



EQUITY HOUSING GROUP LIMITED
(A Co-operative & Community Benefit Society)

FINANCIAL STATEMENTS

For the year ending
31st MARCH 2019

Equity Housing Group Limited
Financial Statements
For the Year Ending 31st March 2019

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Equity Housing Group Limited Chair's Statement

Over the past year we have made significant progress to strengthen the financial capacity and resilience of our business whilst continuing to develop much-needed, high-quality affordable homes. I am delighted to say that in the last financial year Equity developed 149 new homes and we hope to deliver a similar number in the new financial year.

These much-needed affordable homes not only open the door for people to get on the housing ladder, they also go some way towards helping with the supply of new homes needed to help bridge the ever-widening gaps we have seen emerging within the housing sector over the last couple of years.



I am pleased to acknowledge the great work our front line teams are doing to support our existing customers. The decision was taken back in 2018 to change the way we operate our front-line services for our customers, adopting a generic housing management approach. I am delighted to say that this is now making a noticeable difference to the lives of many of our customers and their families.

We are all too aware of the financial stresses and strains that many of our customers are under. The introduction of Universal Credit has seen the number of people our Money Advice Team help almost double over the last couple of years. This has a direct impact on other key areas of our business, including rent collection, Anti-Social behaviour and ultimately, the termination of tenancies.

Thankfully, the agility of our front-line teams has meant we have been able to support and signpost customers to ensure they receive the additional support needed to help maintain their tenancies, whilst also tackling the wider social issues that Universal Credit brings.

Alongside this, our Equity Foundation continues to invest much-needed funds into supporting our communities. Last year the Foundation invested significantly in a number of projects, allowing whole communities to seize opportunities that would otherwise be out of their reach.

To further our strategy, the Board has taken the decision to seek a partner and has undertaken a rigorous process, with independent support, to select a potential partner. I firmly believe this will enable Equity to build more much needed affordable homes, improve our offer to customers and build greater resilience whilst improving efficiency.

Over the past year, the Board has been working hard to drive forward governance improvements and this is an area where I believe we have made substantial progress. As part of this process, we have welcomed new members onto the Board who bring with them the skills, knowledge and expertise required to oversee the delivery of our strategic objectives.

I am immensely proud of the work our teams do on a daily basis, and I would like to pass on my thanks to all colleagues at Equity for their continued efforts. It is they who make Equity the customer focussed business that it is. My thanks also needs to go to my colleagues on the Board, their continuous dedication to ensuring we are fit for the new and exciting challenges taking place over the coming year. I would also like to thank the Board members who retired this year but leave behind them a lasting legacy. Finally, special thanks, of course, goes to Equity customers, shareholders, stakeholders and community groups who continue to be at the heart of everything we do.

Carole Hassan
Chair of Equity Housing Group Limited

Equity Housing Group Limited
Directors, Executive Officers and Advisors

Non-Executive Directors:

Board Member	Position	Changes in the Year
Carole Hassan	Chair of the Board	
Susan Gambles	Vice-Chair of the Board	
Grenville Page	Chair of Audit & Risk Committee	
Rebecca Asady	Board Member	
Thomas McDonald	Board Member	
Anthony Gordon	Board Member	
Ann Johnson	Board Member	Retired 13 September 2018
Joe Doherty	Board Member	Retired 28 March 2019
Paul Shevlin	Board Member	Retired 28 March 2019
Taf Sharif	Board Member	Retired 28 March 2019
Anthony Bell	Board Member	Appointed 13 September 2018
Mervyn Jones	Board Member	Appointed 28 March 2019
Heather Ashton	Board Member	Appointed 28 March 2019
Philip Madden	Board Member	Appointed 28 March 2019

Executive Officers:

Executive Officer	Position	Changes in the Year
Collette King	Chief Executive Officer	Left 26 September 2018
Andy Oldale	Strategic Director of Corporate Services and Company Secretary (post retitled to Deputy Chief Executive 31 January 2019)	
Phil Webster	Strategic Director of Customer Experience	Left 22 February 2019
Geraldine Kay	Interim Chief Executive Officer	Appointed 5 November 2018

Company Registration Numbers:	L1229 Regulator of Social Housing 16551R Co-operative and Community Benefit Society
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Registered Office:	Armitt House Monmouth Road Cheadle Hulme Stockport Cheshire SK8 7EF
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Equity Housing Group Limited
Directors, Executive Officers and Advisors

External Auditors:	Beever and Struthers St George's House 215-219 Chester Road Manchester M15 4JE
Internal Auditors:	Mazars One St Peters Square Manchester M2 3DE

Bankers:	Royal Bank of Scotland Corporate Banking Liverpool 10 th Floor, The Plaza 100 Old Hall Street Liverpool L3 9QJ
Principal Solicitors:	Trowers & Hamlins 55 Princess Street Manchester M2 4EW

Equity Housing Group Strategic Report (incorporating Value for Money Statement)

The Board presents its strategic report and audited financial statements for the year ended 31st March 2019.

Legal status

Equity Housing Group Limited (the Group) is an independent social business, run on a not for profit basis. During the year the Group consisted of two legal entities:

- Equity Housing Group Limited - registered under the Co-operative and Community Benefit Societies Act 2014 and is a Registered Provider of Social Housing with charitable status.
- Equity Enterprises Limited, a private limited company (Companies registration number 10073137).

The Group is governed by a Board of Non-Executive Directors. The Directors of the Group who served during the year and up to the date of the signing of these financial statements are listed on page 2.

Principal activities

The Group's principal activities are the development and management of social housing. The Group's subsidiary, Equity Enterprises Limited, provides sales and lettings services through an estate agency (Equity Living), and a coffee shop (SK Eight).

Equity Living provides a social lettings and management service to individual landlords and an estate agency service for existing shared ownership customers, as well as providing a commercial service to other Registered Providers. This is complemented by carrying out sales activity associated with the Group's own new-build development programme.

The Equity Foundation is the Group's vehicle for delivering social impact, which is achieved through investment in community-led projects.

All staff are employed on a contract of employment with Equity Housing Group Limited.

All salary and relevant administration costs are recharged to the subsidiary via a management charge from Equity Housing Group. The administration costs are allocated according to employee time spent on the subsidiary's activity.

Corporate Plan: Mission, Values and objectives

Equity Housing Group is one of the leading providers of high quality, low cost home ownership products and services in the North West of England. 2018/19 was the first year of delivery against the Group's new Corporate Plan.

Equity's Vision and Mission are:

Our Vision:	Delivering Homes, Inspiring Lives
Our Mission:	We meet local housing need through providing homes, enabling affordable home ownership, and investing in our communities

Our vision and mission have been developed using the following key principles:

- We recognise that there is a housing crisis in Britain, and our primary accountability is to the wider communities in our areas of operation;
- Our reason for being is to deliver new affordable housing for the communities where we operate, and enable more people to access home ownership; and

Equity Housing Group Strategic Report (incorporating Value for Money Statement)

Corporate Plan: Mission, Values and objectives (continued)

- We are a socially conscious business, and want to help grow the capacity of communities where we operate by investing in projects delivering social value.

Our Corporate Plan is largely focused around efficiency and growth. As a provider of social housing with dispersed stock and strong development performance, we believe we can best serve the community by delivering new affordable homes in the areas within which we operate. Therefore, over the 5 years of the plan, we are aiming to increase our capacity for growth and investment by reducing costs, focussing on core services and digital access for customers, and improving our operating margins. We will use the additional capacity to fund growth in our areas of operation.

The Corporate Plan is underpinned by five key strategic objectives, which are outlined below.

Invest	Invest in building sustainable homes and places where our customers can thrive
Deliver	Understand our diverse customers and deliver high quality, tailored services
Support	Support our customers' wellbeing, and help grow the capacity of communities to address the challenges they face
Grow	Grow the business, driving maximum social value from our activities
Sustain	Maintain a commercially viable and sustainable business, driving surplus to fund the delivery of new affordable homes

The full Corporate Plan, which can be obtained from the registered office, and is available on our website, sets out detailed outcomes and measurable targets for each strategic objective.

During 2018/19, we made the following significant progress in delivering against our Plan:

- We have delivered 149 units in 2018/19, which is 3.2% of stock and puts us in the top quartile based on the most up to date comparison available. So far, in 2019 we have agreed eight new developments delivering over 130 new homes to the pipeline.
- In the year, we spent £3.7m on planned improvements (both capital and revenue). This involved replacing, refurbishing or servicing 998 individual, communal, or cyclical components, benefiting 1,226 homes.
- A 100% stock condition survey was commissioned in the year. Our contractor has finished the fieldwork and managed to survey 2,420 dwellings, houses and garages out of 3,588 assets, giving a 68% completion rate on the survey. Collected data will now be used to clone against assets, which have not been surveyed to achieve a 100% dataset, and technical staff will pick up the properties where access was not possible to update the cloned data. The 30-year asset maintenance cost is consistent with what we already have in the 30-year business plan.
- Overall customer satisfaction has increased from 73.6% in 2017/18 to 76.3% in 2018/19, with the biggest improvement being found in Home Ownership satisfaction levels, which improved by approximately 10%. Equity's current strategy for improving customer satisfaction is based around reducing customer effort. This is being progressed via a two pronged approach: investing in digital access to make for a more streamlined customer experience and easier access to services, and providing customers with a single point of contact for more complex queries in the form of our new generic housing management service.
- A new approach to community investment has been devised to ensure we maximise the impact of our investment. We have moved away from a small grants model and invest more strategically in communities. In particular, we are looking at investing in infrastructure

Corporate Plan: Mission, Values and objectives (continued)

to ensure a long-term impact. In 2018/19 we have invested £160K in social value initiatives. The Foundation has achieved total investment spend within 10% of its original target of £175K. For each investment, outcomes and monitoring arrangements are agreed, and the supported organisations are required to report back on outcome 12 months after the investment is made. The effectiveness of 18/19 investments will be monitored throughout 19/20. A pipeline of potential community investment opportunities has been developed for 2019/20.

- We have relaunched our values and competency framework and given our colleagues better access to learning and development opportunities in line with organisational expectations. 34.2% of vacancies in-year were filled by internal promotion, which exceeded our target and was due to our new Succession Planning process and policy of nominating colleagues into vacant jobs where they possess at least 70% of the necessary skills for the role. Our Best Companies engagement score was 682.7 against a target of 685.0. This represents an improvement on last year which was 670.9, and means we retain our one star status. EHG stands at number 50 in the Top 100 Not for Profit organisations and number 70 amongst all organisations in the North West.
- At year-end 2018/19, there were 38 units managed per FTE, and a reduction in management costs per unit of over £119.

Value for Money (VFM) is a key theme, which is at the heart of our corporate objectives. Our VFM targets are clearly set out in our Corporate Plan and the associated VFM Strategy, recognising that further efficiency gains are required to demonstrate improved VFM to our stakeholders.

Our Corporate Scorecard contains both regulatory VFM metrics and other KPIs monitoring our internal priorities, and is monitored quarterly by the Board.

Governance Structure

The Board is led by the Chair, Carole Hassan. The Board membership, which is detailed on page 2, currently consists of 10 independent members who bring a range of professional, commercial and social enterprise experience.

The Board is responsible for determining the strategic direction and reviewing its operating and financial position. The Board is also responsible for establishing and overseeing the Group's control and risk management frameworks and ensuring the Group achieves its aims and objectives. The Board met 8 times in 2018/19.

During the year, the Board reviewed the skills and knowledge requirements to ensure it continues to have the appropriate membership to deliver the new Corporate Plan, and to oversee the dynamic environment within which the Group operates. The review was complemented by the development of a new competency framework, and an updated succession plan to inform future recruitment, which is based on skills, knowledge and expertise. The Board subsequently appointed three new members in March 2019 to refresh current skills and to bring in the necessary knowledge and expertise required to support the Group's strategic direction. New Board members undergo a formal induction programme which includes background information about the Company and its strategy.

Each Board member is subject to a regular appraisal conducted by the Chair, and in respect of the Chair by the Vice Chair and an independent consultant.

The subsidiary, Equity Enterprises Limited, was chaired by Ann Johnson until 13 September 2018 when she retired from the Board. Anthony Bell was appointed Chair of Equity Enterprises on 13 September 2018. Equity Enterprises had an independent Board of 3 Non-Executive Directors until September 2018, and 2 Non-Executive Directors from September 2018 onwards.

Equity Housing Group Strategic Report (incorporating Value for Money Statement)

Board and Executive Officers Remuneration

Non-Executive Directors receive remuneration from the Group, as well as reimbursement of expenses incurred. The Board's remuneration is based on independent national and sector benchmarking, and is approved by the Remuneration Committee. A Board Salary Benchmarking and Remuneration Review was carried out during 2018/19. The findings were reviewed by Remuneration Committee in November 2018 and recommendations made to the Board in December 2018. Board Remuneration levels remained unchanged apart from the inclusion of Board Member travel costs and an increase to the remuneration of the Chair of Audit & Risk Committee, to bring the remuneration rate in line with the Vice Chair and reflect current role responsibilities.

The remuneration of the Executive Directors is determined by the Board.

