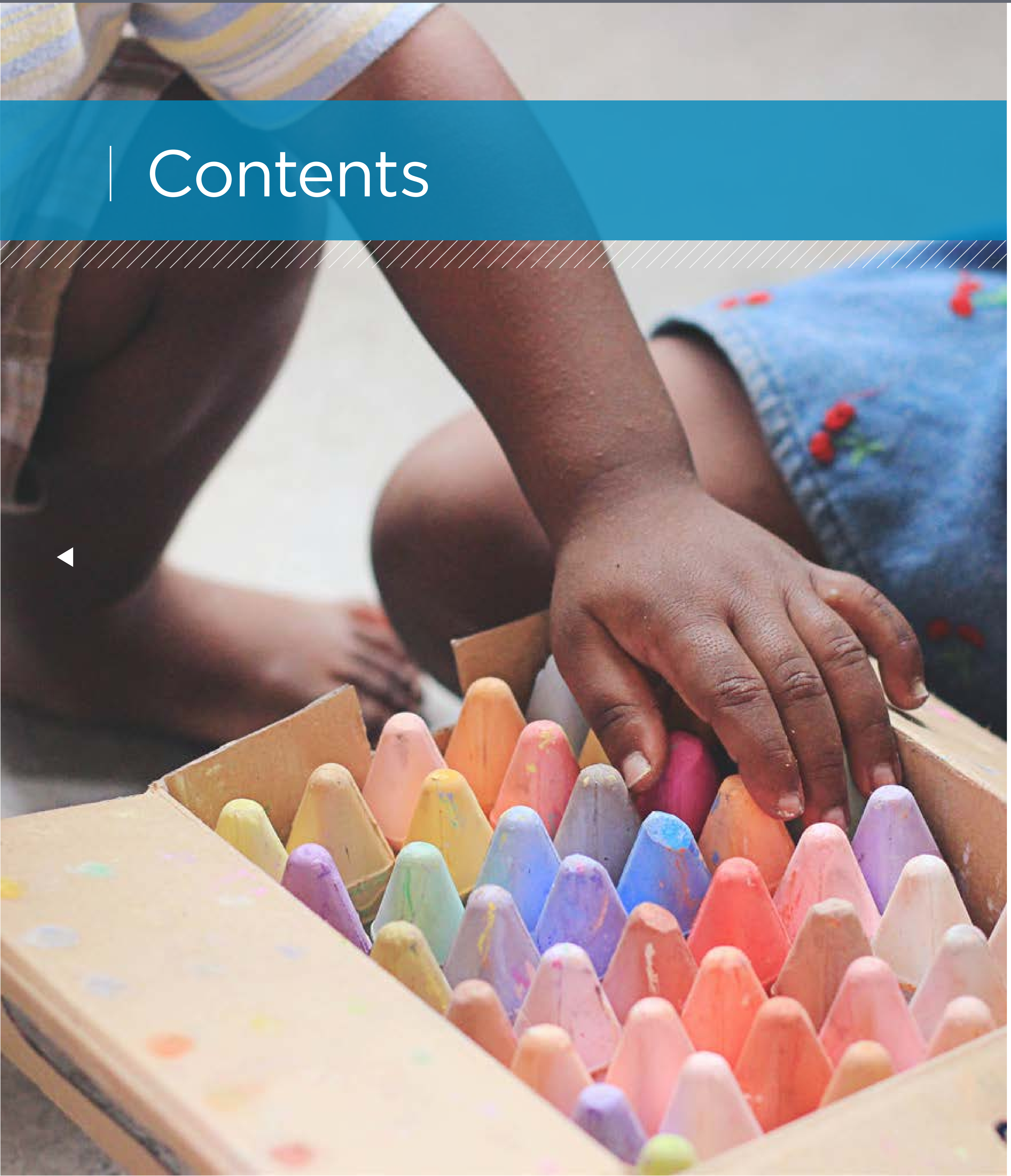
Knightstone

Group Financial Statements

Year ended 31 March 2017



Contents

Knightstone

Our Journey to 2021

We launched our new Business Plan: embedding our new culture and behaviours to ensure we're fit for the future

Committed

Investing in homes and communities for the long term

We own **11,533 homes** and provide services to **23,750 residents**

We developed **221 affordable homes** & 23 homes for **£££ outright sale**

We invested **over £21m** in our asset management and planned maintenance programs

