decision made as to whether it should remain escalated or not. If a risk is to remain escalated then higher level management will retain oversight of it and will ensure its effective management in view of the fact that the risk extends beyond our tolerance levels. The principle of risk escalation applies up to executive level and the Executive Group risk map will therefore be made up of a blend of key strategic and key operational risks escalated to executive level.

The Group has embedded a culture of risk management and this ongoing process to identify, evaluate, and manage risks faced by the Group has been in place throughout the year and up to the date of the approval of the financial statements. The principal risks are scored in terms of probability and impact. Impact can be assessed across multiple categories including health and safety and reputation as well as on financials. The process also provides a hierarchical assurance to successive levels of management, and material risks can be, and are escalated up to Board level reports.

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

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



Strategic report
(continued)

The Executive Group and Group Board considered the risks described here as the group's key risks for this financial year:

Risk	Assessment and risk mitigation
Major or series of Health & Safety incident(s) causing injury or death event(s)	We have undertaken a detailed review of our Health & Safety governance arrangements and implemented changes during 2016 to strengthen our approach to the management of Health & Safety. We already have detailed health and safety policies and procedures in place to minimise such risks and these are reviewed and monitored by management and our Health & Safety Board. In addition, we have a specialist in-house Health & Safety team operating as a clearly defined second line of defence function providing advice and guidance and undertaking regular audits to ensure that policies and procedures are complied with in this critical risk area. This includes experienced health & safety professionals embedded within our in-house maintenance and construction divisions.
Brexit leads to prolonged period of uncertainty and considerable financial market volatility	We continually monitor financial markets and have a flexible Treasury strategy to adapt to market conditions as necessary. Whilst market volatility has the potential to impact upon the funding of our future growth objectives, we have existing funding in place to cover operations for a period significantly greater than our conservative Treasury Policy which targets a minimum liquidity ratio of 1.25. We review our investment needs in line with our funding opportunities and ensure that we remain within these requirements.
Sales market / mortgage availability leads to inability to meet sales targets and provide investment in affordable housing	We continue to adopt a bespoke marketing and sales strategy for each new development and undertake scenario modelling based on revenue and cost fluctuation. We work with mortgage lenders to ensure potential customers have access to advice on how much they can borrow and the range of products available. We also undertake market research to ensure the products offered meet market requirements. We also closely monitor market data such as house price indices and mortgage approval rates as part of our suite of key risk indicators. This will inform our decision making process around the implementation of other risk mitigation such as switching tenure.
Ability to attract and retain the best staff within L&Q	Our recruitment process ensures we employ staff who are well skilled and hold relevant qualifications. Our recruitment focuses on our values and there are a number of schemes to retain and attract new talent, which include an annual apprentice and graduate scheme and recent talent development programme for leaders. We develop our internal management capability through the Managing the L&Q way suite of training courses and provide a suite of personal development courses for all employees. To ensure we are competitive with our terms and conditions of employment, we actively conduct benchmarking and seek to achieve external accreditation, i.e. Great Place To Work 'Best Workplaces' and Investors in People. We are also undertaking more focussed pieces of work in relation to pay and benefits in areas of our business that are more at risk. Our approach is set out in the L&Q People strategy.

Risk	Assessment and risk mitigation
Mergers and acquisitions do not deliver expected outcomes in terms of governance, viability and service delivery	We have set out clear efficiency targets and have detailed integration plans in place to deliver these. We are also spending considerable time ensuring that we achieve the right cultural fit during merger integration. We have strong governance arrangements in place and are guided by our five stakes in the ground, which are: • Our commitment to creating a great place to work • Our commitment to the quality of our homes and service • Our ambition to build as many homes as we can with as many being affordable to people on lower incomes • Our commitment to remaining amongst the most efficient in the sector • Our social purpose
Uncertainty over rent formula threatens growth plans and service quality	We introduced a balanced package of savings, efficiency measures and income generation, amounting to £38m per annum, in response to the 1% rent reduction in 2015 and plans to re-align our strategic objectives to help manage the impact of future rent reductions were finalised in March 2016. The Housing White Paper contained a commitment by government to talk to the sector about a new rent standard which is clearly a very positive step. We are actively lobbying to ensure that any new rent standard supports our ambitious growth plans to deliver real solutions to the housing crisis.
Safeguarding incident in Care subsidiary leads to significant reputational damage and/or regulatory intervention	Safeguarding is everyone's business so we train all of our staff to ensure that they have an appropriate level of awareness of safeguarding issues. We have robust safeguarding policies and procedures in place which are strictly enforced and undertake DBS checks. We also have other initiatives in place such as safeguarding month and safeguarding champions. We have a safeguarding committee and report regularly to the L&Q Living Board.
Non-compliance with regulatory standards or expectations of good practice leads to regulatory downgrade	Our Board is briefed and trained on relevant governance issues and officers obtain professional advice when necessary before seeking Board approval, for instance before embarking on diversification projects and more commercial activities. We have also established a Group Regulation Panel (GRP) to monitor compliance. The GRP will also oversee the production of an annual report on standards compliance for the Group.
Serious loss of sensitive/ personal data	We are alive to the implementation of the General Data Protection Regulation (GDPR) which comes into effect in May 2018. We have existing data protection training and awareness regimes in place but will revise these and introduce specific GDPR training. We have invested heavily in IT, implemented a number of robust back-up arrangements and are continuously reviewing and improving this. We have recently implemented a new resilient network and new security systems. Our devices are encrypted, controls over the downloading of data to remote devices are in place and regular penetration tests are undertaken. We have resilient IT security in place and constantly monitor threats to our IT environment.

Risk	Assessment and risk mitigation
Utilising our capacity to grow and maximising development opportunities leads to unmanageable growth	Our capacity model for growth is linked to cash flows and our risk appetite, with development approvals scored against our agreed capacity limit. If risks materialise we can adjust our capacity limit accordingly as well as considering other risk mitigation techniques, such as switching tenure, reducing discretionary spend and mothballing developments.
Major or series of fraud incidents	All of our operational teams are required to complete a Fraud Risk Assessments (FRA) and record the results on our risk software system. Compulsory e-learning training is in place for all staff to ensure continuous knowledge and awareness on fraud, bribery and corruption related risks. We have introduced electronic purchase ordering and payment systems to combat fraud risks and have robust processes in place to validate supplier records, particularly in relation to bank account changes. We also have robust HR policies and procedures in place for checking the background of job applicants prior to employment and robust IT security protocols in place to mitigate cyber fraud.
Impact of Welfare Reform on income collection	We have invested in additional resources to mitigate the impact of welfare reforms including the creation of our Financial Inclusion team to support our residents. We have also adopted new IT systems and this, coupled with our modelling work and stakeholder engagement with the DWP and local authorities, enables targeting of our interventions. We have also been working on assessing the impact of Universal Credit and whilst the full impact of welfare reform has yet to take effect, our mitigating actions have led to no material increase in rent arrears.

The Board

The Group Board (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.

During the financial year, the Group continued to follow best practice with regard to corporate governance and, where appropriate, used all reasonable endeavours to comply with the NHF's Excellence in Governance – Code for Members 2015. During the financial year the current Group Chair also served as Chair of the Governance and Remuneration Committee, which is a divergence from full compliance as set out in paragraph E5 of the NHF's code. We fully complied with this provision by the second quarter of the year ending 31 March 2017.

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

On joining the Group, two members of the board of East Thames Limited were appointed as members of the Board, whilst the Chair of the Board was appointed as a member of the East Thames Limited Board. A member of the Group Board has also been appointed to the L&Q Living Limited Board.

Delegation

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

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

- **Audit and Risk Committee –** responsible for overseeing internal audit, external audit, the effectiveness of internal controls, monitoring and challenging management on its identification and mitigation of risk, and reviewing the financial statements and financial performance
- **Development Committee –** responsible for reviewing major development and investment schemes
- **Customer Experience Committee –** has a focus on service improvement, customer insight and monitors the delivery of the HCA's Consumer Standards
- **Governance and Remuneration Committee** – responsible for advising the Board on governance, remuneration, and Board or committee appointments

All committees report back to the Board at each board meeting. Membership of the committees is drawn from Board members, East Thames Limited board, and specifically for the Customer Experience Committee a number of independent members.

Statement of responsibilities of the Board

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

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

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

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

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

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Group and enable it to ensure that the Group's financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

Financial statements are published on L&Q's website, **www.lqgroup.org.uk**, in accordance with UK legislation governing the preparation and dissemination of financial statements. 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.

The Board is committed to ensuring that we comply with our legal and regulatory responsibilities, including the Modern Slavery Act 2015 to ensure that slavery and human trafficking does not exist in any part the Group or supply chain. L&Q's statement on modern slavery 2017 is available on the above website.

Internal control and risk management

The Board has overall responsibility for the system of internal control and risk management across the Group and for reviewing its effectiveness. The Board also take steps to ensure the Group adheres to the regulators 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 achieving business objectives. It can only provide the Board with reasonable, and not absolute, assurance against material mis-statement or loss.

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

- An established management structure operating across the Group, with clearly defined levels of responsibility and delegated authorities. This has been refreshed following East Thames Limited and Gallagher Estates joining the Group,
- 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 Chairman and the Chairman of the Audit and Risk Committee,
- External audit assurance – the work of the external auditors provides some further independent assurance of the internal control environment, as described in their audit report. The Group also receives a letter from the external auditors identifying any internal control weaknesses. In accordance with best practice guidance, the Audit and Risk Committee and the Board consider this letter,
- Procedures to ensure the employment, retention, training and development of suitably qualified staff to manage activities,
- The preparation and monitoring of budgets and long-term business plans – the Board, Audit and Risk Committee and the Executive Group review Group and subsidiary performance throughout the year. The reports ensure variances are investigated and acted upon,
- A process for approving all investment decisions – all major investment decisions are subject to appraisal and approval by the Development Committee, the Executive Group, and, where appropriate, the Board,
- Treasury activity and strategy are subject to regular Board review and approval,
- 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.

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 reviewed the effectiveness of the system of internal control, including risk management, for the year to 31 March 2017, and up to the date of signing these financial statements. It has not identified any weaknesses sufficient to cause material mis-statement or loss, which require disclosure in the financial statements.

Employee involvement

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

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

L&Q has won numerous accolades, including Investors in People Gold status. This year we achieved 29th place in the GPTW survey, and we have been included in this prestigious list for the last 13 years.

We are ranked as one of Stonewalls top 100 employers for lesbian, gay, bisexual and transgender staff.

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

We have introduced a more effective induction programme to assimilate staff quickly into L&Q culture and values and ensure we put customers at the heart of what we do,

- We have developed our in-house e-learning training programme to deliver blended learning and development to support our people in developing their skills,
- We have improved how we monitor courses taken in order to increase the completion of compulsory training modules,
- We have revamped our 'Managing the L&Q Way' suite of mandatory training courses for our people managers and aspiring managers. This is to help ensure that our people can transfer their learning from the classroom to the workplace, and this is supported through a blended learning approach,
- We have revamped our employee engagement strategy and worked with our people to recruit a super champion and new engagement champions. This has ensured we sustain top-quartile levels of employee engagement. We are continuing to roll out our integrated talent management strategy. This comprises the development of a program of activity that maps onto L&Qs definition of potential which will feed into our succession planning process,
- We continue to embed our service leadership pillars to reinforce our top-level vision and mission and to ensure we equip people to take responsibility for providing excellent customer service.