Board Committees

The Board delegates some of its responsibilities to the committees. A review of the Board and committee structure was carried out in July 2018 with the decision taken to streamline committees. The committees of the Board during 2018/19 were therefore as follows:

March 2018 – July 2018: Audit and Risk Committee, Remuneration Committee, Finance and Treasury Committee, and Operations and Development Committee

July 2018 – Present: Audit and Risk Committee, Remuneration Committee

Audit and Risk Committee

The Audit and Risk Committee met five times during the year and its work included:

- reviewing the external auditor's plans for the audit of the Group's financial statements;
- reviewing the external auditor's management report and audit highlights memorandum;
- reviewing the financial statements for the year;
- agreeing the internal audit plan for the year and reviewing reports from the internal auditors on the Group's system of internal control, monitoring and responding to those reports and compliance with recommendations; and
- reviewing the processes in place for monitoring, evaluating and managing the risks facing the Group, including deep-dive discussions relating to the Group's strategic risks.

Finance and Treasury Committee

The Finance and Treasury Committee met 2 times during the year and its work included:

- reviewing the Group's annual budget and 30-year business plan;
- reviewing the quarterly management accounts and loan covenant compliance;
- overseeing the financial performance of the new build development programme;
- reviewing the Group's funding requirements and arrangements; and
- monitoring the Group's treasury management activities.

Operations and Development Committee

The Operations and Development Committee met 2 times during the year, and its work included:

- reviewing the quality and performance of services delivered to customers;
- overseeing the operational delivery of the new build development programme; and
- reviewing customer satisfaction with the services provided by the Group.

Remuneration Committee

The Remuneration Committee met 5 times during the year, and is responsible for:

- recommending to the Board the Group's pay policy; and
- recommending the terms and conditions of employment for the Group Chief Executive and the Executive Directors, and their annual salary review.

Salaries for Executive Directors are set having regard to each director's responsibilities and pay levels for comparable corporate positions.

Equity Housing Group Strategic Report (incorporating Value for Money Statement)

Governance Code

The Board can confirm that the Group complies with the principle requirements of the National Housing Federation (NHF) Code of Governance (2015).

Regulatory Compliance

The Board confirms that it complies with the requirements of the Governance and Financial Viability Standard, and the wider Regulatory Framework for Social Housing in England (2015).

The Group was subject to an In-Depth Assessment by the Regulator which concluded in June 2018. In July 2018 The Group received confirmation of a governance downgrade from G1 to G2, and a financial viability regrade from V1 to V2.

The Regulator confirmed that the governance downgrade was due to further work required to demonstrate an effective internal control framework, adherence to relevant legislative and regulatory requirements, and that the Board is managing its affairs correctly. The Board agreed an action plan to address the concerns of the Regulator, and also appointed external consultants (Campbell Tickell) to support the Board in carrying out a governance review. The governance review was completed in March 2019, and significant actions taken as part of the review included the appointment of three new members to the Group Board in March 2019, and the introduction of a new internal controls framework based on the COSO model. The Group continues to pro-actively engage with the Regulator on progress against the action plan.

Employees

The strength of the Group, and its ability to meet its corporate objectives and its commitments to customers lies in the quality, commitment and contribution of its employees.

The Group provides information to its employees throughout the year on its objectives, progress and activities through regular team meetings, and briefings from the Chief Executive and the Executive Leadership Team. The Group has a People Strategy in place, which recognises the importance and contribution of employees to the on-going success of the Group.

The Group is committed to equality of opportunity for all employees, and to having a diverse workforce that reflects the communities within which we operate. The Group are also committed to supporting disabled people, both in recruitment and in retention of employees who become disabled whilst employed by the Group. The Group ensures that staff recruitment, discipline and development issues are dealt with equally and that all employees are treated in the same way.

The Board is aware of its responsibilities on all matters relating to health and safety. The Group has detailed health and safety policies and a robust safety management system in place, and provides training and education to all of our staff on health and safety matters appropriate to their role.

The Executive Leadership Team, led by the Interim Chief Executive Officer, is responsible for the day-to-day running of the business. The Executive Leadership Team work closely with the Board to develop and execute the Group's strategic objectives. The members of the Executive Team and the movements through the year are shown on page 2.

Internal Control Assurance

The Board acknowledges its overall responsibility for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. This responsibility applies to all parts of the Group.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the business objectives, and to provide reasonable, but not absolute assurance against material misstatement or loss.

In meeting its responsibilities, the Board has adopted a risk-based approach to establishing and maintaining internal controls, which are embedded within the day to day management and

Equity Housing Group Strategic Report (incorporating Value for Money Statement)

Internal Control Assurance (continued)

governance processes. This approach includes the regular evaluation of the nature and extent of the risks to which the Group is exposed.

A process for identifying, evaluating and managing the significant risks faced by the Group has been in place throughout the year up to the date of the approval of the annual report and financial statements. The Audit and Risk Committee regularly receives and considers reports from the Group's senior management and its auditors about risk management and internal control arrangements.

The arrangements adopted by the Board in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework, are set out below.

Corporate Planning and Budgeting

The corporate planning and budgeting process is used to set objectives, agree action plans and allocate resources. The Group's progress towards meeting the strategic and annual objectives is regularly monitored.

The Group's 30-year Business Plan was approved by the Board prior to the start of the 2018/2019 financial year.

Performance and Compliance Monitoring

At every Board and Committee meeting, reports outlining the latest operational and financial results compared to the target for the year are presented to enable the Board to maintain oversight of the Group's strategic performance and on-going compliance.

Audit and Risk Committee

The Audit and Risk Committee reports to the Board on internal controls, and alerts them to any emerging issues. The Audit and Risk Committee ensures that corrective action is taken in relation to any significant control issues highlighted by the internal and external auditors. As part of its review of the organisation's internal control system, the Committee oversees the performance of the internal and external auditors. The Audit and Risk Committee provides advice to the Board and provides an annual review to them, through the internal auditors, which focusses on the effectiveness of the internal control system, including the Group's systems for managing risk. During the year, the Audit and Risk Committee has had oversight of further developments to the internal control environment in the following areas:

- a review of the Risk Management Strategy and improvements to strategic risk management framework, including the development of financial golden rules and risk mitigation strategies linked to the business plan stress testing;
- improved Health & Safety reporting to Executive and Board, particularly the arrangements for Fire Safety management;
- updated Group Financial Regulations;
- compliance with the Regulator of Social Housing Governance and Viability Standard and the NHF Code of Governance;
- adoption of the COSO Framework to help measure and monitor the effectiveness of our internal controls and identify areas for improvements;
- improvement of the Group's data protection arrangements to meet the requirements of the Data Protection Act 2018 and the General Data Protection Regulation 2018;
- deep-dive discussions at the Audit and Risk Committee during the year on areas of strategic risk; and
- implementation of a new Risk Panel which has operational oversight of our risk register, internal audit recommendation implementation, policy review, data protection and our Business Continuity Plan.

Internal Audit Programme

Internal Audit is an important element of the internal controls process. Internal Audit is responsible for the annual review of the effectiveness of the internal control system within the organisation.

Equity Housing Group Strategic Report (incorporating Value for Money Statement)

Internal Audit Programme (continued)

Mazars were appointed as the Group's Internal Auditors from 1st April 2018 for a three-year period.

The Audit and Risk Committee approved the audit plan for 2018/19 at its meeting on 19th April 2018. The plan for the year delivered 14 audits as agreed by Audit and Risk Committee.

External Audit

External Audit provides feedback to the Board on the operation of the internal financial controls reviewed as part of the annual audit of the year-end accounts and financial statements. The external audit process includes an interim and a year-end audit.

Each year, after the year-end audit, a management letter is presented to the Board and subsequently submitted to the Regulator of Social Housing.

Beever and Struthers were appointed as the Group's external auditors from 1st April 2009 for an initial three-year period, which was subsequently extended in April 2012 and April 2015 for additional three-year periods. The contract was extended from 1st April 2018 for an additional year.

Customer Engagement

Equity has a comprehensive customer engagement framework in place, which was reviewed and refreshed during the year to ensure it remains effective and will continue to evolve linked to the Green Paper, consumer standards review and feedback. The Scrutiny Group acts as a critical eye for the Group to review services, policies and processes, and going forward will make evidence based recommendations to the Board to improve and enhance our customer-facing services. The Customer Advisory Group (CAG) oversees all customer feedback and customer engagement activity to ensure areas of dissatisfaction are addressed appropriately. Equity also operate regular customer forums across the regions in which we operate, and continue with the 'Equity Voices' e-forum designed to engage with those customers who want to be involved but who prefer to communicate digitally.

Financial Review

Results for the year

An overview of the financial performance of the individual entities is provided below:

- Equity Housing Group Limited achieved a surplus for the year, after interest and tax, of £0.5m (2018: £4.0m). The main factor for the reduction in the year on year results was the change in accounting treatment for the SHPS pension scheme which resulted in a revaluation charge in Other Comprehensive Income of £3m.
- Equity Enterprises Limited made a surplus of £15k (2018: £2k deficit);
- Overall, the Group's reserves amount to £65.2m (2018: £64.7m).

The amounts in the remainder of this section relate to the consolidated Group position only.

Operating performance

The Group's operating margin, pre the Pension adjustment, was 24.1%, (2018: 26.1%), resulting in an operating surplus (before interest and tax), of £5.8m (2018: £6.4m). The operating margin provides an indication of how efficient Equity are at running the business; and the operating surplus shows the net income generated, which is used to fund our borrowings, capital investment and to provide reserves for future years.

Capital structure and treasury policy

The Group's has borrowing facilities in place from a number of lenders. At the end of the financial year total borrowings were £51.2m (2018: £53.1m). This debt is borrowed from banks, Local Authorities and The Housing Finance Corporation (THFC).

The Treasury Strategy is set annually and approved by the Board. The Treasury Policy was reviewed by the Board's retained treasury advisors and approved by the Board in March 2018.

Equity Housing Group Strategic Report (incorporating Value for Money Statement)

Capital structure and treasury policy (continued)

There were £23.4m of loan repayments made during the year (2018: £23.3m), in line with the Group's structured finance agreements. The Group borrows only in sterling and does not have any currency risk. Surpluses are invested in approved UK institutions and the Board monitors investment returns. All loans are secured by fixed charges over the Group's housing properties.

The significant factor influencing the amount and timing of borrowings is the pace of the development programme and the receipt of sales proceeds on shared ownership properties.

Cash flows

Cash inflows and outflows for the year are set out in the cash flow statement. Net cash inflows from operating activities are from the management of housing stock and amounted to £9.7m (2018: £10.1m). The movement on financing activities on note 7 shows the amounts incurred on interest charges being £2.4m (2018: £2.5m). The Group's cash balances, including trust funds, at the end of the financial year was £5.5m (2018: £12.1m).

Value for Money

In this section, we set out evidence of Equity's compliance with the regulator's value for money standard and accompanying code of practice. We do not see VFM as something that is separate from our business as usual, but rather we have adopted approaches to corporate planning and performance management which clearly set out what we want to achieve for our customers, wider communities and business, and regularly monitor both whether we have achieved our goals for the year and whether we are on track for achieving our goals for the future.

To demonstrate the progress we are making in achieving our objectives in a cost effective manner, we are reporting performance against the seven metrics defined by The Regulator of Social Housing. We compare our performance against our targets for the year and against the sector as a whole for comparison. To give a real sense of our direction of travel we also compare with last year's performance, and outline our 5-year targets to show where we are heading.

For Equity, VFM goes further than the achievement of positive financial performance. Our corporate scorecard contains twenty KPIs aligned to our five Corporate Objectives and is reported regularly to senior management and Board. We have selected eleven of these KPIs for reporting in the financial statements, with those being the ones most directly related to demonstrating the VFM that Equity delivers. In addition to the seven regulatory VFM KPIs, we have also included:

- Management Cost Per Unit, as this is an area where we believe we need to show improvement and have been focusing significant effort.
- Customer Satisfaction, as a key outcome measure for Equity.
- Social Value Investment, as it is a key element of strategy to commit 5% of our retained surplus to social value activity (raising to 10% in the later years of the plan).
- Employee turnover, as an area where we feel improvement is needed and which impacts both on costs and on our ability to deliver services to customers.

For comparison, we have used the Global Accounts 2017/18 (the most up to date dataset available) and the quartile positions stated are based on the all-sector comparison. Equity has also selected a group of 17 local housing providers for a more local picture of comparative performance, which is referenced in the narrative. Our targets have been compared with benchmark, to give an indication as to likely position in the sector should targets be achieved, notwithstanding sector-wide fluctuations in performance.

In summary:

- Equity is a top quartile developer with low gearing and acceptable interest cover and therefore significant capacity for further development. Reinvestment levels are positive, largely driven by our growth programme. Our growth-centred strategy builds on this strong

Equity Housing Group
Strategic Report (incorporating Value for Money Statement)

Value for Money (continued)

history and available capacity, with a mixed-tenure development programme and a focus on shared ownership

- Margins are comparatively low, in part due to our shared ownership stock levels which reduce our rental income at a level disproportionate to any accompanying reduction in costs (and with staircasing receipts removed from surplus calculations), but also due to high management costs per unit when compared to the sector. A cost reduction plan has been agreed by the Board and is being implemented from 2019/20.
- Equity has seen significant improvement in satisfaction levels among home ownership customers, who make up approximately a third of our customer base. However, there is still improvement required around rented customer satisfaction, in particular among our Older Person housing customers. Areas of dissatisfaction among older people include ease of resolving issues and being kept up to date with delays to repairs, which are being addressed through our introduction of a new housing management system in summer 2019, and the launch of a new repairs contract in June 2019. We have also committed significant funds in the business plan for investment in communal areas of sheltered schemes.