We supported **791 people** through our **Tenancy Sustainment service**

Agile

Adapting to an ever changing world

We carried out our **management & organisational** review putting us in the best possible shape to deliver on our business plan and purpose, **saving us £700k**

We renegotiated our **Supported Housing** contracts, resulting in a **£470k cost reduction**

We redefined our **repairs service** which resulted in **14% fewer jobs** being carried out compared to budget. This generated savings of around **£750k** with no impact on resident satisfaction with the service

We redesigned five of our key service areas to improve our offer and **increase cost gains**

Digital

Transforming the way we work

We've enhanced our **self-service digital platform** with a prominent resident toolkit

We've seen a **32% increase** in the number of residents signing up to an online account

We **redesigned the homepage** of our website after carrying out ongoing navigational user reviews

We've started **developing a strategy** to gain deeper insight into how customers are interacting with their account services

We completed our latest website **Content Management System** upgrade, designed mobile first in response to user preference

Who we are

We're a leading provider of affordable homes for rent and sale, and related support services, in the West of England and Somerset. We've been a key player in the region for over 40 years, committed to building vibrant, stable and safe communities where people can make their homes.

Covering nine Local Authority areas, we own 11,533 homes and provide services to 23,750 people. We have an active development programme which helps us play our part in solving the UK's housing crisis.

Property by Local Authority area and tenure as at 1 April 2017

	Social housing	Affordable housing	Supported housing	Sheltered	Intermediate rented	Residential care homes	Shared ownership	Keyworker	Market rented	Total homes owned
Bath and North East Somerset	567	99	71	48	1	5	87			878
Bristol	1,177	372	350	51	44	11	293	18	16	2,332
Mendip	616	152	123		4		133		6	1,034
North Somerset	846	184	41	132	16		278		2	1,499
Sedgemoor	609	223	79		21		76			1,008
South Gloucestershire	895	180	99	57			100	9		1,340
South Somerset	456	114	140		9		69			788
Taunton	846	152	82	27	41	9	168		5	1,330
West Somerset	163	8	26		4		8		2	211
Other areas	700		28	16	23	46	295		5	1,113
Total	**6,875**	**1,484**	**1,039**	**331**	**163**	**71**	**1,507**	**27**	**36**	**11,533**

We offer a range of housing options to suit the varied housing needs of current and future residents, including social rent, affordable rent, supported and sheltered housing, and shared ownership. We also offer homes for outright sale through our commercial development company, Arc Homes.

We're one team with one purpose: to create better futures together

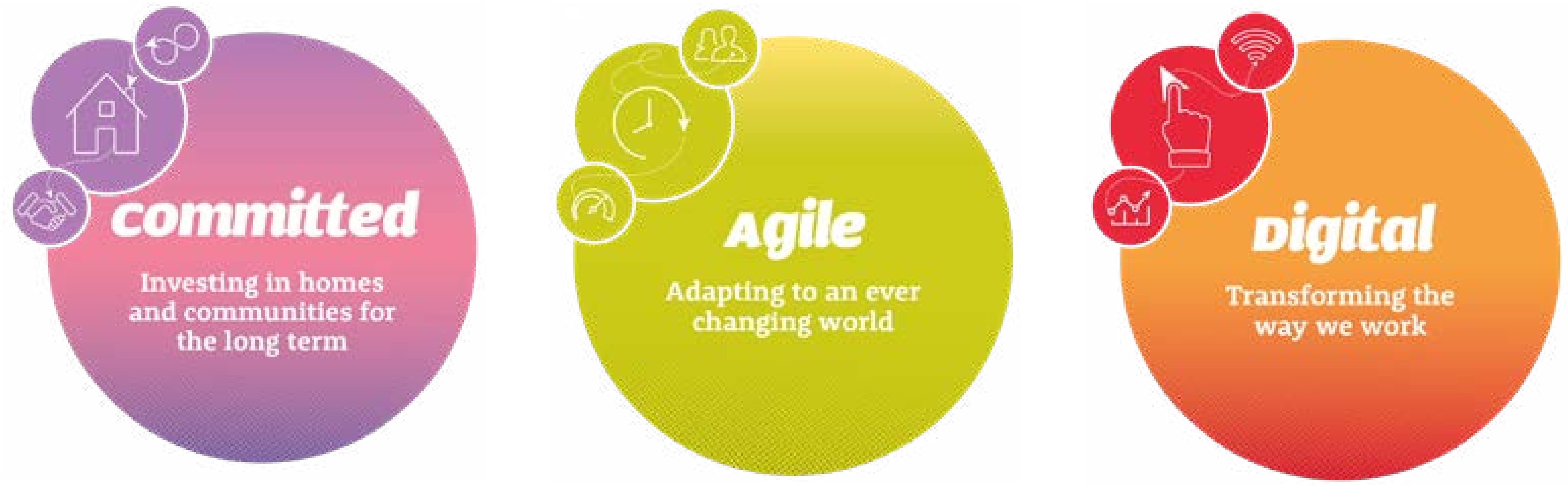
Our vision

To be the leading investor in homes, people and their communities in the West of England and Somerset, delivering great customer service.