Equal opportunities

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

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

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

Going concern

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

The Board approves the Group financial plan annually and its output which are submitted annually to the Regulator in the form of a Financial Forecast Return (FFR) annual regulatory 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 confirming the future viability of the Group.

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 HCA's Governance and Financial Viability Standard.

Auditor

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

KPMG LLP have expressed their willingness to continue in office as the Group's auditors. Accordingly a resolution to reappoint them as auditors will be proposed at the forthcoming annual general meeting.

By order of the Board

Aubrey Adams
Group Chairman

27 June 2017


A YOUNG RESIDENT TAKING PART IN
A COOKERY CLASS, AS PART OF OUR
ONE GOAL PROJECT.
ONE GOAL IS COORDINATED
FOR US BY CHARLTON ATHLETIC
COMMUNITY TRUST AND IS
THE LARGEST FREE SCHOOL
HOLIDAY ACTIVITY PROGRAMME
IN THE COUNTRY.

CONSTRUCTION UNDERWAY OF NEW HOMES IN ACTON GARDENS, A LARGE REGENERATION SCHEME IN THE BOROUGH OF EALING, WEST LONDON.

05

05 Independent auditor's report to London & Quadrant Housing Trust

We have audited the financial statements of London & Quadrant Housing Trust for the year ended 31 March 2017 set out on pages 42 onwards. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the 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.

Respective responsibilities of the Board and auditor

As more fully explained in the Statement of Board's Responsibilities set out on page 34 the association's Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and the association as at 31 March 2017 and of income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014, and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Matters on which we are required to report by exception

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

- the 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.

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

Date: 3 July 2017

SOME OF THE FIRST HOMES TO BE BUILT AT BARKING RIVERSIDE, ONE OF THE MOST AMBITIOUS AND IMPORTANT NEW DEVELOPMENTS IN THE UK. ULTIMATELY, 11,000 HOMES WILL BE BUILT ON A FORMER POWER STATION SITE.

06

06 Statement of comprehensive income

06

Statement of comprehensive income

Year ended 31 March 2017

	Note	**Group 2017 £m**	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Turnover	3a	**756**	628	**532**	506
Cost of sales	3a	**(183)**	(118)	**(58)**	(35)
Operating costs	3a	**(274)**	(253)	**(244)**	(250)
Surplus on disposal of fixed assets and investments	6	**53**	41	**49**	52
Share of profits from joint ventures	14a	**13**	23	**-**	-
Operating surplus	5	**365**	321	**279**	273
Change in value of investment property	14c	**36**	23	**-**	-
Gift aid receivable		**-**	-	**69**	40
Interest receivable and similar income	7	**1**	2	**46**	32
Interest payable and similar charges	8a	**(73)**	(60)	**(91)**	(87)
Other finance income/(costs) - other		**3**	(7)	**-**	(7)
- refinancing costs	8b	**(548)**	-	**(548)**	-
Gift on acquisition of subsidiary	14f	**441**	-	**-**	-
Surplus/(loss) on ordinary activities before tax		**225**	279	**(245)**	251
Tax on surplus on ordinary activities	11	**(5)**	(5)	**-**	(1)
Surplus/(loss) for the year		**220**	274	**(245)**	250
Other comprehensive income					
Loss recognised on cash flow hedges		**-**	(12)	**-**	(12)
Actuarial loss on pension schemes	9	**(4)**	(2)	**(4)**	(2)
Reclassification of cash flow hedge reserve		**159**	-	**159**	-
Total recognised surplus/(loss) relating to the year		**375**	260	**(90)**	236

The comparatives for 2016 have been represented showing the share of profits from joint ventures under the equity method (note 2).

All amounts relate to continuing activities.

The accompanying notes form part of these financial statements.

RESIDENTS AT DAMES ROAD, A SUPPORTED LIVING SCHEME IN ESSEX WHICH HOUSES 25 PEOPLE AGED OVER 60.

CANALSIDE HOMES AT THE OCEAN ESTATE, IN TOWER HAMLETS, EAST LONDON. THE AREA HAS BEEN RECENTLY REGENERATED BY EAST THAMES.

07 Statement of financial position

07 Statement of financial position

At 31 March 2017

	Note	Group 2017 £m	Group 2016 £m	LQHT 2017 £m	LQHT 2016 £m
Fixed assets					
Housing properties	12	**8,671**	7,024	**7,266**	6,955
Other tangible fixed assets	13	**65**	35	**39**	35
Goodwill	14f	**14**	-	**-**	-
Equity investment in subsidiaries	14e	**-**	-	**363**	58
Investments - jointly controlled entities	14a	**392**	288	**-**	-
Investments - HomeBuy equity loans	14b	**127**	123	**113**	123
Investment properties	14c	**466**	267	**-**	-
Investments - Real Lettings property fund	14d	**10**	10	**10**	10
		9,745	7,747	**7,791**	7,181
Debtors due after more than one year	16a	**54**	-	**1,460**	875
Current assets					
Land and properties for sale and work in progress	15	**1,120**	388	**56**	51
Debtors	16b	**121**	83	**73**	66
Cash and cash equivalents	17	**215**	110	**171**	108
		1,456	581	**300**	225
Creditors: amounts falling due within one year	18	**(456)**	(316)	**(262)**	(309)
Net current assets/(liabilities)		**1,000**	265	**38**	(84)
Total assets less current liabilities		**10,799**	8,012	**9,289**	7,972

	Note	**Group 2017 £m**	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Creditors: amounts falling due after more than one year	19	**4,676**	2,205	**3,752**	2,187
Deferred social housing grant	20	**1,667**	1,639	**1,647**	1,639
Grant on HomeBuy equity loans	14b	**110**	105	**96**	105
Derivative financial liabilities	30	**3**	163	**3**	163
Provisions for liabilities	24	**67**	17	**13**	12
Net pension liability	9	**45**	27	**29**	27
Net assets		**4,231**	3,856	**3,749**	3,839
Capital and reserves					
Share capital	26	**-**	-	**-**	-
Revenue reserve		**2,345**	2,126	**1,862**	2,109
Cash flow hedge reserve		**-**	(159)	**-**	(159)
Revaluation reserve		**1,886**	1,889	**1,887**	1,889
		4,231	3,856	**3,749**	3,839

The accompanying notes form part of these financial statements.
These financial statements were approved and authorised for issue by the Board and signed on its behalf by:

Aubrey Adams
Group Chairman

Michael More
Chair of Audit and Risk Committee

Waqar Ahmed
Group Finance Director

Date of approval: 27 June 2017

NEW HOMES AT ST JOHN'S, AN EAST THAMES DEVELOPMENT, IN CHELMSFORD, ESSEX.

08

08

Statement of changes in equity

08

Statement of changes in equity

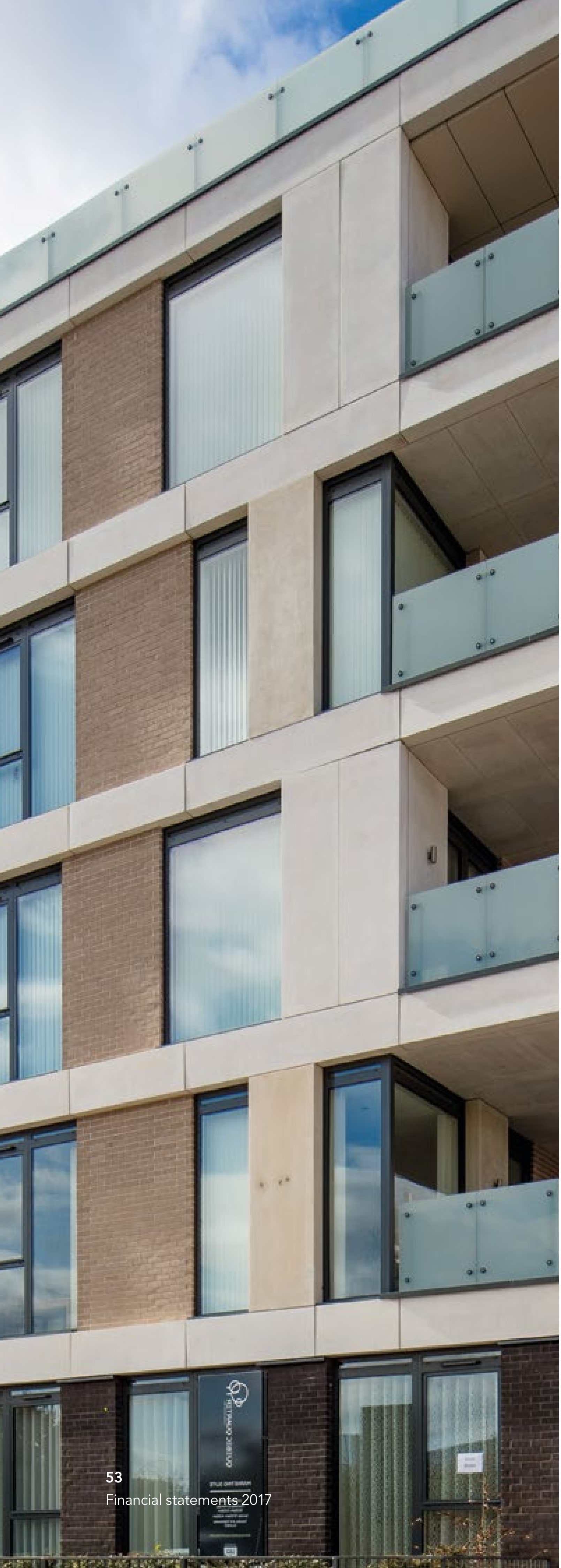
Year ended 31 March 2017

Group	Called up share capital £m	Revaluation reserve £m	Cash flow hedge reserve £m	Revenue reserve £m	Total equity £m
Balance at 1 April 2015	-	1,890	(147)	1,851	3,594
Surplus for the year	-	-	-	274	274
Effective portion of changes in fair value of cash flow hedges	-	-	(12)	-	(12)
Reserves transfer	-	(1)	-	1	-
Acquisition of jointly controlled entities	-	-	-	2	2
Actuarial losses	-	-	-	(2)	(2)
Balance at 31 March 2016	-	1,889	(159)	2,126	3,856
Surplus for the year	**-**	**-**	**-**	**220**	**220**
Reclassification of cash flow hedge reserve	**-**	**-**	**159**	**-**	**159**
Reserves transfer	**-**	**(3)**	**-**	**3**	**-**
Actuarial losses	**-**	**-**	**-**	**(4)**	**(4)**
Balance at 31 March 2017	**-**	**1,886**	**-**	**2,345**	**4,231**

LQHT	Called up share capital £m	Revaluation reserve £m	Cash flow hedge reserve £m	Revenue reserve £m	Total equity £m
Balance at 1 April 2015	-	1,890	(147)	1,860	3,603
Surplus for the year	-	-	-	250	250
Effective portion of changes in fair value of cash flow hedges	-	-	(12)	-	(12)
Reserves transfer	-	(1)	-	1	-
Actuarial losses	-	-	-	(2)	(2)
Balance at 31 March 2016	-	1,889	(159)	2,109	3,839
Loss for the year	**-**	**-**	**-**	**(245)**	**(245)**
Reclassification of cash flow hedge reserve	**-**	**-**	**159**	**-**	**159**
Reserves transfer	**-**	**(2)**	**-**	**2**	**-**
Actuarial losses	**-**	**-**	**-**	**(4)**	**(4)**
Balance at 31 March 2017	**-**	**1,887**	**-**	**1,862**	**3,749**

The accompanying notes form part of these financial statements.