Key:

	Top Quartile
	2 nd Quartile
	3 rd Quartile
	Bottom Quartile

1. Reinvestment

KPI	Performance		Targets					
	17/18	18/19	18/19	19/20	20/21	21/22	22/23	23/24
Reinvestment %	9.1%	7.5%	11.1%	8.8%	8.7%	8.0%	7.1%	6.7%

Reinvestment during 2018/19 was 7.5%, missing our internal target of 11.1%. However, performance against the sector is still strong due to large proportionate investment in new supply in comparison to other housing organisations. The 2017/18 median and upper quartile stand at 6.0% and 8.7% respectively, and Equity is among the top performers regionally.

The actual reinvestment % was below budget as the budget assumed EHG would develop property to the value of £18.8m in 2018/19 whilst actual development spend was £11.6m. This was a result of schemes progressing later than anticipated and expectations that a number of units would be delivered through S106 opportunities which either did not materialise or were delayed due to planning issues. There was also a smaller underspend in planned works largely due to efficiency savings.

Equity targets being above average in this area throughout the next 5 years.

2. New supply delivered

KPI	Performance		Targets					
	17/18	18/19	18/19	19/20	20/21	21/22	22/23	23/24
a) New supply delivered	2.5%	3.2%	4.0%	3.1%	3.1%	3.0%	2.9%	2.3%
b) New supply delivered (non-social) %	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.7%	1.1%

Equity Housing Group
Strategic Report (incorporating Value for Money Statement)

2. New supply delivered (continued)

During 2018/19, new supply delivered (social) stands at 3.2%, which is made up of 100 affordable rent and 49 shared ownership properties. We missed the internal target primarily due to increased competition for Section 106 opportunities, but remain in the top quartile nationally and among the highest in the local region. Growth remains a central tenet of Equity's strategy, and social development targets remain high over the next 5 years. In the later years of the plan, Equity plans to deliver a moderate number of non-social units to help deliver additional capacity for our activities. It is acknowledged that non-social development remains low across the sector, with median levels at 0% and upper quartile at less than 0.1%.

3. Gearing

KPI	Performance		Targets					
	17/18	18/19	18/19	19/20	20/21	21/22	22/23	23/24
Gearing (%)	22.8%	24.2%	31.8%	30.4%	33.0%	35.0%	35.0%	34.0%

Gearing finished the year at 24.2%, lower than the expected target of 31.8% as reduced capital spend meant it was not necessary to draw down as much debt as originally planned.

RAG ratings have not been provided as it is widely acknowledged that gearing levels are a matter of strategy rather than performance.

Despite having high growth, Equity Housing Group has low gearing when compared to others, leaving capacity for future development. A key factor in this is the stock transfer in January 2015 of properties in Shropshire, which raised £21.4m additional cash. These funds have allowed Equity to develop whilst maintaining a relatively low level of gearing. We intend to increase our borrowing over the next 5 years to finance an ambitious development programme, but these targets are always under the median gearing level nationally.

4. Interest Cover (EBITDA MRI)

KPI	Performance		Targets					
	17/18	18/19	18/19	19/20	20/21	21/22	22/23	23/24
Interest Cover %	211.2%	197.7%	153.2%	134.2%	199.9%	201.0%	221.8%	217.2%

The year-end interest cover of 197.7% was significantly over the target of 153.2% and comfortably exceeded all the various loan covenant calculations. Nationally Equity is in the third Quartile, while measuring against 17 other associations in the local region performance is in the middle of the comparator group. Interest cover is expected to tighten in 19/20, but then increase again in the later years of the plan as the next stage of the cost reduction plan is implemented.

5. Headline Social Housing Costs per unit

KPI	Performance		Targets					
	17/18	18/19	18/19	19/20	20/21	21/22	22/23	23/24
Headline social housing cost per unit	£3,385	£3,378	£3,372	3,249	2,955	2,905	2,654	2,657

Equity Housing Group Strategic Report (incorporating Value for Money Statement)

5. Headline Social Housing Costs per unit (continued)

Year-end headline social housing cost per unit is at £3,378, in line with our internal target of £3,372.

Equity's headline social housing costs are in the second quartile nationally, and lower than the average for the region. Out of 17 organisations in our local comparator group, only two are top quartile nationally, suggesting a regional picture of higher headline costs.

Equity's repairs costs per unit are below average due to the relatively high proportion of shared ownership stock that does not incur any repairs costs to Equity. This is offset by a higher than average service charge cost which also reflects the profile of Equity's stock. However, a key driver of Equity's headline social housing cost is higher than average management costs (see below).

6. Operating Margins

KPI	Performance		Targets					
	17/18	18/19	18/19	19/20	20/21	21/22	22/23	23/24
a) Operating Margin (Overall) %	16.1%	20.5%	20.2%	20.8%	26.4%	25.2%	24.9%	24.3%
b) Operating Margin (social housing lettings) %	16.2%	15.9%	20.1%	17.7%	18.4%	20.3%	22.7%	24.8%

The overall operating margin for the year was 20.5% against a target of 20.2% based on operating surplus less stair-casing surplus.

Equity acknowledges that our margins are low when compared to the sector nationally. Performance is also below the average for the region, though it is worth noting that margins locally are lower than the sector as a whole, with only one out of the 17 in our comparator group reporting top quartile levels.

In part, our low margins are driven by higher than average management costs, which are being addressed (see below). If our management costs were at the median of £974 CPU, our costs would reduce by c£2.4m, resulting in an improvement in overall margins from 20.5% to 30.5%, and an improvement from bottom to second quartile.

In addition, the Regulator of Social Housing has noted a correlation between shared ownership levels and lower margins. Our social housing lettings margins by tenure type are as follows:

General Needs – 19%

Housing for Older People / Supported Housing – 13%

Shared Ownership – 10%

Internally, we also monitor margins with staircasing surplus retained in the operating surplus, as this is a key and longstanding element of our business model as Equity is a significant provider of shared ownership accommodation (approximately 35% of stock). The development strategy is to continue to develop shared ownership properties alongside affordable rent properties. The operating margin including staircasing surplus is 24.2% in FY18/19 and this is planned to increase to 30.1% over the next 5 years as the cost reduction plan is implemented

7. Return on Capital Employed

KPI	Performance		Target					
	17/18	18/19	18/19	19/20	20/21	21/22	22/23	23/24
ROCE	3.2%	2.9%	2.4%	3.4%	3.2%	3.5%	3.9%	4.1%

The ROCE at the end of the year was 2.9%, which positions Equity in the bottom quartile. This is a function of the lower margin (see above).

8. Management Cost per unit

KPI	Performance		Targets					
	17/18	18/19	18/19	19/20	20/21	21/22	22/23	23/24
Management cost per unit	£1,453	£1,499	£1,399	£1,142	£966	£950	£936	£942

Equity's management costs per unit were £1,499. Equity are aware that management costs per unit are still comparatively high and one of the highest in the region.

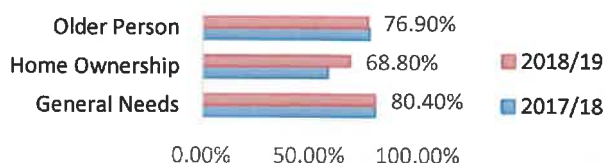
We believe further cost reductions are required, and in December 2018 the Board approved a cost reduction plan. In conjunction with efficiencies gained from the implementation of a new housing management system, we expect to see our management costs per unit reduce by £357 in 2019/20 and a further £176 in 2020/21, which will put our performance above average against other housing associations nationally.

9. Customer Satisfaction

KPI	Performance		Targets					
	17/18	18/19	18/19	19/20	20/21	21/22	22/23	23/24
Overall customer satisfaction	73.6%	76.3%	80.0%	80.0%	82.0%	84.0%	85.0%	85.0%

Internally, we monitor combined satisfaction for customers of all tenures, including home ownership. Customer Satisfaction for 2018/19 has been based on the TLF survey collected from 500 EHG customers participating in General Needs (GN), Older Persons(OP) and Home Ownership(HO) schemes, and the benchmark includes 140 other housing providers. Overall customer satisfaction has increased from 73.6% in 2017/18 to 76.3% in 2018/19, which positions Equity just below the median cited by TLF of 76.6%.

Average satisfaction index by need type



The highest increase is found among Home Ownership customers, where satisfaction levels have increased by over 10%. Among OP and GN customer groups, satisfaction levels remain similar to the previous year. It is thought that greater visibility of Customer Relationship Managers (CRMs)

9. Customer Satisfaction (continued)

to home ownership customers, arising from generic working in regions, has increased customer satisfaction, with CRMs focused on improving communication and relationships with homeowners, particularly those who were previously dissatisfied.

Improving the customer experience is a key priority for Equity, with our strategy for improving customer satisfaction based around reducing customer effort. This is being progressed via a two-pronged approach: investing in digital access to make for a more streamlined customer experience and increased ease of access, and providing customers with a single point of contact for more complex queries in the form of the CRM service. The TLF survey carried out in 18/19 will give a robust basis for future improvement planning around customer satisfaction, helping us to prioritise resources and investment in the areas that matter most. An action plan has been developed based on the findings of this survey, and is currently out for consultation with customers. We also continue to progress our investment programme, which has historically been a significant contributor to customer satisfaction levels, particularly among OP customers. In addition, procurement of the new repairs contract placed significant weight on quality, and customers have been engaged throughout.

10. Social Value Investment

KPI	Performance		Targets					
	17/18	18/19	18/19	19/20	20/21	21/22	22/23	23/24
Social Value Investment	£157K	£160K	£175K	£237K	£225K	£548K	£632K	£707K

In 2018/19 we have invested £160K in social value initiatives. The Foundation has achieved total investment spend within 10% of its original target of £175K. The first of two instalments (£15K) of one particular investment has been paid in 2018/19 and is included in the above total. The second instalment (£15K) will be paid in 19/20.

Investments over the year have covered a wide range of themes:

- Strategic partnerships with Sector3, Manchester Homeless Partnership, Goodness Collective and GMPA
- Community investments – Stockport Foodbank, Stockport County, Crossroads Refuge, Fuel Poverty
- Social Value project - innovative 'place shaping' project with Kier to refurb a retail unit in Brinnington

In addition, the geographical spread of investments has stretched outside of Stockport into the wider GM region and High Peak. The pipeline for 2019/20 reflects this ambition further – to provide strategic, impactful investment that mirrors the dispersed nature of our stock.

For each investment, outcomes and monitoring arrangements are agreed, and the supported organisations are required to report back on outcome 12 months after the investment is made. The effectiveness of 18/19 investments will be monitored throughout 19/20.

11. Employee turnover

KPI	Performance		Targets					
	17/18	18/19	18/19	19/20	20/21	21/22	22/23	23/24
Employee turnover	25.0%	30.0%	20.0%	30.0%	18.0%	17.0%	15.0%	15.0%

11. Employee turnover (continued)

Employee turnover was higher than targeted during 2018/19 - against a target of 20%, actual performance equated to 30%. Approximately two thirds of this turnover is un-planned.

The main reason that has been cited by colleagues for leaving Equity's employment is furthering their career elsewhere. It has always been accepted that Equity is a relatively small company with limited promotion opportunities, and as such cannot satisfy the career desires of all colleagues, but to address turnover we introduced an internal appointment policy where colleagues are nominated into vacant jobs where they possess at least 70% of the skills required to fulfil the role. In 2018/19 13 out of 38 positions (34%) were filled by internal promotions, exceeding our target by more than 50%. As at year-end 81% of colleagues had at least one year's service, which is a key sign of organisational stability and an improvement on previous years.

Colleague engagement is a key priority for Equity, and we utilise both formal and informal routes to encourage engagement. We believe good levels of colleague engagement will ultimately lead to a better quality of service to customers, as well as reducing employee turnover and the disruption and cost associated with it. We introduced Talk Team as a formal consultation body, and ran a series of informal and social events throughout the year.

We participate in the Best Companies Survey, with an engagement score for 2018/19 of 682.7. This represents an improvement on last year which was 670.9, and means we retain our one star status. EHG stands at number 50 in the Top 100 Not for Profit organisations and number 70 among all organisations in the North West.

Risks and Uncertainties

The main factors and influences that will have an effect on the future performance of the Group are considered regularly by the Executive Team and the Board. Those events or risks that could prevent the Business Plan from being achieved are recorded and monitored for each area of the business.

The key controls required to manage each risk, together with the person responsible for the control are also recorded. The risks are then assessed against the Board's risk appetite, according to the probability of the risk occurring and the potential impact given the current control environment. The key risks monitored by the Board are shown below.