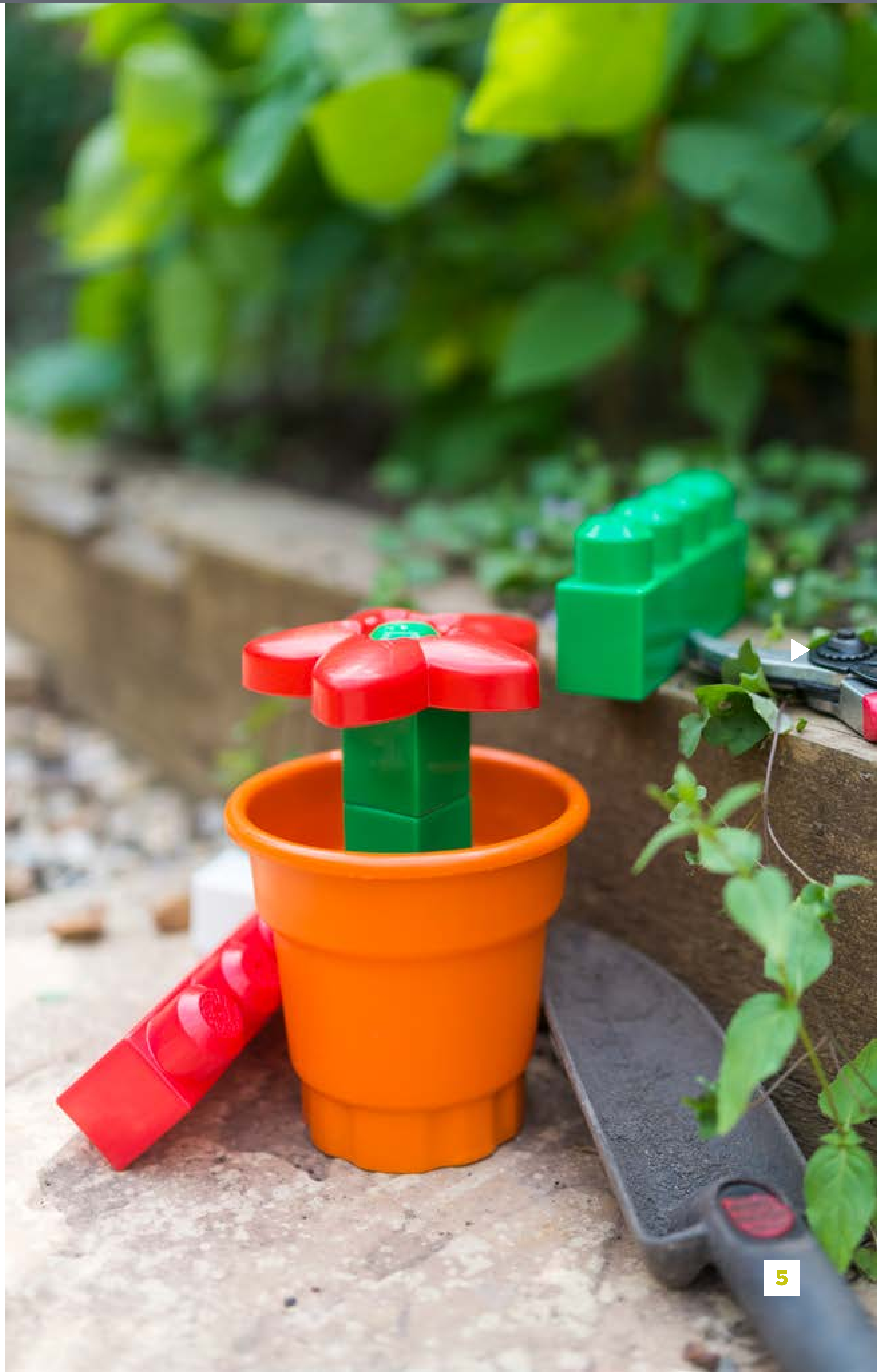
Truly living our values:

- EMPATHY
- PROFESSIONALISM
- INTEGRITY
- COMMITMENT

In 2016 we launched our 2016-2021 Business Plan – Our Journey to 2021.
We set out our three strategic priorities to be:



Our customers are at the heart of everything we do – we aspire to make their lives easier, make our relationships stronger and our resident services world class. We empower our teams to push the boundaries, ask questions and take risks to ensure we're a business ready for the future.