BRAND NEW LARGER-THAN AVERAGE APARTMENTS IN QUEBEC QUARTER, AN EXCITING DEVELOPMENT IN CANADA WATER.



09 Consolidated statement of cash flows

09 Consolidated statement of cash flows

Year ended 31 March 2017

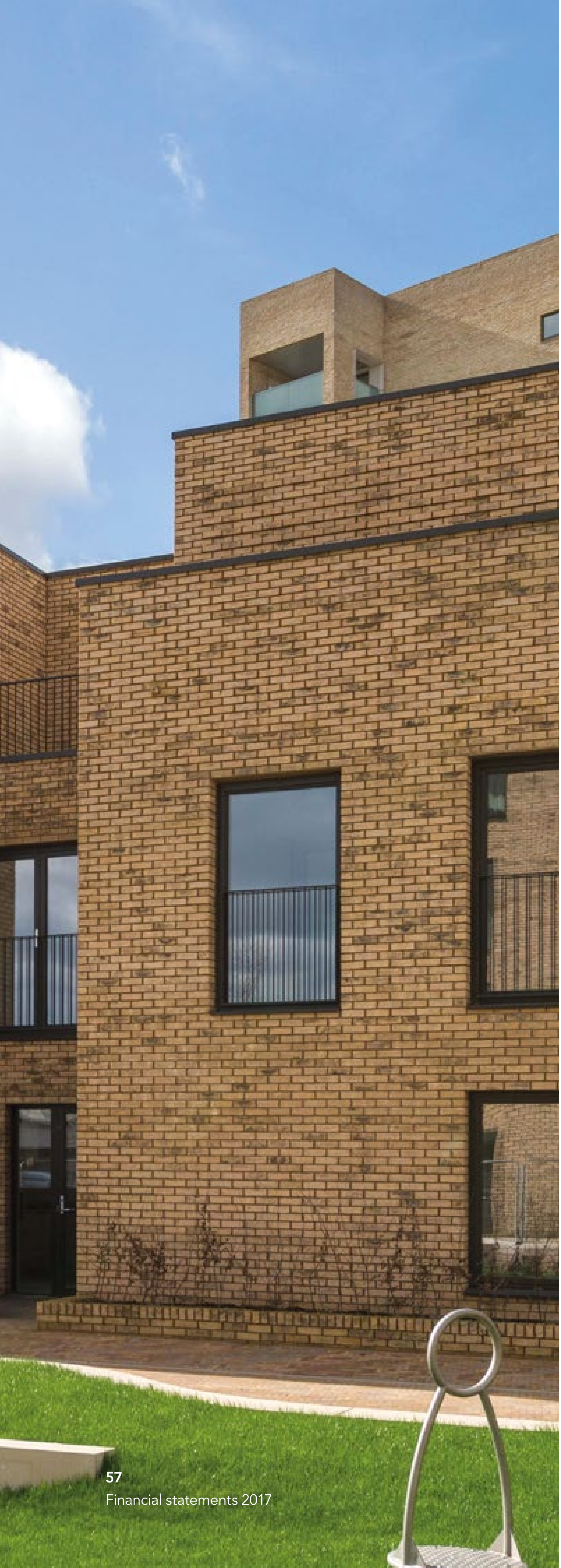
	Note	2017 £m	2016 £m
Cash flows from operating activities			
Surplus for the year		**220**	274
Adjustments for non-cash items:			
Depreciation, amortisation and impairment		**62**	60
Deferred government grant		**(22)**	(24)
		40	36
Adjustments for investing or financing activities:			
Change in value of investment property		**(36)**	(23)
Interest receivable and similar income		**(1)**	(2)
Interest payable and similar charges (including capitalised interest)		**73**	60
Other finance costs		**545**	7
Gain on sale of fixed assets		**(53)**	(35)
Gain on sale of investment		**-**	(6)
Gift on acquisition of subsidiary		**(441)**	-
Taxation		**5**	5
		92	6
Adjustment for working capital movement:			
(Increase)/decrease in trade and other debtors		**(18)**	(43)
(Increase)/decrease in stocks		**(148)**	(108)
(Decrease)/increase in trade and other creditors		**(87)**	30
Increase/(decrease) in provisions and employee benefits		**51**	(1)
		(202)	(122)
Tax paid		**-**	-
Net cash flow from operating activities		**150**	194

	Note	2017 £m	2016 £m
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets		**114**	115
Proceeds from sale of investments		**2**	19
Purchase of other fixed assets		**(8)**	(8)
Interest received		**1**	2
Interest paid		**(112)**	(80)
Other finance costs		**(597)**	(6)
Investments in jointly controlled entities		**(101)**	(104)
Acquisition of investment property		**(7)**	(93)
Proceeds from the receipt of government grant		**22**	6
Capitalised development expenditure		**(561)**	(196)
Capital expenditure on existing properties		**(39)**	(46)
Acquisition of subsidiaries net of cash acquired		**(251)**	-
Net cash from investing activities		**(1,537)**	(391)
Cash flows from financing activities			
Loans received		**2,950**	465
Loans repaid		**(1,458)**	(304)
Net cash from financing activities		**1,492**	161
Net increase/(decrease) in cash and cash equivalents		**105**	(36)
Cash and cash equivalents at 1 April		**110**	146
Cash and cash equivalents at 31 March	17	**215**	110

The accompanying notes form part of these financial statements.

PROSPECT EAST IN NEWHAM,
E15'S NEWEST NEIGHBOURHOOD.

10



10 Notes to the financial statements

Notes to the financial statements

Year ended 31 March 2017

1. Legal status
London and Quadrant Housing Trust is a housing association registered under the Cooperative and Community Benefit Societies Act 2014 and is registered with the Homes and Communities Agency as a social landlord. 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 FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102) 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 the 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.

- 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 within a range of 60 to 125 years; and

(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 chosenbased on published research by the Continuous Mortality Investigation Bureau of the Institute of Actuaries and Faculty of Actuaries. Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses (as analysed in Note 9).

- Management is required to determine the fair value of asset and liabilities of the 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

2. Principal accounting policies (continued)

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

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 FRS 102, 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.

Cost of sales relating to strategic land development includes both the historic cost of the land and the contractual costs to complete the infrastructure works on the site as agreed with the acquirer. Any provisions for contractual costs to complete are reflected in the accounts as short term liabilities due to the uncertainty around the timing of the commitments. No interest is capitalised against strategic land development.

Joint ventures

Turnover and costs of sales in relation to open market sales conducted through joint ventures, all of which are jointly controlled entities, are represented in Statement of Comprehensive Income by applying the Group's share of turnover and cost of sales in accordance with the equity method.

Previously these had been presented using the gross equity method in which the share of turnover and cost of sales were shown.

Reserves

There are no restricted or designated reserves held.

The revaluation reserve was established on transition to FRS 102 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.

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

Group	Turnover	Cost of sales	Operating costs	Other operating items	2017 Operating surplus	Turnover	Cost of sales	Operating costs	Other operating items	2016 Operating surplus
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Social housing lettings										
General needs	**337**	**-**	**(174)**	**-**	**163**	317	-	(169)	-	148
Supported housing	**34**	**-**	**(25)**	**-**	**9**	26	-	(20)	-	6
Intermediate market rent	**20**	**-**	**(10)**	**-**	**10**	19	-	(9)	-	10
Low-cost home ownership	**41**	**-**	**(13)**	**-**	**28**	35	-	(9)	-	26
Affordable rent	**30**	**-**	**(10)**	**-**	**20**	26	-	(9)	-	17
	462	**-**	**(232)**	**-**	**230**	423	-	(216)	-	207
Other social housing activities		**-**								
First tranche low-cost home ownership sales	**95**	**(61)**	**(1)**	**-**	**33**	58	(29)	-	-	29
Development and marketing	**-**	**-**	**(4)**	**-**	**(4)**	-	-	(2)	-	(2)
Community investment	**-**	**-**	**(7)**	**-**	**(7)**	-	-	(7)	-	(7)
Other	**1**	**-**	**(2)**	**-**	**(1)**	1	-	(3)	-	(2)
Surplus on disposal of fixed assets	**-**	**-**	**-**	**53**	**53**	-	-	-	41	41
	96	**(61)**	**(14)**	**53**	**74**	59	(29)	(12)	41	59
Non-social housing lettings										
Student accommodation	**2**	**-**	**(2)**	**-**	**-**	2	-	(2)	-	-
Market rent	**19**	**-**	**(7)**	**-**	**12**	12	-	(4)	-	8
Non-social homeowners	**9**	**-**	**(6)**	**-**	**3**	8	-	(8)	-	-
Commercial	**2**	**-**	**(1)**	**-**	**1**	1	-	(1)	-	-
Garages, sheds, parking spaces	**1**	**-**	**-**	**-**	**1**	1	-	-	-	1
	33	**-**	**(16)**	**-**	**17**	24	-	(15)	-	9

Group	Turnover	Cost of sales	Operating costs	Other operating items	2017 Operating surplus	Turnover	Cost of sales	Operating costs	Other operating items	2016 Operating surplus
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-social housing activities										
Open market sales	**119**	**(86)**	**(3)**	**-**	**30**	119	(89)	-	-	30
Land sales	**42**	**(36)**	**(1)**	**-**	**5**	-	-	-	-	-
Resales	**2**	**-**	**-**	**-**	**2**	1	-	(1)	-	-
Other non social housing activity	**2**	**-**	**(8)**	**-**	**(6)**	2	-	(10)	-	(8)
Share of profits from joint ventures	**-**	**-**	**-**	**13**	**13**	-	-	1	23	24
	165	**(122)**	**(12)**	**13**	**44**	122	(89)	(10)	23	46
	756	**(183)**	**(274)**	**66**	**365**	628	(118)	(253)	64	321
Change in value of investment property					**36**					23
Interest receivable					**1**					2
Interest payable					**(73)**					(60)
Other finance costs					**(545)**					(7)
Gift on acquisition on subsidiary					**441**					-
Tax on surplus on ordinary activities					**(5)**					(5)
Surplus for year					**220**					274