Strategic Risk	Mitigating Actions
The Group does not include in the business plan the right level of resources to maintain the existing housing stock.	<ul style="list-style-type: none"> A robust approach to asset management is in place which balances stock investment with option appraisals and disposals, and which helps ensure we make informed decisions on whether to hold stock in its current form, dispose of it; and The results of the stock condition surveys are fed into the 30-year business plan to ensure the resources required to maintain our properties and asset values are available when required. We have conducted a new stock condition survey in 2019 and are conducting detailed analysis using the data.
Employee retention and engagement	<ul style="list-style-type: none"> We have reviewed our retention strategy and issued revised employment terms in Jan 2019; and we monitor turnover and conduct exit interviews to inform our decisions.

**Equity Housing Group
Strategic Report (Incorporating Value for Money Statement)**

Timely resolution of issues raised in the G2 regulatory judgement	<ul style="list-style-type: none"> • A comprehensive Governance Review has been undertaken by David Tolson Partnership; • A Regulatory judgement action plan was formulated, submitted to the regulator and all actions in the plan are now complete; • Further work supporting our governance review has also been undertaken by Campbell Tickell; and recommendations from our Board Renewal Report have been implemented and 3 new Board members appointed.
The EHG Business Plan reliance on shared ownership developments we may not be able to secure and sales we may not be able to achieve.	<ul style="list-style-type: none"> • Sales targets remain on track, and KPI's are in place to track performance which are reported to the Executive and the Board; • We continue to track the market to ensure we are responsive to changes in market conditions; • All development scheme appraisals include robust demand analysis as part of the Board approval process; • The business plan has been stress tested to understand the impact of property sales being lower than expected; and • Risk Mitigation Strategies and Financial Golden Rules have been developed to ensure the Board has an early warning system in place and are able to take appropriate action if the housing market deteriorates.
Unable to continue core business following an incident	<ul style="list-style-type: none"> • A comprehensive review of our Business Continuity Plan was undertaken in 2018 with a new plan and supporting documentation in place from January 2019; • All relevant colleagues have been trained and engaged in a test scenario; • Annual testing programme has been agreed; and • Our internal auditor has reviewed the plan.
A significant increase in EHG's borrowing costs on both existing variable rate debt and any new funding.	<ul style="list-style-type: none"> • The Board and the Executive monitor financial and operational performance throughout the year; • Treasury Policy that 60% of funding must be on a fixed rate; and • Annual update of treasury strategy.
The impact of 2018 Pension Valuation on ongoing pension costs and 2018/19 loan covenant compliance.	<ul style="list-style-type: none"> • A comprehensive review of the Group's employee pension provision has been undertaken and a revised Pension Strategy agreed; • The business plan includes sufficient headroom and contingency to deal with increased employer contribution rates and increased deficit liability; and • Pensions Strategy to be reviewed again in 2020.
EHG cannot access additional funding to achieve its strategic objectives.	<ul style="list-style-type: none"> • The Board retains independent funding advisors who provide an external perspective on the Group's current and future funding requirements; • A treasury strategy has been agreed by Board which includes accessing additional funding; • The business plan includes prudent assumptions for the cost of new funding; and • We have an up to date Assets and Liabilities Register in place to support capacity to secure future funding.

Equity Housing Group
Strategic Report (incorporating Value for Money Statement)

<p>EHG's rental income in the short and the medium term is lower than expected</p>	<ul style="list-style-type: none"> • The business remains informed and effective at understanding, modelling and managing the impact of Welfare Reform, and the potential impact of government policy announcements on the business is constantly monitored; • We are actively engaging with customers who will be affected by the roll-out of Welfare Reform, offering advice and support to ensure they are prepared for and understand the potential impact; • We have incorporated the long-term impact of the 4 year rent reduction into our financial plans; • We will continue to review and reduce the organisation's expenditure to ensure the plans remain viable; • The business plan includes prudent assumptions for rent collection and voids to absorb the impact of future under-performance, and the business plan has been stress tested to understand the impact of rental income being lower than expected; and • Risk Mitigation Strategies and Financial Golden Rules have been developed to ensure the Board has an early warning system in place to see things coming, and are able to take appropriate action if rent collection performance deteriorates.
<p>Non-compliance with regulatory requirements</p>	<ul style="list-style-type: none"> • The Board actively monitors regulatory compliance through its Board and Committee work plan which ensures the cycle of self-assessments and statutory reporting are formally signed-off; • The Executive Team maintain active dialogue with the Regulator to provide on-going assurance about the Group's activity; and • There is a Compliance Register in place, which is actively monitored, with updates reported to Board at each meeting.
<p>EHG is not fully compliant with all aspects of its Health & Safety responsibilities.</p>	<ul style="list-style-type: none"> • Regular reporting to the Executive Team and to the Board ensures Health and Safety is monitored and scrutinised closely. • Fire risk assessments are conducted and actioned regularly; • A full suite of Health & Safety policies and procedures is in place; • We employ specialist contractors for compliance work; and • Our Health and Safety activity is tested regularly through our internal audit programme.

Fraud

The Group complies with the Regulator's requirements with respect to fraud, and has a clear anti-fraud policy that has been approved by the Board.

The policy requires a register to be maintained of all actual and attempted fraud. All such cases are reported to the Board through the Audit and Risk Committee, and all cases are reported to the Regulator of Social Housing. There were no instances of fraud during the year.

Directors' and Officers' Liability Insurance

The Group has insurance policies in place, which indemnify its Board members and Executive Directors against liability when acting on behalf of the Group.

Equity Housing Group Strategic Report (incorporating Value for Money Statement)

Political and Charitable Donations

During the year the Group made no political contributions and any charitable contributions were made within the Group's normal activities. Through the Equity Foundation we awarded small sums of grant to help people make a positive impact on the communities within which the Group operates.

Auditors

Beever and Struthers have been the Group's external auditors since April 2012. The contract was extended from 1st April 2018 for an additional year.

Going Concern

The Board confirms it has a reasonable expectation that the Group and subsidiary have adequate resources to continue in operational existence for the foreseeable future. Accordingly it continues to adopt the going concern basis in preparing the Group and subsidiary financial statements.

Statement of Compliance

The board confirms that this Strategic Report has been prepared in accordance with the principles set out in Paragraph 4.7 of the 2015 SORP for Registered Social Housing Providers.

Equity Housing Group
Strategic Report (incorporating Value for Money Statement)

Statement of the Board's Responsibilities in respect of the Accounts

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the Board to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and of the Income and Expenditure for the period of account.

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

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

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable it to ensure that the financial statements comply with:

- the Co-operative and Community Benefit Society Act 2014;
- the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969;
- the Housing and Regeneration Act 2008; and
- the Accounting Direction for Private Registered Providers of Social Housing 2015.

The Board has general responsibility for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities by establishing and maintaining a satisfactory system of control over the Group's records, cash holdings and all its receipts and remittances.

Information for Auditors

The board members who held office at the date of approval of this board report confirm that, as far as they are each aware:

- there is no relevant audit information of which the Group's auditors are unaware; and
- each board member has taken all the steps that they ought to have taken as a board member to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

The Strategic Report was approved on 18th July 2019 and signed on its behalf by:



Carole Hassan
Chair – Equity Housing Group
18th July 2019

Independent Auditor's Report To the Members of Equity Housing Group Limited

Opinion

We have audited the financial statements of Equity Housing Group Limited ("the Association") and its subsidiaries ("the Group") for the year ended 31 March 2019 which comprise the consolidated and Association Statement of Comprehensive Income, the consolidated and Association Statement of Financial Position, the consolidated and Association Statement of Changes in Equity, the consolidated and Association Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Association's affairs as at 31 March 2019 and of the Group's income and expenditure and the Association's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Cooperative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report to you in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Board's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Board is responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report To the Members of Equity Housing Group Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 requires us to report to you if, in our opinion:

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

Responsibilities of the Board

As explained more fully in the Statement of Board's Responsibilities set out on page 19, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Group's and the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Group or the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's web site at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Beever and Struthers

Beever and Struthers, Statutory Auditor
St George's House
215/219 Chester Road
Manchester
M15 4JE

Date: *2 August 2019*

Equity Housing Group Limited

Statement of Comprehensive Income

	Notes	Year Ended 31 March 2019		Year Ended 31 March 2018	
		Group £'000	Parent £'000	Group £'000	Parent £'000
Turnover	2	24,078	23,830	24,662	24,463
Operating Expenditure	2	(16,809)	(16,493)	(16,498)	(16,174)
Cost of sales	2	(2,337)	(2,422)	(2,443)	(2,567)
Surplus on Sale of Property	5	885	885	719	719
Operating surplus		5,817	5,800	6,440	6,441
Interest receivable	6	8	8	38	38
Interest Payable & Similar charges	7	(2,370)	(2,368)	(2,468)	(2,468)
Surplus for the financial year before taxation	8	3,455	3,440	4,010	4,011
Taxation	9	-	-	-	-
Surplus for the year		3,455	3,440	4,010	4,011
Other Comprehensive Income					
Initial recognition of DB Pension scheme		(1,611)	(1,611)	-	-
Actuarial losses in respect of DB scheme		(1,372)	(1,372)	-	-
Total comprehensive income for the year		472	457	4,010	4,011

The financial statements on pages 23 to 64 were approved and authorised for issue by the Board on 18th July 2019 and were signed on its behalf by:

Board Member:

B. Harman

Board Member:

Grantley

Company Secretary:

[Signature]

Equity Housing Group Limited

Statement of Financial Position

	Notes	Year Ended 31 March 2019		Year Ended 31 March 2018	
		Group £'000	Parent £'000	Group £'000	Parent £'000
Fixed Assets					
Tangible Fixed Assets	13	205,894	205,894	197,501	197,501
Current Assets					
Trust Fund	16	2,325	2,325	2,507	2,370
Stock	14	2,666	2,665	1,718	1,717
Trade and other Debtors	15	1,273	1,438	1,332	1,316
Investments	16	808	808	806	806
Cash and Cash Equivalents	16	2,326	2,110	8,749	8,682
		<u>9,398</u>	<u>9,346</u>	<u>15,112</u>	<u>14,891</u>
Current Liabilities					
Creditors: Amounts due within one year	17	17,684	17,659	12,193	12,121
Net Current Assets /(Liabilities)		<u>(8,286)</u>	<u>(8,313)</u>	<u>2,919</u>	<u>2,770</u>
Total Assets less Current Liabilities		<u>197,608</u>	<u>197,581</u>	<u>200,420</u>	<u>200,271</u>
Creditors: Amounts falling due after one year	18&19	126,858	126,858	135,690	135,553
Provisions for Liabilities & Charges	12	5,549	5,549	-	-
Total Net Assets		<u>65,201</u>	<u>65,174</u>	<u>64,730</u>	<u>64,718</u>
Reserves					
Share Capital	21	0	0	0	0
Income and Expenditure Reserve		65,201	65,174	64,730	64,718
		<u>65,201</u>	<u>65,174</u>	<u>64,730</u>	<u>64,718</u>

The financial statements on pages 23 to 64 were approved and authorised for issue by the Board on 18th July 2019 and were signed on its behalf by:

Board Member:

G. Haman
.....

Board Member:

Gerrit Lenz
.....

Company Secretary:

[Signature]
.....

Statement of Changes in Reserves for the Year Ended 31st March 2019

Group

	Income & Expenditure Reserve	Total
	£'000	£'000
Balance as at 1 April 2017	60,719	60,719
Surplus from Statement of Comprehensive Income	4,010	4,010
Balance as at 1 April 2018	64,729	64,729
Surplus from Statement of Comprehensive Income	472	472
Balance as at 31 March 2019	<u>65,201</u>	<u>65,201</u>

Parent

	Income & Expenditure Reserve	Total
	£'000	£'000
Balance as at 1 April 2017	60,707	60,707
Surplus from Statement of Comprehensive Income	4,011	4,011
Balance as at 1 April 2018	64,718	64,718
Surplus from Statement of Comprehensive Income	457	457
Balance as at 31 March 2019	<u>65,174</u>	<u>65,174</u>

Equity Housing Group Limited

Statement of Cash Flows

	Year Ended 31 March 2019		Year Ended 31 March 2018	
	Group £'000	Parent £'000	Group £'000	Parent £'000
Net cash generated from operating activities	9,703	9,688	10,050	10,073
Cash flow from investing activities				
Purchase of tangible fixed assets	(11,832)	(11,832)	(14,540)	(14,540)
Cash paid for replacement of components	(2,380)	(2,380)	(3,065)	(3,065)
Cash paid for purchase of other Fixed assets	(1,020)	(1,020)	(165)	(165)
Disposal of housing properties	1,662	1,662	1,787	1,787
Proceeds from sale of tangible fixed assets	-	-	-	-
Grants received	1,715	1,715	1,542	1,542
Interest received	0	0	1	1
Cash flow from financing activities				
Interest paid	(2,579)	(2,577)	(2,418)	(2,418)
Taxation Paid		-		-
Gift Aid Paid		-		-
Repayment of borrowings	(23,374)	(23,374)	(23,254)	(23,254)
Withdrawal from deposits	21,500	21,500	23,000	23,000
Net change in cash and cash equivalents	(6,604)	(6,616)	(7,062)	(7,039)
Cash and cash equivalents at beginning of the year	11,256	11,051	18,318	18,091
Cash and cash equivalents at end of the year (including Trust Fund)	<u>4,652</u>	<u>4,435</u>	<u>11,256</u>	<u>11,052</u>
Cash flow from operating activities				
Operating Surplus for the year	5,817	5,800	6,440	6,441
Adjustments for non-cash items:				
Depreciation of tangible fixed assets	3,767	3,767	3,749	3,749
Amortisation of Grants released income	(951)	(951)	(943)	(943)
Impairment	-	-	-	-
Decrease/(increase) in stock	(948)	(948)	169	168
Decrease/(increase) in trade and other debtors	59	(122)	(917)	(850)
Increase/(decrease) in trade and other creditors	721	920	(253)	(288)
Increase/(decrease) in provisions	-	-	-	-
Pension costs less contributions payable	561	545	532	523
Carrying amount of tangible fixed asset disposals	676	676	1,273	1,273
Adjustments for investing or financing activities:				
Gain on disposal of tangible fixed assets	-	-	-	-
Net cash generated from operating activities	<u>9,703</u>	<u>9,688</u>	<u>10,050</u>	<u>10,073</u>

Equity Housing Group Limited
Notes to the financial statements for the year ended 31st March 2019

1 Principal Accounting Policies

Legal Status

Equity Housing Group Limited is incorporated in England under the Co-operative and Community Benefit Societies Act 2014 and is registered with the Regulator of Social Housing (formerly the Homes and Communities Agency) as a Private Registered Provider of Social Housing. The registered office is Armitt House, Monmouth Road, Cheadle Hulme, Stockport, Cheshire, SK8 7EF. Equity Housing Group Limited's principal activities are the development and management of social housing.