Governance, leadership and management

Knightstone Housing Group Limited is the Parent Company of the Group with the main trading activities of the Group being undertaken by Knightstone Housing Association Limited. Further details on Group structure and the remaining subsidiaries can be found in note 35.

Group Board Members

The Group operates a co-terminous Board structure for its Parent Company and main operating company. Members of the Boards are common to both companies. Arc Developments South West Limited (trading as Arc Homes) has a separate Board comprising of Board members with the appropriate skills for its activities. Since 1 April 2017, this also includes two members of the Knightstone Executive Team. A Knightstone Board member also sits on the Arc Homes Board for governance, control and reporting purposes.

Group Chair

Nick Medhurst (to 31 May 2017)
Linda Nash (from 1 June 2017)

Group Vice Chair

Barrie Dale

Other Group Board Members

Judith Clark
Antony Durbacz
Nick Horne (Chief Executive)
Tony MacGregor
Malcolm Pink (from 1 June 2017)
Tom Vaughan (from 26 May 2016)

Arc Homes Board Members

Malcolm Pink (Chair from 5 April 2016)
Linda Nash
Nick Horne (from 1 April 2017)
Selina White (from 1 April 2017)
Michael Meanley (to 30 June 2017)
Ian Mellor (to 30 June 2017)
Lou Evans (to 30 June 2016)
Patrick Emett (Vice Chair, to 30 June 2016)
Judith Gannon (to 31 August 2016)

Group Executive Team

Nick Horne, Chief Executive
Sarah Barrett, Director of Business Transformation (from 3 April 2017)
Steve Blake, Director of Development & Sales
Mark Coates, Director of Supported Housing & Empowerment (from 18 April 2017)
Sonia Furzland, Director of Landlord Services (from 1 November 2016)
David Greenhalgh, Director of Property Services, (from 1 November 2016)
Selina White, Director of Planning & Resources

Group Executive Team who have left during the year

Mark Beard, Director of Customer and Community Operations (to 31 March 2017)
Anne Duff, Director of Corporate Services (to 28 October 2016)

Company Secretary

Charlotte Ferris

Registered office: Knightstone Housing, Weston Gateway Business Park, Weston-super-Mare, BS24 7JP

Advisors and Bankers

External Auditor: Mazars LLP
Principal Banker: Barclays Bank Plc


Linda Nash


Barrie Dale


Nick Horne


Judith Clark


Antony Durbacz


Tony MacGregor


Malcolm Pink


Tom Vaughan


Sarah Barrett


Steve Blake


Mark Coates


Sonia Furzland


David Greenhalgh


Selina White


Charlotte Ferris

Comment from our Chair

In 2016/17 we've delivered excellent trading results alongside major improvements to how we govern, lead and manage our business for our 23,750 residents, our nine local authority partners, our 423 colleagues and many other partners, suppliers and stakeholders. As a result we're stronger, more resilient and firmly positioned as an organisation that's in great shape for the future.

Creating better futures together – at the heart of Our Journey to 2021

As part of our 2016-21 business planning, we reconfirmed our organisational purpose as Creating Better Futures Together – a clear statement of why we do what we do and how we will do it that provides certainty in an environment of continual change. Our purpose is the touchstone against which we can assess the impact of our decisions and actions.

Our new business plan - Our Journey to 2021 - is optimistic, forward looking and responsive to external market forces as well as reflecting our own ambitions. Our brand promise is to deliver the five outcomes that matter most for our current and future customers, colleagues, partners and other stakeholders.

So by 2021 we'll have:

- Helped to solve the housing crisis by building over 1,500 new homes for rent, shared ownership and sale
- Transformed our business by redesigning our services for digital end-to-end delivery, ensuring that our culture, systems, processes and approach enable us to thrive in a new housing era
- Invested in our existing homes and communities to protect our property portfolio and make sure our communities remain places where people want to live and make their home
- Improved the efficiency and value for money of services
- Evidenced that we continue to be a financially viable and resilient business that has successfully absorbed the impact of government policy changes and is fully compliant with our internal financial framework.