Notes to the financial statements

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

LQHT	Turnover 2017 £m	Cost of sales 2017 £m	Operating costs 2017 £m	Other operating items 2017 £m	Operating surplus 2017 £m	Turnover 2016 £m	Cost of sales 2016 £m	Operating costs 2016 £m	Other operating items 2016 £m	Operating surplus 2016 £m
Social housing lettings										
General needs	**321**	**-**	**(164)**	**-**	**157**	317	-	(169)	-	148
Supported housing	**27**	**-**	**(19)**	**-**	**8**	26	-	(20)	-	6
Intermediate market rent	**19**	**-**	**(9)**	**-**	**10**	19	-	(9)	-	10
Low-cost home ownership	**37**	**-**	**(10)**	**-**	**27**	35	-	(9)	-	26
Affordable rent	**28**	**-**	**(12)**	**-**	**16**	26	-	(9)	-	17
	432	**-**	**(214)**	**-**	**218**	423	-	(216)	-	207
Other social housing activities										
First tranche low-cost home ownership sales	**81**	**(55)**	**-**	**-**	**26**	58	(29)	-	-	29
Development and marketing	**-**	**-**	**(3)**	**-**	**(3)**	-	-	(2)	-	(2)
Community investment	**-**	**-**	**(7)**	**-**	**(7)**	-	-	(7)	-	(7)
Other	**-**	**-**	**(2)**	**-**	**(2)**	-	-	(3)	-	(3)
Surplus on disposal of fixed assets	**-**	**-**	**-**	**49**	**49**	-	-	-	52	52
	81	**(55)**	**(12)**	**49**	**63**	58	(29)	(12)	52	69
Non-social housing lettings										
Student accommodation	**2**	**-**	**(2)**	**-**	**-**	2	-	(2)	-	-
Market rent	**-**	**-**	**-**	**-**	**-**	3	-	(1)	-	2
Non-social homeowners	**9**	**-**	**(6)**	**-**	**3**	8	-	(8)	-	-
Commercial	**2**	**-**	**(1)**	**-**	**1**	1	-	(1)	-	-
Garages, sheds, parking spaces	**1**	**-**	**-**	**-**	**1**	1	-	-	-	1
	14	**-**	**(9)**	**-**	**5**	15	-	(12)	-	3

LQHT	Turnover	Cost of sales	Operating costs	Other operating items	2017 Operating surplus	Turnover	Cost of sales	Operating costs	Other operating items	2016 Operating surplus
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-social housing activities										
Open market sales	**2**	**(3)**	**-**	**-**	**(1)**	8	(6)	-	-	2
Resales	**1**	**-**	**-**	**-**	**1**	1	-	(1)	-	-
Other non social housing activity	**2**	**-**	**(9)**	**-**	**(7)**	1	-	(9)	-	(8)
	5	**(3)**	**(9)**	**-**	**(7)**	10	(6)	(10)	-	(6)
	532	**(58)**	**(244)**	**49**	**279**	506	(35)	(250)	52	273
Change in value of investment property					**-**					-
Interest receivable					**46**					32
Interest payable					**(91)**					(87)
Other finance costs					**(548)**					(7)
Gift Aid					**69**					40
Tax on surplus on ordinary activities					**-**					(1)
(Deficit) / Surplus for year					**(245)**					250

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	**2017 Total £m**	2016 Total £m
Rent receivable net of identifiable service charges	300	23	16	26	27	**392**	367
Service charges receivable	20	5	3	7	2	**37**	30
Net rents receivable	320	28	19	33	29	**429**	397
Amortised government grant	13	1	-	7	1	**22**	24
Supporting people income	-	3	-	-	-	**3**	-
Other income	4	2	1	1	-	**8**	2
Total income from lettings	337	34	20	41	30	**462**	423
Expenditure on letting activities:							
Management	31	3	2	4	2	**42**	34
Services	24	5	3	6	1	**39**	35
Support	-	3	-	-	-	**3**	-
Routine maintenance	43	4	2	1	2	**52**	65
Planned maintenance and major repairs	23	4	1	1	1	**30**	21
Bad debts	2	-	-	-	1	**3**	2
Depreciation of housing properties	51	6	2	-	3	**62**	58
Impairment of housing properties	-	-	-	-	-	**-**	-
Other costs	-	-	-	1	-	**1**	1
Total expenditure on lettings	174	25	10	13	10	**232**	216
Operating surplus on lettings	163	9	10	28	20	**230**	207
Voids losses	1	-	2	-	-	**3**	3

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	**2017 Total £m**	2016 Total £m
Rent receivable net of identifiable service charges	285	21	15	23	25	**369**	367
Service charges receivable	19	4	3	7	2	**35**	30
Net rents receivable	304	25	18	30	27	**404**	397
Amortised government grant	13	1	-	7	1	**22**	24
Other income	4	1	1	-	-	**6**	2
Total income from lettings	321	27	19	37	28	**432**	423
Expenditure on letting activities:							
Management	27	2	2	3	2	**36**	34
Services	23	5	2	5	1	**36**	35
Routine maintenance	42	3	2	1	2	**50**	65
Planned maintenance and major repairs	21	4	1	1	1	**28**	21
Bad debts	2	-	-	-	1	**3**	2
Depreciation of housing properties	49	5	2	-	2	**58**	58
Impairment of housing properties	-	-	-	-	3	**3**	-
Other costs	-	-	-	-	-	**-**	1
Total expenditure on lettings	164	19	9	10	12	**214**	216
Operating surplus on lettings	157	8	10	27	16	**218**	207
Voids losses	1	-	2	-	-	**3**	3

Notes to the financial statements

4. Housing stock

	Group 2017 No.	Group 2016 No.	**LQHT 2017 No.**	LQHT 2016 No.
Social housing accommodation				
General needs housing	**53,747**	45,073	**45,350**	45,073
Affordable rent	**4,008**	3,212	**3,545**	3,212
Supported housing and housing for older people	**6,266**	4,774	**4,784**	4,774
Key worker accommodation	**873**	892	**873**	892
Low-cost home ownership	**8,768**	5,568	**6,014**	5,568
Shared equity	**2,491**	2,697	**2,470**	2,697
Intermediate market rent	**2,026**	1,388	**1,485**	1,388
Total social housing managed	**78,179**	63,604	**64,521**	63,604
Non-social housing accommodation				
Leaseholders	**8,821**	6,883	**7,493**	6,883
Market rent	**1,418**	860	**-**	860
Student accommodation	**623**	636	**623**	636
Other landlords	**1,322**	925	**1,124**	925
Commercial	**208**	162	**208**	162
Total non-social housing managed	**12,392**	9,466	**9,448**	9,466
Total housing stock	**90,571**	73,070	**73,969**	73,070
Other Non-social lettings				
Garages, parking spaces and other non-habitable units	**6,314**	5,665	**6,314**	5,665
Total units managed	**96,885**	78,735	**80,283**	78,735
Housing units in development pipeline	**44,300**	39,758	**42,800**	39,758
Land plots	**42,500**	-	**-**	-

Land plots relate to sites acquired and controlled by Gallagher Estates.

5. Operating surplus on ordinary activities before tax

	Group 2017 No.	Group 2016 No.	**LQHT 2017 No.**	LQHT 2016 No.
Operating surplus is stated after charging/ (crediting):				
Depreciation on social housing properties	**62**	60	**58**	60
Depreciation other non-social housing	**1**	-	**-**	-
Depreciation on other fixed assets	**4**	3	**3**	3
Surplus on sale of fixed assets				
• Housing properties	**(53)**	(41)	**(49)**	(52)
Impairment charge on fixed assets housing properties	**-**	-	**3**	-
Impairment release on fixed assets housing properties	**-**	-	**-**	-
Operating lease rentals				
• Land and buildings	**1**	1	**1**	1

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

	Group 2017 £'000	Group 2016 £'000	**LQHT 2017 £'000**	LQHT 2016 £'000
Auditor's remuneration (excluding VAT):				
• In their capacity as auditor	**240**	149	**194**	112
• In respect of other services	**33**	236	**33**	236

Notes to the financial statements

6. Surplus on disposal of fixed assets and other investments

Disposals

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

Group	Housing properties £m	Investment disposals £m	HomeBuy £m	2017 Total £m	2016 Total £m
Sales proceeds	97	-	17	**114**	125
Cost of sale	(43)	-	(10)	**(53)**	(78)
Grant recovered	(5)	-	-	**(5)**	(3)
Grant abated	1	-	-	**1**	-
Incidental sale expense and write downs	(4)	-	-	**(4)**	(3)
Total	**46**	**-**	**7**	**53**	41

LQHT	Housing properties £m	Investment disposals £m	HomeBuy £m	2017 Total £m	2016 Total £m
Sales proceeds	118	-	17	**135**	348
Cost of sale	(70)	-	(10)	**(80)**	(291)
Grant recovered	(3)	-	-	**(3)**	(2)
Grant abated	1	-	-	**1**	-
Incidental sale expense and write downs	(4)	-	-	**(4)**	(3)
Total	**42**	**-**	**7**	**49**	52

7. Interest receivable and similar income

	Group 2017 £m	Group 2016 £m	LQHT 2017 £m	LQHT 2016 £m
Bank interest receivable	**1**	2	**1**	2
Other interest receivable	**-**	-	**45**	30
	1	2	**46**	32

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 period ending 31 March 2017, interest has been capitalised at an average rate of 4.4% (2016: 4.9%) 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 2017 £m	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Interest expense on liabilities at amortised cost	**112**	100	**105**	100
Release of loan fair values on repayment and refinancing	**-**	(1)	**-**	-
	112	99	**105**	100
Less: interest capitalised in housing properties	**(39)**	(39)	**(14)**	(13)
	73	60	**91**	87

8b. Refinance costs

During the year, the Group took the decision to refinance the majority of its outstanding bank loans when East Thames Limited joined the Group. This resulted in an exceptional cost of £548m of costs, made up of loan breakage fees of £362m, in effect "make-whole" provisions that allowed the Group to redeem loans and cash flow hedges prior to maturity as agreed with our lenders, a net release of previously capitalised financing costs and fair value adjustments of £4m, and a reclassification of the cash flow hedge reserve of £182m to the statement of comprehensive income.

9. Employee information

	Group 2017 No.	Group 2016 No.	**LQHT 2017 No.**	LQHT 2016 No.
The average full-time equivalent employees based on their individual contracted hours:				
Chief Executive department	**39**	23	**28**	23
Development and Sales	**324**	198	**253**	198
Finance, Treasury and Insurance	**134**	94	**96**	94
Human Resources, Facilities and Learning and Development	**77**	53	**58**	53
Neighbourhoods	**463**	369	**378**	369
Strategy and Operations and Information Technology	**523**	495	**438**	495
Customer Services and Direct Maintenance	**410**	348	**396**	348
Chief Information Office	**52**	-	**46**	-
Care and support	**268**	-	**-**	-
	2,290	1,580	**1,693**	1,580

	£m	£m	**£m**	£m
Staff costs (for the above persons)				
Wages and salaries	**74**	63	**68**	63
Social security costs	**8**	7	**7**	7
Other pension costs	**10**	10	**10**	10
	92	80	**85**	80

Note: Group numbers include those employees who are directly employed by a subsidiary and those employees who transferred from East Thames Limited between 6 December 2016 and 31 March 2017.

Pensions

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 seventeen active members (2016: 76). The assets of the scheme are held separately from those of the Group. This scheme has been closed to new entrants since 2001.

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

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

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

- London Borough of Waltham Forest scheme with three active members (2016: 4);
- Buckinghamshire County Council scheme with one active member (2016: 1); and
- London Borough of Bexley scheme with two active members (2016: 2).

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

- London Borough of Waltham Forest scheme 14.5% (2016: 14.5%);
- Buckinghamshire County Council scheme 21.6% (2016: 21.6%); and
- London Borough of Bexley Scheme 24.6% (2016: 24.6%).

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

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

The Group is unable to obtain sufficient information to identify, on a consistent and reasonable basis, the share of underlying assets and liabilities belonging to individual participating employers and thus does not apply defined benefit accounting for this multi-employer plan but accounts for the scheme as if it were a defined contribution scheme. This is because the scheme is a multi-employer scheme where the scheme assets are co-mingled for investment purposes and benefits are paid from total scheme assets. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

9. Employee information (continued)

To the extent that payments plans relate to funding a deficit, the contributions are recognised as a liability payable arising from the agreement with the multi-employer plan and results in a charge to the profit and loss account. Where these payments are not expected to be settled within 12 months the liability is measured at the present value of the contributions payable.