The Group comprises the following entities:

Name	Incorporation	Registered / Non-registered with the RSH
Equity Housing Group Limited (EHG)	Co-operative and Community Benefit Societies Act 2014	Registered
Equity Enterprises Limited (EE)	Companies Act 2006	Non-registered

Basis of Accounting

The Group's financial statements have been prepared in accordance with applicable United Kingdom Accounting Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice for registered housing providers: Housing SORP 2014. The Group is required under the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969 to prepare consolidated Group accounts.

The financial statements comply with:

- the Co-operative and Community Benefit Societies Act 2014;
- the Co-operative and Community Benefit Societies (Group Accounts) regulations 1969;
- the Housing and Regeneration Act 2008; and
- the Accounting Direction for Private Registered Providers of Social Housing 2015.

The accounts are prepared on the historical cost basis of accounting and are presented in sterling £'000 for the year ended 31st March 2019.

The Group's financial statements have been prepared in compliance with FRS102. The Group meets the definition of a public benefit entity (PBE).

Parent company disclosure exemptions

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS102:

- No cash flow statement has been presented for the parent company,
- Disclosures in respect of parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the group as a whole, and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole.

The accounting relating to the Social Housing Pension Fund has not been consistently applied. The accounting policy is set out on page 23. The consolidated financial statements have applied Financial Reporting Exposure Draft 71 'Draft amendments to FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland – Multi-employer defined benefit plans

Basis of consolidation

The consolidated financial statements incorporate the results of Equity Housing Group Limited and all of its subsidiary undertaking as at 31st March 2019 using the merger method of accounting as required.

Going concern

The Group's financial statements have been prepared on a going concern basis which assumes an ability to continue operating for the foreseeable future. The Government's announcements in July 2015 impacting on the future income of the Group led to a reassessment of the Group's business plan as well as an assessment of imminent or likely future breaches in borrowing covenants. No significant concerns have been noted in the business plan updated for 2019/20 and therefore we consider it appropriate to continue to prepare the financial statements on a going concern basis.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

- a) **Development expenditure** - the Group capitalises development expenditure in accordance with the accounting policy described on page 30. Initial capitalisation of costs is based on management's judgement that each development scheme is confirmed, usually when Board approval has taken place, including access to the appropriate funding. In determining whether a project is likely to cease, management monitors each development and considers if changes have occurred that result in impairment.
- b) **Categorisation of housing properties** - the Group has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the Group has considered if the asset is held for social benefit or to earn commercial rentals.
- c) **Pension and other post-employment benefits** - the cost of defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific sector. Future salary increases and pension increases are based on expected future inflation rates for the respective sector. Further details are given in note 12.
- d) **Impairment** - the Group considers whether indicators of impairment exist in relation to tangible assets. Indicators considered include external sources of information such as market value, market interest rates and returns on investment, actual or proposed changes to the technological, economic or legal environment, obsolescence or damage to the asset, operational changes or internal reporting which indicates that the asset is performing worse than expected. The Group also considers expected future performance of the asset. Any impairment loss is charged to the Statement of Comprehensive Income. After the impairment tests there was no impairment recognised in the year.

Impairment is recognised where the carrying value of a cash generating unit exceeds the higher of its net realisable value or its value in use. A cash generating unit is normally a group of properties at scheme level whose cash can be separately identified.

Impairment (continued)

Following a trigger for impairment, the Group perform impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from sales transactions in an arm's length transaction on similar cash generating units (properties) or observable market prices less incremental costs for disposing of the properties. The value in use calculation is based on a discounted cash flow model.

The cash flows are derived from the business plan for the next 30 years and do not include restructuring activities that the Group is not yet committed to, or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Other key sources of estimation and assumptions:

Tangible fixed assets - tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Accounting for the Social Housing Pension Scheme ('SHPS'). The Board's view, considering the guidance issued in FRED 71 and guidance issued by the National Housing Federation, is that the difference between the deficit funding agreement previously recognised in relation to SHPS, and the net defined benefit deficit, should be recognised in Other Comprehensive Income. The relevant date to apply the adjustment is judged to be 1 April 2018, as TPT Retirement Solutions does not have data to provide sufficient information before the date 31 March 2018.

Turnover and revenue recognition

Turnover represents:

- rental income receivable;
- amortised capital grant;
- revenue grants from local authorities and the Homes and Communities Agency;
- income from the sale of shared ownership and other properties developed for outright sale; and
- other income.

Turnover is recognised in relation to the period when the goods or services have been supplied.

Rental income is recognised when the property is available for let, net of voids. Income from property sales is recognised on legal completion.

Sales of properties developed for outright sale are included in Turnover and Cost of Sales.

Support income and costs including Supporting People income and costs

Supporting People (SP) contract income received from administering authorities is accounted for as SP income in the Turnover as per note 2. The related support costs are matched against this income in the same note.

Support charges included in the rent are included in the Statement of Comprehensive Income from social housing lettings note 3 and matched against the relevant costs.

Equity Housing Group Limited
Notes to the financial statements for the year ended 31st March 2019

Service charges

Service charge income and costs are recognised on an accruals basis. The Group operates both fixed and variable service charges on a scheme by scheme basis in full consultation with residents. Where variable service charges are used the charges will include an allowance for the surplus or deficit from prior years, with the surplus being returned to residents by a reduced charge and a deficit being recovered by a higher charge. Until these are returned or recovered they are held as creditors or debtors in the Statement of Financial Position.

Where periodic expenditure is required a provision may be built up over the years, in consultation with the residents. Until these costs are incurred this liability is held in the Statement of Financial Position within long-term creditors.

Loan interest costs

Loan interest costs are calculated using the effective interest method of the difference between the loan amount at initial recognition and amount of maturity of the related loan.

Loan finance issue costs

Loan finance costs are amortised over the life of the related loan. Loans are stated in the Statement of Financial Position at the amount of the net proceeds after issue, plus increases to account for any subsequent amounts amortised. Where loans are redeemed during the year, any redemption penalty and any connected loan finance issue costs are recognised in the Statement of Comprehensive Income in the year in which the redemption took place.

Taxation

Equity Housing Group Limited has charitable status and it is therefore not subject to Corporation Tax on surpluses secured from charitable activities. The trading subsidiary is subject to Corporation Tax on its surpluses.

Value Added Tax

The Group charges VAT on some of its income and is able to recover part of the VAT it incurs on expenditure. All amounts disclosed in the accounts are inclusive of VAT to the extent that it is suffered by the Group and not recoverable.

Tangible fixed assets and depreciation

Housing properties

Tangible fixed assets are stated at cost, less accumulated depreciation. Donated land/assets or assets acquired at below market value from a government source, e.g. a local authority, are included as a liability in the Statement of Financial Position at the fair value less consideration paid.

Housing properties under construction are stated at cost and are not depreciated. These are reclassified as housing properties on practical completion of construction.

Freehold land is not depreciated.

Where a housing property comprises two or more major components with substantially different useful economic lives (UELs), each component is accounted for separately and depreciated over its individual UEL. Expenditure relating to subsequent replacement or renewal of components is capitalised as incurred.

The Group depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories. UELs for identified components are as follows:

Structure	100 years	Electrical	25 years
Roof	65 years	Boilers	15 years
Heating	20 years	Bathrooms	15 years
Windows and Doors	20 years	Kitchens	15 years
Solar Panels	20 years		

Equity Housing Group Limited
Notes to the financial statements for the year ended 31st March 2019

Housing properties (continued)

The Group depreciates housing properties held on long term leases in the same manner as freehold properties, except where the unexpired lease term is shorter than the longest component life envisaged, in which case the unexpired term of the lease is adopted as the useful economic life of the relevant component category.

Other Fixed Assets

Other Fixed Assets are stated at cost less accumulated depreciation.

Depreciation is charged on other fixed assets on a straight-line basis over the expected useful economic lives which are as follows:

Freehold Offices	100 years	Computer equipment	3 years
Additional works to Offices	3 years	Motor vehicles	5 years
Office furniture, fixtures & fittings	10 years		

Low cost home ownership properties

The costs of low cost home ownership properties are split between current and fixed assets based on the first tranche portion. The first tranche portion is accounted for as a current asset and the sale proceeds shown in turnover. The remaining element of the shared ownership property is accounted for as a fixed asset and subsequent sales treated as sales of fixed assets.

Capitalisation of interest and administration costs

Interest on loans financing development activities is capitalised up to the date of the completion of the scheme and only when the development activity is in progress.

Administration costs relating to development activities are capitalised only to the extent that they are incremental to the development process and directly attributable to bringing the property into their intended use.

Property managed by agents

Where the Group carries the majority of the financial risk on property managed by agents, income arising from the property is included in the Statement of Comprehensive Income.

Where the agency carries the majority of the financial risk, income includes only that which relates solely to the Group.

In both cases, the assets and associated liabilities are included in the Group's Statement of Financial Position.

Leasing and hire purchase

Where assets are financed by hire purchase contracts and leasing agreements that give rights approximating to ownership (finance leases), they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as obligations to the lessor in creditors, and are depreciated over the shorter of the lease term and their useful economic lives.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit and loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Other leases are treated as operating leases and payments are charged to the Statement of Comprehensive Income on a straight-line basis over the term of the lease.

Leasing and hire purchase (continued)

Reverse premiums and similar incentives received on leases to enter into operating lease agreements are released to Statement of Comprehensive Income over the term of the lease.

Current asset investments

Current asset investments include cash and cash equivalents invested for periods of more than 24 hours. They are recognised initially at cost and subsequently at fair value at the reporting date.

Any change in valuation between reporting dates is recognised in the Statement of Comprehensive Income.

Stock and properties held for sale

Stocks are stated at the lower of cost and net realisable value (net realisable value being the estimated selling price less costs to complete and sell). Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

Properties developed for outright sale are included in current assets as they are intended to be sold, at the lower of cost or estimated selling price less costs to complete and sell.

At each reporting date, stock and properties held for sale are assessed for impairment. If there is evidence of impairment, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in Statement of Comprehensive Income.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at the transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income in other operating expenses.

Non-government grants

Grants received from non-government sources are recognised under the performance model. If there are no specific performance requirements the grants are recognised when received or receivable. Where grant is received with specific performance requirements it is recognised as a liability until the conditions are met and then it is recognised as Turnover.

Social Housing and other government grants

Where developments have been financed wholly or partly by social housing and other grants, the amount of the grant received has been included as deferred income and recognised in Turnover over the estimated useful life of the associated asset structure (not land), under the accruals model. Social Housing Grant (SHG) received for items of cost written off in the Statement of Comprehensive Income Account is included as part of Turnover.

When SHG in respect of housing properties in the course of construction exceeds the total cost to date of those housing properties, the excess is shown as a current liability.

SHG must be recycled by the Group under certain conditions, if a property is sold, or if another relevant event takes place. In these cases, the SHG can be used for projects approved by the Regulator of Social Housing. However, SHG may have to be repaid if certain conditions are not met. If grant is not required to be recycled or repaid, any unamortised grant is recognised as Turnover. In certain circumstances, SHG may be repayable, and, in that event, is a subordinated unsecured repayable debt.

Non-monetary government grant

On disposal, assets for which non-monetary government grants are held as liabilities in the Statement of Financial Position, the unamortised amount in creditors is derecognised and recognised as income in the Statement of Comprehensive Income.