> **We're stronger, more resilient and firmly positioned as an organisation**

The opportunity to do more

During 2016/17 we developed our Partnerships and Alliance Strategy which sets a clear framework within which we will explore potential alliances. This strategy provides the context for exploring, with DCH, the potential benefits that amalgamation between our two organisations would deliver.

Underpinning our discussions is our complementary geography, our shared South West heritage and our ambition to assess how we can do more together than we can independently.

Whilst the outcome of our work together is not a 'done deal', we are nevertheless optimistic about the potential benefits to both organisations and our colleagues, residents and stakeholders. Both Boards anticipate taking decisions as to whether or not to proceed in the autumn and, if we do go ahead, we'll aim to complete the amalgamation by mid-2018.

This has also been a year of change and opportunity for me personally as I took over as Chair of the Board on 1 June. Our previous Chair, Nick Medhurst, celebrated his 70th birthday in 2016 and this milestone and our alliance discussions with DCH, led to Nick deciding the time was right for him to retire as Chair and from the Board, after over four years. Nick was an outstanding Chair, combining his commercial experience and strong sense of social purpose to great effect and driving major improvements in our governance and leadership. I feel very privileged to be able to build on his excellent leadership and the foundations he established.

Finally, I am firmly of the belief that an organisation is only as good as the people who work in it and the leadership that empowers everyone to be the best they can be. As well as thanking our dedicated workforce I would also like to thank Nick Horne, Chief Executive, and the other members of our new-look Executive Team for their commitment, hard work and leadership. We're all proud of our achievements – we have delivered another year of excellent performance, taking advantage of, instead of running from, change, challenge and opportunity.

Linda Nash
Chair

Comment from our Chief Executive

Value and capacity

Action to improve value for money and financial capacity has been a big theme this year. Whilst this includes responding to government changes to welfare policy and the four-year 1% annual rent reduction, it also includes proactive measures. With strong leadership and effective management, we made good progress to deliver our target of £5m p.a. efficiency savings by 2018/19, with over £3.5m achieved from the start of 2016/17.

This represents a 5% reduction in our operating cost budget and reflects our commitment to improving value for money, whilst maintaining a good quality of service to our customers. The progress made in 2016/17, plus further efficiency savings built into our 2017/18 budget, and measures taken to improve how we lead and manage the business, means we're confident of delivering at least £1.5m p.a. of further efficiency savings before the end of 2018/19.

> **"With strong leadership and effective management, we made good progress to deliver our targets."**

Change, challenge, opportunity

In 2016/17 we completed a significant organisational change programme – Change Challenge Opportunity. The key deliverables were identifying a target business culture, a supporting set of behaviours that we look for in our colleagues and leaders, and designing and implementing a flatter, lower-cost organisation and management structure.

Working with the Board, managers and colleagues from across the business, we agreed to shift our culture towards being more innovative, results focused, empowering, experimental and risk tolerant. This target culture was underpinned by a new organisation and management structure and a revised set of leadership behaviours which informed the selection of people into the new structure.

Three immediate outcomes from this change programme have been a £700k reduction (5%) in operating costs, significant and positive changes in the shape, skills and composition of the Executive Leadership Team, and a renewed focus on improving operational performance and value for money.

A commitment to quality services

The changes we've made have not deflected us from delivering good-quality services to our residents. The evidence to support this is set out in the Strategic report. Particularly impressive has been our work to deliver high levels of customer satisfaction and efficiencies in property services, one of our biggest cost areas with an annual budget of £21m.

A 'Lean Systems' review has driven significant changes in how we manage repairs and resulted in a substantial reduction in demand on the service. This contributed to a £800k (17%) underspend in our response repairs budget, whilst satisfaction with the quality of our homes was high at 87%, just 2% below the Housemark top quartile.

Thriving in a VUCA world

Our operating environment is increasingly characterised by Volatility, Uncertainty, Complexity and Ambiguity (VUCA). To ensure we thrive and prosper in this challenging environment, our response in 2016/17 has been multifaceted.

Firstly, we have retained a clear focus on delivering our purpose – creating better futures together – the touchstone against which our decisions can be assessed. Secondly, by delivering our Change Challenge Opportunity programme, we now have the right people in the right place doing the right things in the right way across all of our governance, leadership and staffing structures. Thirdly, we provide our colleagues with clear direction and consistent messaging against a backdrop of our necessarily evolving priorities.