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

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 (formerly East 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.

Summary of Pension Liability

	Group 2017 £m	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Defined benefit schemes	**(23)**	(21)	**(23)**	(21)
SHPS scheme	**(6)**	(6)	**(6)**	(6)
SHPS arising on acquisition	**(16)**	-	**-**	-
Net pension liability	**(45)**	(27)	**(29)**	(27)

a) Defined Benefit Schemes

	2017	2016
Financial assumptions	**2.6%**	3.4%
Discount rate	**3.5%**	3.3%
Inflation (RPI)	**2.5%**	2.3%
Inflation (CPI)	**3.5%**	3.3%
Salary growth		
Mortality assumptions		
• Base table	**S2PXA**	S2PXA
• Improvement method	**CMI2015 with 1.25% LTR**	CMI2015 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.

	2017 £m	2016 £m
Analysis of the amount recognised in comprehensive income		
Current service cost	**(1)**	(1)
Past service cost	**-**	-
Effects of settlements	**-**	-
Net interest on the defined liability	**(1)**	(1)
	(2)	(2)

	2017 £m	2016 £m
Analysis of amount recognised in other comprehensive income		
Actual return less expected return on plan assets	**19**	(2)
Amount included in net interest on net defined benefit liability	**(4)**	(4)
Remeasurements – return on plan assets excluding interest income	**15**	(6)
Changes in assumptions underlying the present value of the plan liabilities	**(26)**	4
Changes due to experience	**7**	-
Remeasurements recognised	**(4)**	(2)

9. Employee information (continued)

	2017	2016
	£m	£m
Movement in deficit during the year		
Net deficit at beginning of the year	**(21)**	(23)
Movement in year:		
Current service cost	**(1)**	(1)
Employer contributions	**4**	6
Past service costs	**-**	-
Other finance costs	**(1)**	(1)
Remeasurements	**(4)**	(2)
Net deficit at end of the year	**(23)**	(21)

	2017	2016
	£m	£m
Movement in liabilities during the year		
Past service liability at beginning of the year	**142**	143
Service cost	**1**	2
Interest cost	**5**	5
Plan participant contributions	**-**	-
Remeasurements:		
- Due to changes in assumptions	**26**	(4)
- Due to experience	**(7)**	-
Liabilities extinguished on settlements	**-**	-
Benefits paid	**(3)**	(4)
Past service liability at end of the year	**164**	142

	2017	2016
	£m	£m
Movement in fair value of plan assets		
At beginning of the year	**121**	120
Expected return on assets	**-**	(5)
Net interest income	**4**	4
Remeasurements	**15**	-
Assets distributed on settlements	**-**	-
Employer contributions	**4**	6
Plan participant contributions	**-**	-
Benefits paid	**(3)**	(4)
At end of the year	**141**	121

	2017 £m	2017 %	2016 £m	2016 %
The fair value of the plan assets and the return on those assets were as follows:				
Equities	**64**	**45%**	53	44%
Gilts	**23**	**16%**	19	16%
Corporate bonds	**36**	**26%**	32	26%
Property	**13**	**9%**	12	10%
Cash	**4**	**3%**	4	3%
Other assets	**1**	**1%**	1	1%
	141	**100%**	121	100%

b) Social Housing Pension Schemes

	Group 2017 £m	Group 2016 £m	LQHT 2017 £m	LQHT 2016 £m
Reconciliation of opening and closing provisions				
Present value provision at start of the year	**6**	4	**6**	4
SHPS arising on acquisition	**16**	-	**-**	-
Unwinding of the discount factor (interest expense)	**-**	-	**-**	-
Deficit contribution paid	**(1)**	-	**(1)**	-
Remeasurements (change in assumptions / amendments to contribution schedule)	**1**	2	**1**	2
Present value provision at end of year	**22**	6	**6**	6

	Group 2017 £m	Group 2016 £m	LQHT 2017 £m	LQHT 2016 £m
Statement of comprehensive income impact				
Interest expense	**-**	-	**-**	-
Remeasurements (change in assumptions / amendments to contribution schedule)	**-**	2	**-**	2
Contributions paid in respect of future service	**1**	-	**1**	-
Costs recognised in the statement of comprehensive income	**1**	2	**1**	2

9. Employee information (continued)

Assumptions	2017 %	2016 %
Rate of discount	**1.33**	2.06

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

Deficit Contributions

The Group and SHPS have agreed the following deficit contributions that have been used to derive the liability shown on the Statement of Financial Position:

	Group 2017 £m	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Amounts payable within one year	**3**	1	**1**	1
Amounts payable after one year	**21**	7	**7**	7

The increase in the deficit contributions reflects those brought into the Group with East Thames Limited.

10. Board members and executive directors

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

Board member	Remuneration	Group Board attendance	Audit & Risk Committee	Governance & Remunerations Committee	Development Committee	Customer Experience Committee
Aubrey Adams	£31,670	Chair 13/13		•	•	
David Montague	-	13/13				
Waqar Ahmed	-	4/4	•		•	
Anne Elizabeth Bassis	£14,430	11/13		•		Chair
Tracey Fletcher–Ray	£12,670	12/13	•			
Samantha Hyde	£12,670	12/13			•	
Larissa Joy	£15,310	4/4		•		
Michael More	£17,950	11/13	Chair			•
Trevor Moross	£16,790	12/13		Chair	•	
Simon Rubinsohn	£17,950	12/13			Chair	
Tina Tietjen	£19,270	3/4				
Other committee members						
Duncan Beardsley	£8,375	n/a	•		•	
Rajiv Jaitly	£8,375	n/a	•			
James Scott	£8,375	n/a			•	
John Drew	£8,375	n/a		•		
Paula Higson	£8,375	n/a				•
Angela Williams	£5,500	n/a				•
Fayann Simpson	-	n/a				•
Michael Verrier	-	n/a				•

- The total number of Board meetings held in the year was 13
- The Chief Executive and Group Finance Director receive no remuneration in respect of being a member of the Board
- Remuneration is pro-rated from date of appointment to Board or committee chair
- Robert Cooper resigned from the Board on 8 September 2016 having attended 6 meetings in the year and received remuneration of £17,950 in the year
- Waqar Ahmed was appointed to the Board on 6 December 2016
- Frank Chersky resigned from the Board on 6 December 2016 having attended 9 meetings in the year and received remuneration of £12,940 in the year. Frank was an L&Q tenant board member.
- Tina Tietjen was appointed to the Board on 6 December 2016 and chairs the East Thames Limited Board
- Larissa Joy was appointed to the Board on 6 December 2016 and also sits on the East Thames Limited Board
- Angela Williams resigned from the East Thames Limited Board on 31 March 2017. Angela was an East Thames tenant board member.

10. Board members and executive directors (continued)

Directors Emoluments

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

	Group 2017 £'000	Group 2016 £'000	**LQHT 2017 £'000**	LQHT 2016 £'000
Aggregate emoluments payable to directors (including benefits in kind)	**1,825**	1,595	**1,673**	1,595
Pension contributions in respect of services as directors	**230**	242	**224**	242
	2,055	1,837	**1,897**	1,837

Emoluments payable to the Chief Executive who was also the highest paid director (excluding pension contributions but including benefits in kind)	**358**	356	**358**	356

The Chief Executive received cash in lieu of pension payment of £64,000 (2016: £59,740). The Chief Executive has no individual pension arrangement (including a personal pension) to which LQHT or any of its subsidiaries makes a contribution.

Non-executive members of the Board received emoluments during the year totalling £144,052 (2016: £156,696). Board expenses of £1,913 (2016: £699) were incurred in the year.

During the year, the aggregate compensation for loss of office of key management personnel was £nil (2016: £nil). The emoluments of all directors are reviewed and agreed on an annual basis by our Governance and Remuneration Committee. They are based on an individual assessment of pay scales prevailing in the market and an assessment of performance against corporate objectives.

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

Salary Banding	**Group 2017 No.**	Group 2016 No. (restated)	**LQHT 2017 No.**	LQHT 2016 No. (restated)
£60,000 to £70,000	**-**	-	**-**	-
£70,001 to £80,000	**1**	-	**1**	-
£80,001 to £90,000	**-**	-	**-**	-
£90,001 to £170,000	**-**	-	**-**	-
£170,001 to £180,000	**1**	-	**-**	-
£180,001 to £190,000	**-**	-	**-**	-
£190,001 to £200,000	**2**	-	**2**	-
£200,001 to £210,000	**1**	2	**1**	2
£210,001 to £220,000	**1**	1	**1**	1
£220,001 to £230,000	**-**	1	**-**	1
£230,001 to £240,000	**1**	-	**1**	-
£240,001 to £250,000	**-**	-	**-**	-
£250,001 to £260,000	**-**	-	**-**	-
£260,001 to £270,000	**-**	-	**-**	-
£270,001 to £280,000	**1**	-	**1**	-
£280,001 to £290,000	**1**	2	**1**	2
£290,001 to £410,000	**-**	-	**-**	-
£410,001 to £420,000	**-**	1	**-**	1
£420,000 to £430,000	**1**	-	**1**	-
	10	7	**9**	7

The 2016 comparatives have been restated to provide information in respect of key management personnel only as set out by the Accounting Direction for Private Registered Providers of Social Housing 2015.

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

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

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

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

	Group 2017 £m	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Current tax				
UK corporation tax	**3**	1	**-**	1
	3	1	**-**	1
Deferred tax				
On change in value of investment properties	**2**	4	**-**	-
	5	5	**-**	1

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom at 20% (2016: 20%). The differences are explained as follows:

	Group 2017 £m	Group 2016 £m	LQHT 2017 £m	LQHT 2016 £m
Surplus/(loss) on ordinary activities before tax	**225**	279	**(245)**	251
Surplus multiplied by 20% (2016: 20%) the standard rate of UK corporation tax	**45**	56	**(49)**	50
Effects of:				
Origination and reversal of timing differences	**(3)**	5	**-**	-
Non-taxable charitable activities	**(37)**	(56)	**49**	(49)
Total tax charge for the year	**5**	5	**-**	1

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 March 2017 has been calculated based on these rates.

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

12. Fixed assets – Housing properties

Housing properties

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

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

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

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

Non-component works to existing properties

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

Fixed assets and depreciation

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

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

Major components

• Housing properties structure	60-125 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 is recorded as a contingent liability in the notes to the accounts.

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

• Freehold premises	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
• Lifts	25 years

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. 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.

At 31 March 2017 the Group housing properties were evaluated to have an open market value in the region of £22.7 billion (2016: £17.5 billion) compared to a net book value of £8.7 billion (2016: £7.4 billion). The open market value is not used for accounting purposes and does not reflect the Group's intention to hold assets for social housing purposes but provides an indication of the worth of the housing property assets of the Group should these assets be made available for sale with vacant possession in the open property market.
Group additions to new housing properties during the year include capitalised interest of £39m (2016: £39m) and capitalised direct administration costs of £32m (2016: £13m).

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 £121m (2016: £131m) of which £39m (2016: £45m) was capitalised and included as additions to properties held for lettings.