Equity Housing Group Limited
Notes to the financial statements for the year ended 31st March 2019

Recycling of Capital Grant

Where Social Housing Grant is recycled, as described above, the SHG is credited to a fund which appears as a creditor until used to fund the acquisition of new properties, where recycled grant is known to be repayable it is shown as a creditor within one year.

Holiday pay accrual

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

Agreements to improve existing properties

Where the Group has entered into agreements to purchase property from a third party and subsequently enters into a sub-contracting agreement to carry out improvement works to the properties, the related assets and liabilities are shown at gross values unless the right of net settlement exists.

Retirement benefits

The cost of providing retirement pensions and related benefits is charged to management expenses over the periods benefiting from the employees' services.

The Group participates in the Social Housing Pension Scheme ('SHPS'), a defined benefit multiemployer pension scheme administered by TPT Retirement Solutions ('TPT'). Historically, TPT has not been able to provide sufficient information for each social landlord's share of SHPS to allow defined benefit accounting to be applied. Instead, in accordance with FRS 102 paragraphs 28.11 and 28.11A and Housing SORP paragraphs 15.9 to 15.12, SHPS has been accounted for as a defined contribution scheme and recognised a liability for the present value of the landlord's deficit funding agreement.

Following changes made to systems and processes by TPT, sufficient information is now available for SHPS. In January 2019, the Financial Reporting Council issued FRD71 ('Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Multi-employer defined benefit plans.') which provides proposed changes to FRS 102 on this issue.

Consistent with the guidance in FRED 71 paragraph 4 (FRS 102 paragraph 28.11B), the difference between the deficit funding liability and the net defined benefit deficit for SHPS has been recognised in Other Comprehensive Income. This constitutes a change in accounting policy. Further disclosures in this area are included in note 12.

Financial Instruments

Financial assets and financial liabilities are measured at transaction price initially plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

At the end of each reporting period, financial instruments are measured as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:

Debt instruments that meet the conditions in paragraph 11.8(b) of FRS 102 are measured at amortised cost using the effective interest method, except where the arrangement constitutes a financing transaction. In this case, the debt instrument is measured at the present value of the future payments discounted at a market rate of interest for a similar debt.

Financial instruments held by the Group are classified as follows:

- Financial assets such as cash, current asset investments and receivables are classified as loans and receivables and held at amortised cost using the effective interest method; and
- Financial liabilities such as bonds and loans are held at amortised cost using the effective interest method.

Impairment of Financial Assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

The following financial instruments are assessed individually for impairment:

- (a) All equity instruments regardless of significance; and
- (b) Other financial assets that are individually significant.

Other financial instruments are assessed for impairment either individually or grouped based on similar credit risk characteristics.

An impairment loss is measured on the following instruments measured at cost or amortised cost as shown below:

- (a) For an instrument measured at amortised cost, the impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate; and
- (b) For an instrument measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the entity would receive for the asset if it were to be sold at the reporting date.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The reversal cannot result in a carrying amount (net of any allowance account) which exceeds what the carrying amount would have been had the impairment not previously been recognised. The amount of the reversal is recognised in profit or loss immediately.

Categorisation of debt

All loans held by the Group are classified as basic financial instruments in accordance with FRS 102. They are measured at transaction price plus transaction costs initially and subsequently at amortised cost using the effective interest rate method. Loans repayable within one year are not discounted.

At both 31st March 2018 and 31st March 2019 the Group had undrawn loan facilities which included provision for a fixed rate loan which had a two-way break clause (i.e. in addition to compensation being payable by a borrower to a lender if a loan is prepaid where the prevailing fixed rate is lower than the existing loan's fixed rate, compensation could be payable by the lender to the borrower in the event that a loan is prepaid and the prevailing fixed rate is higher than the existing loan's fixed rate). The Financial Reporting Council (FRC) issued a statement on 2nd June 2016 in respect of such loans with no prescriptive direction as to whether they should be classified as 'basic' or 'non-basic'. On the grounds that the Group believes the recognition of each debt liability at cost provides a more transparent and understandable position of the Group's financial position and that each loan still satisfies the requirements of paragraphs 11.8 and 11.9 of FRS 102, the Group has retained its 'basic' treatment of its debt following the FRC announcement.

2 Particulars of turnover, cost of sales, operating expenditure and operating surplus

Group 2019	Turnover £'000	Operating costs £'000	Cost of sales £'000	Operating surplus £'000
Social housing lettings (note 3)				
Housing accommodation	19,322	(16,252)	-	3,070
Other social housing activities				
First tranche shared ownership sales	3,313	-	(2,287)	1,026
Non lettings	333	(173)	-	160
	<u>22,968</u>	<u>(16,425)</u>	<u>(2,287)</u>	<u>4,256</u>
Activities other than social housing				
Lettings	910	(97)	-	813
Non lettings	200	(287)	(50)	(137)
	<u>1,110</u>	<u>(384)</u>	<u>(50)</u>	<u>676</u>
Total	<u>24,078</u>	<u>(16,809)</u>	<u>(2,337)</u>	<u>4,932</u>
Group 2018	Turnover £'000	Operating costs £'000	Cost of sales £'000	Operating surplus £'000
Social housing lettings (note 3)				
Housing accommodation	18,672	(15,562)	-	3,110
Other social housing activities				
First tranche shared ownership sales	4,396	-	(2,391)	2,005
Non lettings	507	(371)	-	136
	<u>23,575</u>	<u>(15,933)</u>	<u>(2,391)</u>	<u>5,251</u>
Activities other than social housing				
Lettings	923	(308)	-	615
Non lettings	164	(257)	(52)	(145)
	<u>1,087</u>	<u>(565)</u>	<u>(52)</u>	<u>470</u>
Total	<u>24,662</u>	<u>(16,498)</u>	<u>(2,443)</u>	<u>5,721</u>

Equity Housing Group Limited
Notes to the financial statements for the year ended 31st March 2019

2 Particulars of turnover, cost of sales, operating expenditure and operating surplus

Parent 2019	Turnover £'000	Operating costs £'000	Cost of sales £'000	Operating surplus £'000
Social housing lettings (note 3)				
Housing accommodation	19,322	(16,245)	-	3,077
Other social housing activities				
First tranche shared ownership sales	3,313	-	(2,422)	891
Non lettings	333	(177)	-	156
	<u>22,968</u>	<u>(16,422)</u>	<u>(2,422)</u>	<u>4,124</u>
Activities other than social housing				
Lettings	862	(71)	-	791
Non lettings	-	-	-	-
	<u>862</u>	<u>(71)</u>	<u>-</u>	<u>791</u>
Total	<u>23,830</u>	<u>(16,493)</u>	<u>(2,422)</u>	<u>4,915</u>

Parent 2018	Turnover £'000	Operating costs £'000	Cost of sales £'000	Operating surplus £'000
Social housing lettings (note 3)				
Housing accommodation	18,672	(15,562)	-	3,110
Other social housing activities				
First tranche shared ownership sales	4,396	-	(2,567)	1,829
Non lettings	507	(380)	-	127
	<u>23,575</u>	<u>(15,942)</u>	<u>(2,567)</u>	<u>5,066</u>
Activities other than social housing				
Lettings	888	(232)	-	656
Non lettings	-	-	-	-
	<u>888</u>	<u>(232)</u>	<u>-</u>	<u>656</u>
Total	<u>24,463</u>	<u>(16,174)</u>	<u>(2,567)</u>	<u>5,722</u>

Equity Housing Group Limited
Notes to the financial statements for the year ended 31st March 2019

3 Particulars of turnover and operating costs from social housing lettings

Group and Parent	General housing £'000	Supported and older persons housing £'000	Shared ownership £'000	Total 2019 £'000	Total 2018 £'000
Income					
Rents receivable net of identifiable service charges and net of voids	9,606	3,150	2,992	15,748	15,089
Service charge income	708	892	1,023	2,623	2,640
Amortised government grants	580	190	181	951	943
Total turnover from social housing lettings	10,895	4,232	4,196	19,322	18,672
Operating expenditure					
Service charge costs	776	978	1,121	2,876	2,730
Management	3,306	1,377	2,204	6,887	6,581
Routine maintenance	1,325	331	0	1,656	1,737
Planned maintenance	900	300	0	1,200	439
Major repairs expenditure	0	0	0	0	340
Bad debts	89	23	7	119	68
Lease charges	9	0	3	12	133
Depreciation of housing Properties	2,393	669	436	3,498	3,413
Other costs	2	0	2	4	121
Total operating expenditure on social housing lettings	8,800	3,679	3,773	16,252	15,562
Operating surplus on social housing lettings	2,094	553	423	3,070	3,110
Void losses (being rental income lost as a result of property not being let, although it is available for letting)	150	50	47	247	194

Costs have been split by tenure type where this is clearly identifiable. Management costs have been allocated based on the number of units. This is considered to be the best split given that most management costs cannot be separately identified as relating to any specific tenure

4 Accommodation owned, managed and in development

	2019		2018	
	No. of properties		No. of properties	
	Group	Parent	Group	Parent
Social housing				
General needs housing social rent	1,736	1,736	1,750	1,750
General needs housing affordable rent	494	494	412	412
Housing for older people	572	572	605	605
Supported housing	119	119	120	120
Temporary social housing	9	9	16	16
Shared ownership accommodation	1,228	1,228	1,185	1,185
Leasehold schemes for the elderly	184	184	184	184
Do it yourself shared ownership	251	251	257	257
Non-social housing				
Non-social housing	202	202	126	126
Managed for other bodies	19	19	6	6
	<u>4,814</u>	<u>4,814</u>	<u>4,661</u>	<u>4,661</u>
Under development				
Housing accommodation	0	0	100	100
Shared ownership accommodation	34	34	61	61
	<u>34</u>	<u>34</u>	<u>161</u>	<u>161</u>

Accommodation managed by others

	Group	Parent	Group	Parent
Number of units	48	48	49	49
	<u>48</u>	<u>48</u>	<u>49</u>	<u>49</u>

5 Gain/(loss) on disposal of property, plant and equipment (fixed assets)

Group and Parent	Shared Owner-ship	Others	Total	Total
	£'000	£'000	2019	2018
			£'000	£'000
Proceeds of sale	1,324	375	1,699	1,991
Less: Costs of sales	(401)	(92)	(493)	(547)
Surplus/(loss)	923	283	1,206	1,444
Capital grant recycled	(275)	(46)	(321)	(600)
	<u>648</u>	<u>237</u>	<u>885</u>	<u>844</u>

Equity Housing Group Limited
Notes to the financial statements for the year ended 31st March 2019

6 Interest receivable

	2019		2018	
	Group £'000	Parent £'000	Group £'000	Parent £'000
<i>Interest receivable and similar income</i>				
On financial assets measured at amortised cost:				
From current accounts	8	8	19	19
From short term deposits	-	-	19	19
	<u>8</u>	<u>8</u>	<u>38</u>	<u>38</u>

7 Interest and financing costs

	2019		2018	
	Group £'000	Parent £'000	Group £'000	Parent £'000
Defined benefit pension interest	108	108	39	39
On loans repayable within five years	664	664	674	674
On loans repayable or partly repayable in more than 5 years	1,685	1,685	1,879	1,879
Interest on recycled capital grant fund	6	6	3	3
Other interest and bank charges payable	91	89	100	100
	<u>2,553</u>	<u>2,551</u>	<u>2,694</u>	<u>2,694</u>
Total interest payable	2,553	2,551	2,694	2,694
Less: capitalised interest	(183)	(183)	(226)	(226)
	<u>2,370</u>	<u>2,368</u>	<u>2,468</u>	<u>2,468</u>

The interest rate used to capitalise interest was 4.49% (2018: 4.33%).

8 Surplus for the year

	2019		2018	
	Group £'000	Parent £'000	Group £'000	Parent £'000
This is stated after charging:				
Auditors remuneration (excluding VAT)				
Audit of the Group financial statements	17	17	16	16
Fees payable to the auditors for other services to the Group (excluding VAT):				
Taxation compliance services	2	2	2	2
Service charge certification	8	8	8	8
Depreciation on housing properties	3,498	3,498	3,412	3,412
Depreciation on other fixed assets	269	269	338	338
Operating lease payments	5	5	12	12

9 Tax on surplus on ordinary activities

	Group	
	2019	2018
	£'000	£'000
a) Analysis of the charge in the year		
The tax charge on the surplus/(deficit) on ordinary activities for the year was as follows:		
Current tax:		
UK corporation tax charge for the year	-	-
Under/(over) provision in previous years	-	-
	<hr/>	<hr/>
Total current tax	-	-
Deferred tax:		
Origination and reversal of timing differences	-	-
	<hr/>	<hr/>
Tax on surplus on ordinary activities	-	-
	<hr/>	<hr/>
b) Factors affecting tax charge for the period		
	2019	2018
	£'000	£'000
Surplus/(deficit) on ordinary activities before tax	3,455	4,010
	<hr/>	<hr/>
Surplus/ (deficit) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018:19 %)	657	762
Effects of:		
Expenses not deductible for tax purposes (primarily property depreciation, development expenditure and movement on sinking fund)	-	-
Income not subject to tax	(654)	(762)
Indexation on disposal of property	-	-
Increase/(decrease) in losses	-	-
Capitalised interest	-	-
Adjustment in respect of prior years	-	-
Gift aid paid in the accounting period but accounted for earlier	-	-
Increase in losses (utilised)/not utilised	(3)	-
	<hr/>	<hr/>
Current tax charge for the period	-	-
	<hr/>	<hr/>

The Parent operates under charitable rules and therefore is exempt from UK corporation tax.