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 2016	**356**	**39**	**73**	**6,448**	**511**	**20**	**7,447**
Arising on acquisition	59	28	-	920	205	-	**1,212**
Reclassifications and transfers to investment properties	11	4	(9)	(8)	2	-	**-**
Schemes completed in the year	(362)	(112)	(19)	362	112	19	**-**
Additions	226	130	186	39	-	-	**581**
Transfer to current assets and investment properties	(3)	(3)	(3)	(1)	(3)	-	**(13)**
Disposals	-	-	(30)	(20)	(26)	-	**(76)**
At 31 March 2017	**287**	**86**	**198**	**7,740**	**801**	**39**	**9,151**
Depreciation							
At 1 April 2016	**-**	**-**	**-**	**412**	**4**	**1**	**417**
Charge for year	-	-	-	62	-	1	**63**
Eliminated in respect of disposals	-	-	-	(6)	-	-	**(6)**
At 31 March 2017	**-**	**-**	**-**	**468**	**4**	**2**	**474**
Impairment							
At 1 April 2016	**3**	**-**	**-**	**3**	**-**	**-**	**6**
Charge for year	-	-	-	-	-	-	**-**
Release for year	-	-	-	-	-	-	**-**
At 31 March 2017	**3**	**-**	**-**	**3**	**-**	**-**	**6**
Net book value:							
At 31 March 2017	**284**	**86**	**198**	**7,269**	**797**	**37**	**8,671**
At 31 March 2016	353	39	73	6,033	507	19	7,024

For the Group, a total funding value of £6,056m (2016: £4,038m) has been pledged as security on debt.

Housing properties – LQHT

	Properties under construction			Properties held for lettings			
	Social housing lettings	Low-cost home ownership	Non-social housing lettings	Social housing lettings	Low-cost home ownership	Non-social housing lettings	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 1 April 2016	**278**	**44**	**72**	**6,449**	**511**	**21**	**7,375**
Reclassifications	11	4	(9)	(9)	3	-	**-**
Schemes completed in the year	(350)	(97)	(19)	350	97	19	**-**
Additions	263	108	36	37	-	-	**444**
Transfer from current assets	-	(1)	(3)	-	-	-	**(4)**
Disposals	-	-	(29)	(21)	(23)	-	**(73)**
At 31 March 2017	**202**	**58**	**48**	**6,806**	**588**	**40**	**7,742**
Depreciation							
At 1 April 2016	**-**	**-**	**-**	**412**	**4**	**1**	**417**
Reclassification	-	-	-	-	-	1	**1**
Charge for year	-	-	-	57	-	1	**58**
Eliminated in respect of disposals	-	-	-	(6)	-	-	**(6)**
At 31 March 2017	**-**	**-**	**-**	**463**	**4**	**3**	**470**
Impairment							
At 1 April 2016	**-**	**-**	**-**	**3**	**-**	**-**	**3**
Charge for year	3	-	-	-	-	-	**3**
Release for year	-	-	-	-	-	-	**-**
At 31 March 2017	3	-	-	3	-	-	6
Net book value:							
At 31 March 2017	**199**	**58**	**48**	**6,340**	**584**	**37**	**7,266**
At 31 March 2016	278	44	72	6,034	507	20	6,955

In LQHT, a total funding value of £4,154m (2016: £4,038m) has been pledged as security on debt.

13. Other fixed assets

Group	Freehold office premises £m	Leasehold office premises £m	Office furniture and equipment £m	Computer equipment £m	Total £m
Cost					
At 1 April 2016	**22**	**1**	**3**	**21**	**47**
On acquisition	24	-	2	-	**26**
Additions	-	-	1	7	**8**
Disposals	-	-	-	-	**-**
At 31 March 2017	**46**	**1**	**6**	**28**	**81**
Depreciation					
At 1 April 2016	**4**	**1**	**2**	**5**	**12**
Charge for year	1	-	-	3	**4**
Eliminated in respect of disposals	-	-	-	-	**-**
At 31 March 2017	**5**	**1**	**2**	**8**	**16**
Net book value:					
At 31 March 2017	41	-	4	20	**65**
At 31 March 2016	18	-	1	16	**35**

LQHT	Freehold office premises £m	Leasehold office premises £m	Office furniture and equipment £m	Computer equipment £m	Total £m
Cost					
At 1 April 2016	**22**	**1**	**3**	**21**	**47**
Additions	-	-	1	6	**7**
Disposals	-	-	-	-	**-**
At 31 March 2017	**22**	**1**	**4**	**27**	**54**
Depreciation					
At 1 April 2016	**4**	**1**	**2**	**5**	**12**
Charge for year	-	-	-	3	**3**
Eliminated in respect of disposals	-	-	-	-	**-**
At 31 March 2017	**4**	**1**	**2**	**8**	**15**
Net book value:					
At 31 March 2017	18	-	2	19	**39**
At 31 March 2016	18	-	1	16	**35**

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.

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.

14. Investments (continued)

Active trading joint ventures, all established in the UK, as at 31 March 2017 were as follows:

Joint venture	Partner	Group interest	Group voting rights	Total investment £m
Barking Riverside Limited	Greater London Authority	51%	50%	**36**
Purfleet Centre Regeneration Ltd	Regeneration Investment Ltd	50%	50%	**11**
BDWZest Developments LLP	BDW Trading Limited	50%	50%	**1**
Alie Street LLP	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**-**
Queensland Road LLP	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**1**
Fulham Wharf LLP	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**62**
Nine Elms LLP	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**45**
Academy Central LLP	George Wimpey East London Ltd	38%	50%	**1**
Chobham Manor LLP	Taylor Wimpey UK Limited	50%	50%	**30**
Countryside Zest (Beaulieu Park) LLP	Countryside Properties (Joint Venture) Ltd	50%	50%	**97**
Countryside L&Q (Oaks Village) LLP	Countryside Four Ltd	50%	50%	**30**
Acton Gardens LLP	Countryside Properties (Joint Venture) Ltd	50%	50%	**-**
Ponton Road LLP	Bellway Homes Limited	50%	50%	**30**
Erith Hills LLP	Anderson Design Limited	50%	50%	**21**
Fairview L&Q PR LLP	Fairview New Homes Limited	50%	50%	**23**
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%	**-**
Investments in Associates				
Harley Winchester Ltd	Harley Property Investors LLP	75%	75%	**4**
Total				**392**

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

Group	Barking Riverside Ltd	Purfleet Centre Regeneration Ltd	Limited Liability Partnerships	2017 Total	2016 Total
	£m	£m	£m	£m	£m
Share of profits from joint ventures	(1)	-	14	**13**	23
Share of:					
Current Assets	67	12	463	**542**	526
Liabilities due within one year	(13)	(1)	(59)	**(73)**	(91)
Liabilities due in more than one year	(18)	-	(59)	**(77)**	(147)
Net Assets	36	11	345	**392**	288

During the year, the Group entered into two new agreements "Fairview L&Q PR LLP", with Fairview New Homes Limited and 'THT and L&Q Developments LLP' with Trafford Housing Trust.

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

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

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 in HomeBuy

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

In the accounting of the HomeBuy 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 2017, HomeBuy equity loans amounted to £127m for the Group (2016: £123m) and HomeBuy grant amounted to £110m for the Group (2016: £105m). In LQHT HomeBuy equity loans amounted to £113m (2016: £123m) and HomeBuy grant amounted to £96m (2016: £105m).

14. Investments (continued)

c) Investment properties

Market rented properties (Private Rented Sector, "PRS") are treated as investment properties. They are valued externally the year after acquisition 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 2017 £m**	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
At 1 April	**267**	171	**-**	163
Arising on acquisition	**24**		**-**	
Additions	**138**	19	**-**	-
Transfer from fixed assets	**1**	58	**-**	22
Revaluation	**36**	23	**-**	-
Disposal	**-**	(4)	**-**	(185)
At 31 March	**466**	267	**-**	-

d) 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 31 March 2017, LQHT held £58m in PRS Co Ltd (2016: £58m), and £304m in Gallagher Estates Ltd (2016: £nil).

14. f) Acquisitions of business

i) On the 6 December 2016 the Group entered into a business combination recognising the value of East Thames Limited in the statement of comprehensive income as a gift to L&Q as per FRS 102 (PBE 34.77). All post acquisition results of East Thames Limited and its subsidiaries have been consolidated in the Group statement of comprehensive income.

The acquisition had the following effect on the Group's assets and liabilities:

East Thames Limited net assets at the acquisition date	Book values £m	Fair value adjustments £m	Recognised values on acquisition £m
Fixed assets – housing properties	**1,047**	**164**	**1,211**
Other fixed assets	**24**	**-**	**24**
Investments	**54**	**6**	**60**
Properties for sale	**45**	**-**	**45**
Debtors	**11**	**-**	**11**
Cash	**43**	**-**	**43**
Creditors due less than one year	**(41)**	**-**	**(41)**
Creditors due in more than one year	**(726)**	**(155)**	**(881)**
Deferred grant liability	**(45)**	**30**	**15**
Pension liability	**(16)**	**-**	**(16)**
Net identifiable assets and liabilities	**396**	**45**	**441**

The sum of the net book value of assets and liabilities, effectively East Thames Limited reserves on 6 December of £396m, and the net fair value uplift of £45m resulted in a gift of £441m which has been treated as an exceptional gain in the year.

Notes to the financial statements

14. Investments (continued)

14. f) Acquisitions of business (continued)

ii) On 1 February 2017 the Group acquired 100% of the shares of Gallagher Estates. Gallagher Estates' principal activity is property development, specifically around land parcels and servicing.

The acquisition had the following effect on the Group's assets and liabilities:

Gallagher Estates net assets at the acquisition date	Book values £m	Fair value adjustments £m	Recognised values on acquisition £m
Fixed Assets	1	-	1
Investments and debtors to after more than one year	32	-	32
Stock	361	229	590
Debtors	36	-	36
Cash	10	-	10
Creditors due less than one year	(82)	-	(82)
Creditors due in more than one year	(249)	-	(249)
Provisions	(4)	(44)	(48)
Net identifiable assets and liabilities	105	185	290

Total cost of business combination	£m
Consideration paid	(304)
Fair value of net assets acquired (including direct costs attributable to the business combination)	290
Goodwill	14

The expected useful life of goodwill stemming from this acquisition is 5 years.

15. Land and properties held for sale

Properties held for sale and work in progress

Completed properties and properties under construction for open market sales are recognised at the lower of cost and net realisable value. 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.

Strategic land under development and promotion is stated at historic cost and included in this note as open market sales. Costs include cost of acquiring the land, development and infrastructure costs, legal planning costs and costs to complete once the land is sold. Any costs to complete are annually reviewed to ensure that they are sufficient to cover the remaining obligations arising from the sale of land. No interest or directly attributable overheads are capitalised against these strategic land developments.

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 2016	**125**	**242**	**21**	**-**	**388**
Arising on acquisition	12	620	3	-	**635**
Completed in the year	(42)	(200)	42	200	**-**
Additions	45	265	-	-	**310**
Reclassification	5	3	4	-	**12**
Cost of properties sold	-	(33)	(56)	(136)	**(225)**
At 31 March 2017	**145**	**897**	**14**	**64**	**1,120**

LQHT	**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 2016	**30**	**-**	**21**	**-**	**51**
Completed in the year	(35)	(3)	35	3	**-**
Additions	51	-	-	-	**51**
Reclassification	1	3	-	-	**4**
Cost of properties sold	-	-	(47)	(3)	**(50)**
At 31 March 2017	**47**	**-**	**9**	**-**	**56**

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. As such, these are shown at cost with interest between 1.8% and 4.8% (2016: 2.5% and 5%) 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 3.6% per annum.

	Group 2017 £m	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Amounts owed to subsidiaries	**-**	-	**1,460**	875
Forward funding of land purchase	**23**	-	**-**	-
Deferred land payments	**29**	-	**-**	-
Shared equity	**2**	-	**-**	-
	54	-	**1,460**	875

Shared equity related to loans provided by East Thames Limited to 23 leasehold residents covering the shortfall in purchase price as a result of decants for demolition at Ocean Estate. These loans were provided on the same basis as the HomeBuy scheme.

16b. Debtors

	Group 2017 £m	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Amounts receivable within one year:				
Former tenant arrears	**7**	7	**6**	7
Less: provision for bad and doubtful debts	**(7)**	(7)	**(6)**	(7)
	-	-	**-**	-
Current tenant arrears	**32**	24	**29**	25
Less: provision for bad and doubtful debts	**(8)**	(7)	**(8)**	(7)
	24	17	**21**	18
Social housing grant receivable	**3**	1	**2**	1
Other debtors and prepayments	**94**	65	**17**	21
Amount owing from subsidiaries	**-**	-	**33**	26
	121	83	**73**	66

17. Cash and cash equivalents

	Group 2017 £m	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Cash and cash equivalents	**215**	110	**171**	108
Bank overdrafts	**-**	-	**-**	-
	215	110	**171**	108

Restrictions on cash and cash equivalents include £15m (2016: £15m) held in debt service reserve, £9m (2016: £10m) as held funds and £nil (2016: £33m) as collateral against fair value positions of interest rate swaps.

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.

18. Creditors: amounts falling due within one year

	Group 2017 £m	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Debenture loans (see note 23)	**38**	19	**38**	19
Bank loans and overdrafts (see note 23)	**11**	91	**5**	91
Trade creditors	**80**	32	**11**	9
Other taxation and social security	**13**	2	**2**	2
Accruals and deferred income	**131**	42	**38**	40
Amounts due to subsidiaries	**-**	-	**19**	40
Other creditors	**159**	108	**125**	86
Social housing grant (see note 20)	**24**	22	**24**	22
	456	316	**262**	309

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 the amounts within accruals and deferred income is £61m of costs to complete relating to land sales (2016: £nil). Other creditors comprises mainly of development related creditors £97m (2016: £75m).
Social housing grant due within one year is detailed in Note 20.

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

	Group 2017 £m	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Debenture loans (see note 23)	**1,765**	1,071	**1,333**	1,071
Bank loans and overdrafts (see note 23)	**2,682**	1,027	**2,350**	1,027
Total housing loans	**4,447**	2,098	**3,683**	2,098
Net issue premium	**(24)**	3	**(16)**	(6)
Loan fair value adjustments	**107**	9	**-**	3
Total loans measured at amortised cost	**4,530**	2,110	**3,667**	2,095
Deferred income	**18**	15	**18**	15
Other creditors	**43**	5	**2**	2
Recycled capital grant fund	**78**	70	**60**	70
Disposal proceeds fund	**7**	5	**5**	5
	4,676	2,205	**3,752**	2,187

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 either the Recycled Capital Grant Fund (RCGF) or the Disposal Proceeds Fund (DPF) until the grant is recycled or repaid to reflect the existing obligation under the social housing grant funding regime.

Social Housing Grant – Group	**Properties under construction**			**Properties held for lettings**			
	Social housing lettings	**Low-cost home ownership**	**Non-social housing lettings**	**Social housing lettings**	**Low-cost home ownership**	**Non-social housing lettings**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Cost							
At 1 April 2016	**89**	**10**	**-**	**1,614**	**193**	**-**	**1,906**
Arising on acquisition	12	6	-	-	-	-	**18**
Reclassification	-	-	-	(1)	1	-	**-**
Schemes completed in the year	(63)	(8)	-	62	9	-	**-**
Received during the year	39	4	-	-	-	-	**43**
Recycled on disposal	-	-	-	(7)	(7)	-	**(14)**
Written to income	-	2	-	-	-	-	**2**
At 31 March 2017	**77**	**14**	**-**	**1,668**	**196**	**-**	**1,955**
Amortisation							
At 1 April 2016	**-**	**-**	**-**	**175**	**70**	**-**	**245**
Amortisation for the year	-	-	-	15	7	-	**22**
Eliminated in respect of disposals	-	-	-	(1)	(2)	-	**(3)**
At 31 March 2017	**-**	**-**	**-**	**189**	**75**	**-**	**264**
Net book value:							
At 31 March 2017	**77**	**14**	**-**	**1,479**	**121**	**-**	**1,691**
At 31 March 2016	**89**	**10**	**-**	**1,439**	**123**	**-**	**1,661**

20. Social Housing Grant (continued)

Ageing analysis – Group

Social Housing Grant	**Group 2017**	Group 2016
Within one year	**24**	22
Greater than one year	**1,667**	1,639
Total	**1,691**	1,661

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 2016	**89**	**10**	**-**	**1,614**	**193**	**-**	**1,906**
Schemes completed in the year	(59)	(7)	-	59	7	-	**-**
Received during the year	38	5	-	-	-	-	**43**
Reclassification	-	-	-	(1)	1	-	**-**
Recycled on disposal	-	-	-	(5)	(9)	-	**(14)**
At 31 March 2017	**68**	**8**	**-**	**1,667**	**192**	**-**	**1,935**
Amortisation							
At 1 April 2016	**-**	**-**	**-**	**175**	**70**	**-**	**245**
Amortisation for the year	-	-	-	15	7	-	**22**
Eliminated in respect of disposals	-	-	-	(1)	(2)	-	**(3)**
At 31 March 2017	**-**	**-**	**-**	**189**	**75**	**-**	**264**
Net book value:							
At 31 March 2017	**68**	**8**	**-**	**1,478**	**117**	**-**	**1,671**
At 31 March 2016	**89**	**10**	**-**	**1,439**	**123**	**-**	**1,661**

Ageing analysis – LQHT

Social Housing Grant	**LQHT 2017**	LQHT 2016
Within one year	**24**	22
Greater than one year	**1,647**	1,639
Total	**1,671**	1,661

21. Recycled capital grant fund

The HCA 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 2017 £m	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
At beginning of the year	**70**	51	**70**	51
Arising on acquisition	**21**	-	**-**	-
Net HomeBuy grant abated	**10**	-	**8**	-
Net SHG recovered	**-**	11	**-**	11
Transferred to fund during year	**16**	17	**16**	17
Interest credited to fund	**-**	-	**-**	-
Utilised during the year against new build	**(39)**	(9)	**(34)**	(9)
At end of the year	**78**	70	**60**	70

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

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 2017 £m	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
At beginning of the year	**5**	5	**5**	5
Arising on acquisition	**2**	-	**-**	-
Transferred to fund during year	**1**	1	**1**	1
Utilised during the year against new build	**(1)**	(1)	**(1)**	(1)
At end of the year	**7**	5	**5**	5

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

23. Debt analysis – on loans measured at amortised cost

This note provides information about the contractual terms of the Group's 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 on an annually against relevant disclosures within the statement of comprehensive income and statement of financial position.

	Group 2017 £m	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Creditors falling due within one year				
Debenture loans	**38**	19	**38**	19
Bank loans	**11**	91	**5**	91
	49	110	**43**	110
Creditors falling due after more than one year				
Debenture loans	**1,765**	1,071	**1,333**	1,071
Bank loans and overdrafts	**2,682**	1,027	**2,350**	1,027
Total housing loans	**4,447**	2,098	**3,683**	2,098
Net issue premium	**(24)**	3	**(16)**	(6)
Loan fair value adjustments	**107**	9	**-**	3
Total loans measured at amortised cost	**4,530**	2,110	**3,667**	2,095

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 2017 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 2017.

Group Debt analysis – interest-bearing loans and borrowings

As at 31 March 2017	Loans at amortised cost £m	Interest on loans at amortised cost £m	Interest on derivative financial instruments £m	Total £m
Due less than one year	(49)	(117)	(1)	**(167)**
Between one and two years	(1,045)	(111)	-	**(1,156)**
Between two and three years	(23)	(109)	-	**(132)**
Between three and five years	(605)	(211)	-	**(816)**
In five years or more	(2,774)	(1,316)	-	**(4,090)**
Gross contractual cash flows	**(4,496)**	**(1,864)**	**(1)**	**(6,361)**

As at 31 March 2016	Loans at amortised cost £m	Interest on loans at amortised cost £m	Interest on derivative financial instruments £m	Total £m
Due less than one year	(110)	(93)	(12)	(215)
Between one and two years	(129)	(89)	(11)	(229)
Between two and three years	(53)	(83)	(11)	(147)
Between three and five years	(148)	(156)	(20)	(324)
In five years or more	(1,768)	(1,189)	(137)	(3,094)
Gross contractual cash flows	(2,208)	(1,610)	(191)	(4,009)

	Loans at amortised cost £m	Floating rate £m	Fixed rate £m	Weighted average interest rate %	Weighted average life of loan Years
At 31 March 2017	**4,496**	**2,598**	**1,898**	**3.9**	**11**
At 31 March 2016	2,208	352	1,856	4.8	17

The weighted average cost of drawn fixed rate loans measured at amortised cost was 4.8% (2016: 4.5%), and drawn variable rate loans measured at amortised cost was 1.9% (2016: 1.2%) inclusive of lending margins. 42% of the Group's drawn debt, including the use of financial instruments (see note 30) was fixed (2016: 84%). Interest rates on fixed rate debt measured at amortised cost ranges from 2.6% to 12.3% (2016: 3.8% to 12.3%).

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

LQHT Debt analysis – interest-bearing loans and borrowings

As at 31 March 2017	**Loans at amortised cost £m**	**Interest on loans at amortised cost £m**	**Interest on derivative financial instruments £m**	**Total £m**
Due less than one year	(43)	(90)	-	**(133)**
Between one and two years	(1,039)	(83)	-	**(1,122)**
Between two and three years	(15)	(81)	-	**(96)**
Between three and five years	(380)	(163)	-	**(543)**
In five years or more	(2,249)	(991)	-	**(3,240)**
Gross contractual cash flows	**(3,726)**	**(1,408)**	**-**	**(5,134)**

As at 31 March 2016	Loans at amortised cost £m	Interest on loans at amortised cost £m	Interest on derivative financial instruments £m	Total £m
Due less than one year	(110)	(93)	(12)	(215)
Between one and two years	(129)	(89)	(11)	(229)
Between two and three years	(53)	(83)	(11)	(147)
Between three and five years	(148)	(156)	(20)	(324)
In five years or more	(1,768)	(1,189)	(137)	(3,094)
Gross contractual cash flows	(2,208)	(1,610)	(191)	(4,009)

NEW HOMES AS PART OF THE EAST THAMES REGENERATION OF NEW UNION WHARF, ON THE ISLE OF DOGS.

24. Provisions for liabilities and charges

The Group recognises provisions and liabilities of uncertain timing or amounts. Provisions is 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 obligations that existed at the Statement of Financial Position date.