Equity Housing Group Limited
Notes to the financial statements for the year ended 31st March 2019

10 Key management personnel remuneration (Group & Parent)

Remuneration for the year ended 31st March 2019:

Members of the Board and the non-executive management team.

	2019	2018
Members of the Board	Total	Total
	£'000	£'000
Carole Hassan	11	10
Susan Gambles	8	8
Rebecca Asady	8	7
Joe Doherty	6	7
Tony Gordon	5	5
Ann Johnson	5	8
Tom McDonald	5	6
Grenville Page	8	7
Taf Sharif	7	5
Paul Shevlin	5	5
Phil Madden	5	0
Anthony Bell	7	0
Robert Sharp (co-optee)	0	6
Joanne Kennedy-Reardon(A+R committee co-optee)	0	0
	80	74

Expenses paid during the year to Board Members totalled £6k (2018: £10k)

	2019 £'000	2018 £'000
The aggregate emoluments paid to Directors (including Pension contributions)	341	364
The aggregate emoluments paid to Board members (Non-Executive Directors) including expenses	86	84
Compensation paid to former Directors for loss of office	0	35
The emoluments paid to the highest paid Director (including Employers National Insurance but excluding pension costs and loss of office payments)	134	158
The pension contributions paid to the Pensions Trust on behalf of the highest paid Director of the Parent	5	8
Expenses paid to Board members (Non-Executive Directors) Included in aggregate emoluments above	6	10

10 Key management personnel remuneration (Group & Parent) (continued)

Key management personnel remuneration totalled £470k in the year-end 31st March 2019 (2018: £448k).

The highest paid director in the period to 31st March 2019 is the Chief Executive (2018: Chief Executive), who was an ordinary member of the Social Housing Pension Scheme (SHPS) detailed in note 12.2. The cost of the CEO's pension to the Group for the year was £5k (2018: £8k). No enhancements or special terms apply, nor does the group make any other contributions on their behalf.

Directors (key management personnel) are defined as members of the Board, the Chief Executive and the Deputy Chief Executive.

11 Employee numbers

	2019		2018	
	Group	Parent	Group	Parent
The average number of persons employed during the year expressed in full time equivalents (35 hours per week) was:				
Administration	47	44	47	45
Development	7	7	8	8
Housing	76	71	68	63
	<u>130</u>	<u>122</u>	<u>123</u>	<u>116</u>
Office staff	120	112	114	107
Wardens, caretakers, cleaners	10	10	9	9
	<u>130</u>	<u>122</u>	<u>123</u>	<u>116</u>

12 Employee information

12.1 Staff costs

	2019		2018	
	Group £'000	Parent £'000	Group £'000	Parent £'000
Staff costs (for the above persons including Directors)				
Wages and salaries excluding expenses	4,307	4,081	4,239	4,021
Social security costs	402	386	387	370
Pension costs	221	205	194	186
Pension deficit contribution	404	404	398	398
	<u>5,334</u>	<u>5,076</u>	<u>5,218</u>	<u>4,975</u>

Aggregate number of full time equivalent staff whose remuneration (including employer National Insurance and Pension contributions, expenses and compensation for loss of office) exceeded £60,000 in the period:

12 Employee information

12.1 Staff costs (continued)

	2019	2018
	No.	No.
£60,000 - £70,000	2	2
£70,001 - £80,000	3	4
£80,001 - £90,000	-	2
£90,001 - £100,000	3	1
£100,001 - £110,000	1	-
£110,001 - £120,000	1	-
£120,001 - £130,000	-	-
£150,001 - £160,000	1	1
£160,001 - £170,000	-	1
	<u>11</u>	<u>11</u>

2019 numbers include Directors in post at the year-end, as well as those that served during the year.

12.2 Pension obligations - Social Housing Pension Scheme (SHPS)

The company participates in the Social Housing Pension Scheme (the Scheme), a multi-employer scheme which provides benefits to some 500 non-associated employers. The Scheme is a defined benefit scheme in the UK.

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

The last triennial valuation of the scheme for funding purposes was carried out as at 30 September 2017. This valuation revealed a deficit of £1,522m. A Recovery Plan has been put in place with the aim of removing this deficit by 30 September 2026.

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

For financial years ending on or before 28 February 2019, it has not been possible for the company to obtain sufficient information to enable it to account for the Scheme as a defined benefit scheme, therefore the company has accounted for the Scheme as a defined contribution scheme.

For financial years ending on or after 31 March 2019, it is possible to obtain sufficient information to enable the company to account for the Scheme as a defined benefit scheme.

For accounting purposes, two actuarial valuations for the scheme were carried out with effective dates of 31 March 2018 and 30 September 2018. The liability figures from each valuation are rolled forward to the relevant accounting dates, if applicable, and are used in conjunction with the company's fair share of the Scheme's total assets to calculate the company's net deficit or surplus at the accounting period start and end dates.

PRESENT VALUES OF DEFINED BENEFIT OBLIGATION, FAIR VALUE OF ASSETS AND DEFINED BENEFIT ASSET (LIABILITY)

	31 March 2019	31 March 2018
	(£000s)	(£000s)
Fair value of plan assets	15,308	14,441
Present value of defined benefit obligation	20,857	18,770
Surplus (deficit) in plan	(5,549)	(4,329)
Unrecognised surplus	-	-
Defined benefit asset (liability) to be recognised	(5,549)	(4,329)
Deferred tax	*	*
Net defined benefit asset (liability) to be recognised	*	*

RECONCILIATION OF OPENING AND CLOSING BALANCES OF THE DEFINED BENEFIT OBLIGATION

	Period ended
	31 March 2019
	(£000s)
Defined benefit obligation at start of period	18,770
Current service cost	390
Expenses	14
Interest expense	483
Contributions by plan participants	11
Actuarial losses (gains) due to scheme experience	177
Actuarial losses (gains) due to changes in demographic assumptions	58
Actuarial losses (gains) due to changes in financial assumptions	1,434
Benefits paid and expenses	(480)
Liabilities acquired in a business combination	-
Liabilities extinguished on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-
Exchange rate changes	-
Defined benefit obligation at end of period	20,857

RECONCILIATION OF OPENING AND CLOSING BALANCES OF THE FAIR VALUE OF PLAN ASSETS

	Period ended 31 March 2019
	(£000s)
Fair value of plan assets at start of period	14,441
Interest income	375
Experience on plan assets (excluding amounts included in interest income) – gain (loss)	297
Contributions by the employer	664
Contributions by plan participants	11
Benefits paid and expenses	(480)
Assets acquired in a business combination	-
Assets distributed on settlements	-
Exchange rate changes	
Fair value of plan assets at end of period	15,308
The actual return on the plan assets (including any changes in share of assets) over the period ended 31 March 2019 was £672,000.	

DEFINED BENEFIT COSTS RECOGNISED IN STATEMENT OF COMPREHENSIVE INCOME (SO CI)

	Period from 31 March 2018 to 31 March 2019
	(£000s)
Current service cost	390
Expenses	14
Net interest expense	108
Losses (gains) on business combinations	-
Losses (gains) on settlements	-
Losses (gains) on curtailments	-
Losses (gains) due to benefit changes	-
Defined benefit costs recognised in statement of comprehensive income (SoCI)	512

DEFINED BENEFIT COSTS RECOGNISED IN OTHER COMPREHENSIVE INCOME

Period ended 31 March 2019
(£000s)

Experience on plan assets (excluding amounts included in net interest cost) - gain (loss)	297
Experience gains and losses arising on the plan liabilities - gain (loss)	(177)
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - gain (loss)	(58)
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain (loss)	(1,434)
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) - gain (loss)	(1,372)
Effects of changes in the amount of surplus that is not recoverable (excluding amounts included in net interest cost) - gain (loss)	-
Total amount recognised in other comprehensive income - gain (loss)	(1,372)

ASSETS

	31 March 2019 (£000s)	31 March 2018 (£000s)
Global Equity	2,576	2,852
Absolute Return	1,325	1,764
Distressed Opportunities	278	139
Credit Relative Value	280	-
Alternative Risk Premia	883	548
Fund of Hedge Funds	69	476
Emerging Markets Debt	528	582
Risk Sharing	462	134
Insurance-Linked Securities	439	379
Property	345	665
Infrastructure	803	370
Private Debt	205	129
Corporate Bond Fund	714	593
Long Lease Property	225	-
Secured Income	548	535
Over 15 Year Gilts	-	-
Liability Driven Investment	5,599	5,261
Net Current Assets	29	14
Total assets	15,308	14,441

None of the fair values of the assets shown above include any direct investments in the employer's own financial instruments or any property occupied by, or other assets used by, the employer.

Equity Housing Group Limited
Notes to the financial statements for the year ended 31st March 2019

KEY ASSUMPTIONS

	31 March 2019	31 March 2018
	% per annum	% per annum
Discount Rate	2.31	2.58
Inflation (RPI)	3.29	3.18
Inflation (CPI)	2.29	2.18
Salary Growth	3.29	3.18
Allowance for commutation of pension for cash at retirement	75% of maximum allowance	75% of maximum allowance

The mortality assumptions adopted at 31 March 2019 imply the following life expectancies:

	Life expectancy at age 65 (Years)
Male retiring in 2019	21.8
Female retiring in 2019	23.5
Male retiring in 2039	23.2
Female retiring in 2039	24.7

12.3 Pension obligations – The Growth Plan

The company participates in the scheme, a multi-employer scheme which provides benefits to some 950 non-associated participating employers. The scheme is a defined benefit scheme in the UK. It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme, therefore it accounts for the scheme as a defined contribution scheme.

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

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

A full actuarial valuation for the scheme was carried out at 30th September 2017. This valuation showed assets of £794.9m, liabilities of £926.4m and a deficit of £131.5m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme as follows:

Deficit contributions

From 1 st April 2019 to 31st January 2025:	£11,243 per annum (payable monthly and increasing by 3% each on 1st April)
---	---

Unless a concession has been agreed with the Trustee the term to 30th September 2025 applies

Note the schemes previous valuation was carried out at 30th September 2014. This valuation showed assets of £793m, liabilities of £970m and a deficit of £177m. To eliminate this funding shortfall, the Trustee has asked the participating employers to pay additional contributions to the scheme as follows:

Deficit contributions

From 1 st April 2016 to 30 th September 2025:	£12,945,440 per annum (payable monthly and increasing by 3% each on 1st April)
From 1 st April 2016 to 30 th September 2028:	£54,560 per annum (payable monthly and increasing by 3% each on 1st April)

The recovery plan contributions are allocated to each participating employer in line with their estimated share of the Series 1 and Series 2 scheme liabilities.

Where the scheme is in deficit and where the Group has agreed to a deficit funding arrangement, the Group recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Equity Housing Group Limited
Notes to the financial statements for the year ended 31st March 2019

Present Value of Provision	31st March 2019 £'s	31st March 2018 £'s	31st March 2017 £'s
Present Value of Provision	12,180	14,784	17,535

Reconciliation of opening and closing provisions

	Year Ended 31 March 2019 £000	Year Ended 31 March 2018 £000
Provision at start of year	15	18
Deficit contribution paid	(3)	(3)
	<hr/>	<hr/>
Provision at end of year	12	15
	<hr/>	<hr/>
Due within one year	3	3
Due after more than one year	9	12
	<hr/>	<hr/>

Income and expenditure impact

	Year Ended 31 March 2019 £000	Year Ended 31 March 2018 £000
Interest expense (less than £1,000)	-	-
Re-measurements – impact of any change in assumptions (less than £1000)	-	-

Assumptions:

	31st March 2019 % per annum	31st March 2018 % per annum	31st March 2017 % per annum
Rate of discount	1.39	1.71	1.32

The discount rates shown above are the equivalent single discount rates which, when used to discount the future 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.

The following schedule details the deficit contributions agreed between the Group and the scheme at each year end period:

Equity Housing Group Limited
Notes to the financial statements for the year ended 31st March 2019

Deficit contributions schedule

Year ending	31st March 2019 £000	31st March 2018 £000	31st March 2017 £000
Year 1	3	3	3
Year 2	3	3	3
Year 3	3	3	3
Year 4	3	3	3
Year 5	-	3	3
Year 6	-	-	3
Year 7	-	-	-
Year 8	-	-	-
Year 9	-	-	-
Year 10	-	-	-
Year 11	-	-	-
Year 12	-	-	-
Year 13	-	-	-
Year 14	-	-	-
Year 15	-	-	-
Year 16	-	-	-
Year 17	-	-	-
Year 18	-	-	-
Year 19	-	-	-
Year 20	-	-	-

The Group must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the income and expenditure account i.e. the unwinding of the discount rate as a finance cost in the period in which it arises.

It is these contributions that have been used to derive the Group's balance sheet liability.