	Group 2017 £m	Group 2016 £m	LQHT 2017 £m	LQHT 2016 £m
At beginning of the year	**17**	13	**12**	13
Arising on acquisition	**47**	-	**-**	-
Increase in provision	**14**	10	**9**	5
Release of provision	**(11)**	(6)	**(8)**	(6)
At end of the year	**67**	17	**13**	12

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

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

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

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

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

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

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

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

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	**5**	-	**-**	-
Arising on acquisition	**47**	-	**-**	-
Increase in provision	**5**	-	**-**	-
Release of provision	**(3)**	5	**-**	-
At end of the year	**54**	5	**-**	-

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 2017 £m	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
At 1 April 2016	**1,029**	1,010	**1,029**	1,010
Arising on acquisition	**653**	-	**-**	-
Movement in the year	**20**	19	**20**	19
At end of the year	**1,702**	1,029	**1,049**	1,029

26. Share capital

	Group 2017 £	Group 2016 £	**LQHT 2017 £**	LQHT 2016 £
Shares of £1 each issued and fully paid				
At beginning of the year	**9**	7	**9**	7
Issued during year	**2**	2	**2**	2
Cancelled or eliminated during the year	**(2)**	-	**(2)**	-
At end of the year	**9**	9	**9**	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 2017 £m	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Expenditure that has been contracted for but has not been provided for in these financial statements	**1,478**	1,027	**1,164**	1,027
Expenditure that has been authorised by the Governing Board but has not yet been contracted for	**771**	595	**628**	595
	2,249	1,622	**1,792**	1,622

The Group expects to finance contracted commitments through:

Social housing grant	**138**	112	**117**	112
Surpluses and borrowings	**1,340**	915	**1,047**	915
	1,478	1,027	**1,164**	1,027

The development pipeline as at 31 March 2017 had an estimated cost of £5 billion (2016: £4 billion) and currently spans 16 years. This includes fixed and current assets relating to ongoing constructions as well as developments not yet on site which will be funded primarily through accumulated reserves and borrowings. In addition, there is £7m committed capital expenditure in relation to maintenance works already approved.

Our approved development pipeline has the following projections:

	Group 2017	Group 2016
Units in the development pipeline	**44,300**	39,758

	£m	£m
Projected pipeline cost	**4,606**	3,975

Projected source of funding		
Social housing grant	**226**	223
Surpluses and borrowings	**4,380**	3,752
	4,606	3,975

28. Commitments under operating leases

	Group and LQHT		Group and LQHT	
	2017	**2017**	2016	2016
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Annual commitments under operating leases are as set out below:				
Operating leases which expire:	**-**	**-**		
In less than one year	**-**	**-**	-	-
Between one and five years	**1**	**-**	-	-
After five years	**1**	**-**	1	-
	2	**-**	1	-

29. Related party transactions

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 (LQHT and East Thames Ltd) and other non-registered entities in the Group are disclosed over the page.

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. There are no board members who were also tenants at the end of the year.

During the year, Chobham Manor LLP, Greater Beaulieu Park LLP, South Acton LLP and Oaks Village sold units to LQHT to the extent of £1m, £3m, £20m and £8m respectively.

Quadrant Construction Services Limited forward funded the affordable housing at Barking Riverside Ltd for the sum of £23m, registered as a debtor.

Intra-group transactions between the Group's registered providers and its non-regulated subsidiaries for the year ended 31 March 2017:

2017	Sales income £m	Cost of sales £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	171	(168)	(6)	(11)	-	(344)	-	-	17
L&Q New Homes Ltd	20	(9)	(57)	(28)	-	(716)	-	(26)	-
L&Q PRS Co Ltd	-	-	(6)	(5)	-	(100)	-	(7)	-
Quadrant Housing Finance Ltd	-	-	-	-	10	-	140	-	1
LQHT to non-registered provider subsidiaries	30	(29)	69	(10)	45	(140)	1,160	(18)	33
Subsidiaries to East Thames Limited									
East Place Ltd	-	-	-	-	-	-	1	-	1
East Regeneration Ltd	-	-	-	-	-	(2)	-	(4)	-
East Thames Partnership Ltd	-	-	7	-	1	-	-	-	16
East Finance plc	-	-	-	5	-	(248)	-	(4)	-
East Treasury Ltd	-	-	-	46	-	(125)	-	-	-

Intra-group transactions between the Group's registered providers and its non-regulated subsidiaries for the year ended 31 March 2016:

2016	Sales income £m	Cost of sales £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	170	(167)	(4)	(7)	-	(195)	-	-	39
L&Q New Homes Ltd	-	-	(31)	(21)	-	(474)	-	(21)	-
L&Q PRS Co Ltd	-	-	(4)	(3)	-	(206)	-	(4)	-
Quadrant Housing Finance Ltd	-	-	-	-	10	-	140	-	1
LQHT to non-registered provider subsidiaries	228	(217)	39	(10)	31	(140)	875	(40)	25

30. Financial instruments

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

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

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

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

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

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

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

THIS TWO-BEDROOM APARTMENT IS ONE OF A RANGE OF BEAUTIFUL NEW HOMES WE ARE RENTING PRIVATELY AT STADIUM PLACE, OUR ICONIC DEVELOPMENT IN WALTHAMSTOW.

30. Financial instruments (continued)

	Group 2017 £m	Group 2016 £m
Interest Rate Swaps:		
Due within one year	**1**	12
Between one and two years	**-**	11
Between two and three years	**-**	11
Between three and five years	**-**	20
In five years or more	**-**	137
Gross contractual cash flows	**1**	191

Nominal values of the above		
Cash flow hedge	**80**	290
Fair value	**-**	-
Total	**80**	290

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

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

Hedging instruments

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

Hedged items

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

Hedged effectiveness

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

Accounting treatment - Cash flow hedges

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

A cash flow hedge is accounted for as follows:

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

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

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

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

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

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

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

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

30. Financial instruments (continued)

Financial instruments	**Group 2017 £m**	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Financial instruments measured at fair value through profit and loss	**3**	4	**3**	4
Effective portion of change in fair value of cash flow hedges recognised in other comprehensive income	**-**	159	**-**	159
Total loans measured at amortised cost	**4,496**	2,208	**3,726**	2,208
At end of the year	**4,499**	2,371	**3,729**	2,371

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 2017 was £159m.

The Group's cash flow interest rate risk exposure is managed in accordance with treasury policy. As at 31 March 2017 a 0.5% increase in interest rates would result in an additional charge to the statement of consolidated income of £26m (2016: £4m). A 0.5% decrease would result in a potential lost benefit of £9m (2016: £9m).

Liquidity risk
The Group has a policy to maintain sufficient liquidity in cash and undrawn lending facilities to cover 15 months of operational activity. At the year-end 56% of the Group's borrowings were due to mature in more than five years.
The liquidity risk of each Group entity is managed centrally by the Group treasury function in accordance with the 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	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Investments	**476**	277	**-**	411
Cash and cash equivalents	**-**	-	**215**	110
Debtors	**-**	-	**175**	83
	476	277	**390**	604

	Financial assets at fair value		**Financial assets at amortised cost**	
Financial liabilities	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Trade and other payables	**-**	-	**497**	346
Loans and borrowings	**-**	-	**4,496**	2,208
Derivatives				
• Designated hedges	**-**	159	**-**	-
• Fair value through profit and loss	**3**	4	**3**	-
	3	163	**4,996**	2,554

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 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 2017 £m**	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
At beginning of the year	**14**	13	**14**	13
Arising on acquisition	**2**	-	**-**	-
Movement in provision	**1**	1	**1**	1
At end of the year	**17**	14	**15**	14

Arrears	**Group 2017 £m**	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Less than 30 days	**15**	11	**13**	11
30 to 60 days	**4**	3	**3**	3
60 to 90 days	**2**	2	**2**	2
More than 90 days	**18**	16	**17**	16
	39	32	**35**	32

Included in the above are £7m (2016: £7m) of former tenant arrears which are mostly provided for through the statement of comprehensive income. The increase in the year mostly represents additional rent arrears within East Thames Limited totalling £4m.

32. Ultimate holding entity

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

33. Post year end events

On 3 April 2017 East Living Limited, formerly a subsidiary of East Thames Limited because a direct subsidiary of London and Quadrant Housing Trust and was renamed L&Q Living Limited.

On 9 May 2017 Gardenvale Properties Limited was re-named Gallagher Estates NR Limited.

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
East Thames Limited	Registered in England & Wales under Co-operative and Community Benefit Societies Act 2014	Registered provider of social housing
L&Q Living Limited	Registered in England & Wales under Co-operative and Community Benefit Societies Act 2014	Provision of care services and supported housing
East Thames Partnership Ltd	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 Potential Limited	Limited by guarantee registered in England and Wales	A registered charity (number 1053142) in voluntary strike-off
East Finance plc	Public limited company registered in England and Wales	Onward lender of bond monies
East Place Limited	Limited company in England and Wales	Housing for open market sales and partner in Triathlon Homes LLP
East Treasury Limited	Limited company by shares registered in England and Wales	Financing company provided to East Finance plc
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
Gallagher Estates Holdings Limited (previously Gallagher Estates No. 1 Limited)	Limited company by shares registered in England and Wales	Holding company
Gallagher Homes Limited	Limited company by shares registered in England and Wales	Dormant
GW 305 Limited	Limited company by shares registered in England and Wales	Intermediate holding company

The entities forming the Group are:

Entity	Status	Activity
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	Holding company and property development
Portobello Developments 2002 Limited	Limited company by shares registered in England and Wales	Property development
Wixhams First Limited	Limited company by shares registered in England and Wales	Property development
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 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	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
Gallagher MK Holdings Limited (Jersey)	Registered Private Company registered in Jersey	Intermediate holding company
Redlawn Land Limited	Limited company by shares registered in England and Wales	Property development

Notes to the financial statements

35. Alternative performance measures

Definitions of non-GAAP measures and reconciliations to the nearest measure in accordance with FRS 102 are set out below. The alternative performance measures used may not be directly comparable with similarly titled measures used by other companies.

Exceptional items

The Group's Strategic Report separately identifies operating surplus before exceptional items. The Board believe that presentation of the Group's results in this way is relevant to an understanding of the Group's financial performance. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and assists in providing a meaningful analysis of the trading results of the Group. This also facilitates comparison with prior periods to assess trends in financial performance more readily.

The Group applies judgement in identifying significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group's underlying performance. In determining whether an event or transaction is exceptional in nature, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Exceptional items are disclosed in note 8(b) and 14(f) of the consolidated financial statements.

Consequently the following non-GAAP measures and reconciliations to the nearest measures in accordance with FRS 102 are:

Pre-exceptional surplus before tax	**Group 2017 £m**	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Surplus / (loss) on ordinary activities before tax Adjustments for	**225**	279	**(245)**	251
Other finance income/(costs) - refinancing costs	**548**	-	**548**	-
Gift on acquisition of subsidiary	**(441)**	-	**-**	-
Pre-exceptional surplus before tax	**332**	279	**303**	251

Surplus for the year before exceptional items	**Group 2017 £m**	Group 2016 £m	**LQHT 2017 £m**	LQHT 2016 £m
Surplus / (loss) for the year Adjustments for	**220**	274	**(245)**	250
Other finance income/(costs) - refinancing costs	**548**	-	**548**	-
Gift on acquisition of subsidiary	**(441)**	-	**-**	-
Surplus for the year before exceptional items	**327**	274	**303**	250

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