Equity Housing Group Limited
Notes to the financial statements for the year ended 31st March 2019

13 Tangible fixed assets

Group and Parent	Social housing properties for letting completed	Social housing properties for letting under construction	Shared ownership properties completed	Shared ownership properties under construction	Total housing properties	Freehold offices	Equipment, computer and motors	Other Assets WIP	Total
Cost	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2018	156,408	12,856	51,807	6,871	227,942	2,700	2,950	207	233,799
Additions		4,904		7,372	12,276	0	1,051	0	13,327
Reclassifications	0	0	0	0	0				0
Works to existing properties	220		29		249				249
Interest capitalised		70		113	183				183
Schemes completed	14,489	(14,489)	5,557	(5,557)	0				0
Disposals	(54)		(806)		(860)				(860)
Replacement of components	2,458				2,458				2,458
Write out replaced components	(363)				(363)				(363)
Transfer to current assets				(3,244)	(3,244)				(3,244)
At 31 March 2019	173,158	3,341	56,587	5,555	238,641	2,700	4,001	207	245,549
Depreciation and impairment									
At 1 April 2018	29,073	0	4,741	0	33,814	90	2,394	0	36,298
Charged in year	3,136		362		3,498	26	242	0	3,766
Disposals			(84)		(84)				(84)
Write out replaced components	(326)				(326)				(326)
At 31 March 2019	31,883	0	5,019	0	36,902	116	2,636	0	39,654
Net book value at 1 April 2018	127,335	12,856	47,066	6,871	194,128	2,610	556	207	197,501
Net book value at 31 March 2019	141,275	3,341	51,568	5,555	201,739	2,584	1,365	207	205,895

Equity Housing Group Limited
Notes to the financial statements for the year ended 31st March 2019

13 Tangible fixed assets - continued

	2019		2018	
Housing Properties comprises:	Group £'000	Parent £'000	Group £'000	Parent £'000
Freehold land and buildings	159,765	159,765	152,577	152,577
Long leasehold land and buildings	41,417	41,417	40,941	40,941
Short leasehold land and buildings	557	557	610	610
	<u>201,739</u>	<u>201,739</u>	<u>194,128</u>	<u>194,128</u>

Cost of properties includes:

Group : £454k (2018: £442k) for direct administration costs capitalised during the year

Parent: £442k (2018: £442k) for direct administration costs capitalised during the year

Expenditure on works to existing properties

	Group £'000	Parent £'000	Group £'000	Parent £'000
Replacement of components capitalised	2,458	2,458	2,876	2,876
Amounts charged to expenditure	1,200	1,200	780	780
	<u>3,658</u>	<u>3,658</u>	<u>3,656</u>	<u>3,656</u>

Equity Housing Group Limited
Notes to the financial statements for the year ended 31st March 2019

14 Stock

	2019		2018	
	Group £'000	Parent £'000	Group £'000	Parent £'000
Shared ownership properties:				
Work in progress	1,904	1,904	1,023	1,023
Completed	761	761	694	694
Non property stock	1	-	1	-
	<u>2,666</u>	<u>2,665</u>	<u>1,718</u>	<u>1,717</u>

15 Trade and other debtors

	2019		2018	
	Group £'000	Parent £'000	Group £'000	Parent £'000
Rent arrears and service charges	776	776	617	617
Less: provision for bad debts	(494)	(494)	(375)	(375)
	<u>282</u>	<u>281</u>	<u>242</u>	<u>242</u>
Amounts owed from group undertakings	0	244	-	-
Deferred tax	39	39	39	39
Other debtors	470	392	218	202
Prepayments and accrued income	481	481	833	833
	<u>1,272</u>	<u>1,438</u>	<u>1,332</u>	<u>1,316</u>

Debtors are all due within one year.

16 Cash and cash equivalents

	2019		2018	
	Group £'000	Parent £'000	Group £'000	Parent £'000
Unlisted investments – cash on deposit	808	808	806	806
	<u>808</u>	<u>808</u>	<u>806</u>	<u>806</u>
Cash and cash equivalents	2,326	2,110	8,749	8,682
Trust fund (cash to cover Leaseholder sinking funds, note 18)	2,325	2,325	2,507	2,370
	<u>4,651</u>	<u>4,435</u>	<u>11,256</u>	<u>11,052</u>

Unlisted investments include £808k (2018: £806k) held by counterparties as collateral for future interest payable on the £20m THFC bonds.

Equity Housing Group Limited
Notes to the financial statements for the year ended 31st March 2019

17 Creditors: amounts falling due within one year

	2019		2018	
	Group	Parent	Group	Parent
	£'000	£'000	£'000	£'000
Loan debt (note 19)	10,256	10,256	5,377	5,377
Trade creditors	940	940	276	270
Grants due within 12 months	1,218	1,218	1,099	1,099
Amounts owed to group undertakings	0	0	0	31
Rents and service charges paid in advance	1,264	1,261	1,094	1,088
Corporation tax	0	0	0	0
Other taxation and social security	(8)	(8)	184	120
Accruals and deferred income	1,637	1,615	1,150	1,118
SHPS pension / Growth plan	3	3	413	413
Other creditors	836	837	561	566
Loan interest payable	193	193	306	306
Capital creditors	1,345	1,344	1,733	1,733
	<u>17,684</u>	<u>17,659</u>	<u>12,193</u>	<u>12,121</u>

18 Creditors: amounts falling due after more than one year

	2019		2018	
	Group	Parent	Group	Parent
	£'000	£'000	£'000	£'000
Loans	40,934	40,934	47,683	47,683
Recycled capital grant fund (note 20)	890	890	930	930
Leaseholder sinking funds	2,325	2,325	2,507	2,370
SHPS Pension/ Growth Plan	9	9	2,305	2,305
Grant due after 12 months (note 19)	82,700	82,700	82,265	82,265
	<u>126,858</u>	<u>126,858</u>	<u>135,690</u>	<u>135,553</u>

Debt analysis

Loans repayable by instalments:

Within one year	45	45	1,032	1,032
In one year or more but less than two years	80	80	910	910
In two years or more and less than five years	7,015	7,015	2,277	2,277
In five years or more	14,841	14,841	12,763	12,763
	<u>21,981</u>	<u>21,981</u>	<u>16,982</u>	<u>16,982</u>

Creditors: amounts falling due after more than one year (continued)

Loans not repayable by instalments:

Within one year	10,211	10,211	4,345	4,345
In one year or more but less than two years	-	-	8,227	8,227
In two years or more and less than five years	-	-	-	-
In five years or more	18,997	18,997	23,506	23,506
Total loans	51,189	51,189	53,060	53,060

These loans are secured by specific charges on the Group's housing properties and are repayable at varying rates of interest. The interest rate profile of the Group at 31st March 2019 was:

	Total	Variable Rate	Fixed Rate	Weighted Average Rate %	Weight Average Term Years
Instalment loans	21,981	10,618	11,363	3.47%	16
Non-instalment loans	29,208	10,211	18,997	4.23%	15
	<u>51,189</u>	<u>20,829</u>	<u>30,360</u>	<u>3.90%</u>	<u>15</u>

19 Deferred capital grant

	2019		2018	
	Group £'000	Parent £'000	Group £'000	Parent £'000
At start of the year	83,208	83,208	83,344	83,344
-Grant received in the year				
Housing Properties	1,460	1,460	1,406	1,406
Recycled Capital Grant Fund	255	255	136	136
-Grants recycled during the year				
Recycled Capital Grant Fund	(321)	(321)	(735)	(735)
Amortised Grant	(951)	(951)	(943)	(943)
At the end of the year	<u>83,651</u>	<u>83,651</u>	<u>83,208</u>	<u>83,208</u>
Amount due to be released <1 year	951	951	943	943
Amount due to be released >1 year	82,700	82,700	82,265	82,265

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20 Recycled capital grant fund

	2019		2018	
	Group	Parent	Group	Parent
	£'000	£'000	£'000	£000
At start of the year	1,086	1,086	657	657
Inputs to fund:				
Grants recycled from deferred capital grants fund	321	321	561	561
Interest accrued	5	5	4	4
Transfers from other Private Registered Providers	-	-	-	-
Recycling of grant:				
New build properties	(255)	(255)	(136)	(136)
At the end of the year	<u>1,157</u>	<u>1,157</u>	<u>1,086</u>	<u>1,086</u>
Amount three years or older where repayment may be required	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amount due to be released <1 year	267	267	156	156
Amount due to be released >1 year	890	890	930	930

21 Called up share capital

	2019		2018	
	Group	Parent	Group	Parent
	£	£	£	£
Allotted, issued and fully paid				
At the start of the year	14	14	18	18
Issued during the year	-	-	-	-
Cancelled during the year	-	-	(4)	(4)
At the end of the year	<u>14</u>	<u>14</u>	<u>14</u>	<u>14</u>

The par value of each share is £1. The shares do not have a right to any dividend or distribution in a winding up, and are not redeemable. Each share has full voting rights. All shares are fully paid.

22 Capital commitments

	2019		2018	
	Group £'000	Parent £'000	Group £'000	Parent £'000
Expenditure that has been contracted for but not provided for in the financial statements	2,275	2,275	13,005	13,005
Expenditure authorised by the Board but not yet contracted for	3,047	3,047	5,240	5,240
	<u>5,322</u>	<u>5,322</u>	<u>18,245</u>	<u>18,245</u>
The Group expects these commitments to be financed with:				
Social housing grant	373	373	1,287	1,287
Proceeds from sales of properties	3,935	3,935	6,877	6,877
Committed loan facilities	1,014	1,014	10,081	10,081
	<u>5,322</u>	<u>5,322</u>	<u>18,245</u>	<u>18,245</u>

23 Operating leases

The Group holds properties and office equipment under non-cancellable operating leases. At the end of the year, the Group had commitments of future minimum lease payments as follows:

	2019		2018	
	Group £'000	Parent £'000	Group £'000	Parent £'000
Land and buildings:				
In one year or less	3	3	3	3
In one year or more but less than two years	3	3	3	3
In two years or more and less than five years	8	8	8	8
In five years or more	86	86	89	89
	<u>100</u>	<u>100</u>	<u>103</u>	<u>103</u>
Office Equipment:				
In one year or less	5	5	5	5
In one year or more but less than two years	5	5	5	5
In two years or more and less than five years	9	9	14	14
In five years or more	-	-	-	-
	<u>19</u>	<u>19</u>	<u>24</u>	<u>24</u>

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24 Social housing grant

	2019		2018	
	Group £'000	Parent £'000	Group £'000	Parent £'000
The total accumulated government grant and financial assistance received or receivable at 31 st March:				
Held as deferred capital grant (note 19)	83,651	83,651	83,208	83,208
Recognised as income in Statement of comprehensive income	951	951	943	943
	<u>84,602</u>	<u>84,602</u>	<u>84,151</u>	<u>84,151</u>

25 Financial instruments

The Group and Parent had the following financial instruments:

	2019		2018	
	Group £'000	Parent £'000	Group £'000	Parent £'000
Financial assets measured at fair value through profit or loss:				
Investments stated at market value	-	-	-	-
Financial assets that are debt instruments measured at amortised cost:				
Cash at bank and in hand	2,326	2,110	8,749	8,682
Trade debtors	-	-	-	-
Fixed asset investments	-	-	-	-
Social Housing Grant receivable	-	-	-	-
Rental and service charge debtors	281	281	242	242
Prepayments and accrued income	481	481	833	833
Other debtors	470	392	212	202
	<u>3,559</u>	<u>3,264</u>	<u>10,036</u>	<u>9,959</u>
Financial assets that are equity instruments measured at cost less impairment:	-	-	-	-
Financial liabilities measured at fair value through profit or loss:				
Derivative financial instruments	-	-	-	-
Derivative financial instruments designated as hedges of variable interest rate risk:	-	-	-	-
Financial liabilities at amortised cost:				
Loans	51,189	51,189	53,060	53,060
Finance leases	-	-	-	-
Trade creditors	940	940	276	270
Recycled capital grant fund	1,157	1,157	1,086	1,086
Deferred capital grant fund	83,651	83,651	83,208	83,208
Accruals and deferred income	1,637	1,615	1,150	1,118
Disposal proceeds fund	-	-	-	-
	<u>138,574</u>	<u>138,552</u>	<u>138,780</u>	<u>138,742</u>

26 Intra group management fees

Intra-Group management fees are receivable by the parent from its subsidiary to cover the marginal running costs the parent incurs on behalf of managing its subsidiary and providing services. The management fee is calculated and allocated on a percentage of staff costs for the following services:

Service provided

Communications and marketing
Management

Other intra-group charges

Other intra-group charges are payable to the Group at cost.

Transactions with registered and non-registered elements of the business

In accordance with the Accounting Direction 2015, transactions between private registered providers and other non-registered entities in the Group are disclosed as follows:

Equity Enterprises	Turnover £000	Operating Expenses £000	Other Creditors £000	Other Debtors £000
2019	235	71	244	
2018	270	64	-	31

During the year the Group incurred costs amounting to £235k (2018: £270k) which were re-charged by its subsidiary Equity Enterprises Limited (formerly Provincial Housing Association Limited, a non-regulated entity) for estate agency services on the sale of shared ownership properties.