We've also increased the resilience of our business by improving financial and operational performance and value for money whilst progressing potential merger discussions with DCH.

And finally

I would like to express my thanks to our recently retired Chair, Nick Medhurst. Nick's support and challenge has been of huge benefit to me and to the business. On behalf of the Executive Team and colleagues, we wish him all the very best for the future.

Nick Horne
Chief Executive

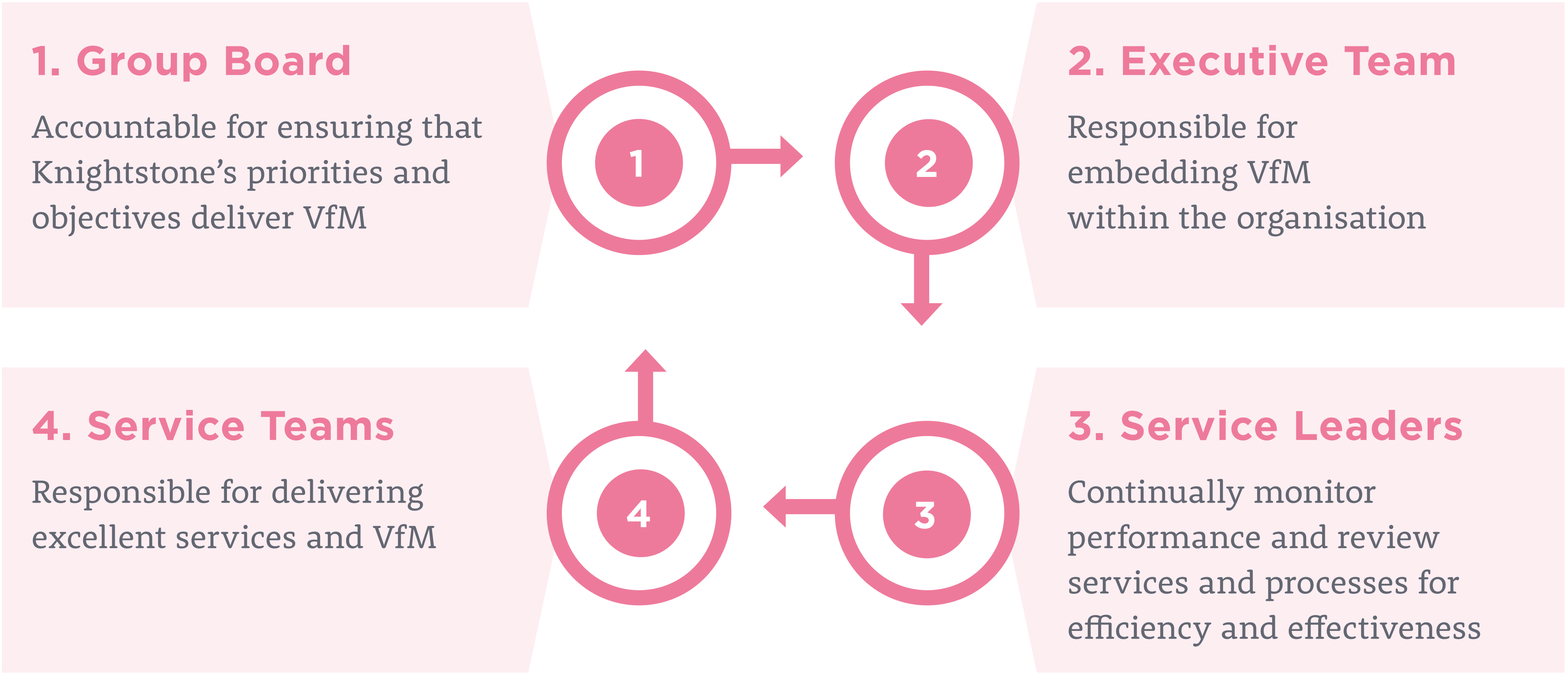
Improving Value for Money viability and resilience

Our purpose is to create better futures together and our vision is to be the leading investor in homes, people and their communities in the West of England and Somerset, delivering great customer service. We can only do this by working efficiently, making the most of our available resources and driving out waste.

Our ambition is to deliver, embed and demonstrate Value for Money (VfM) in everything we do, whilst maintaining our high quality of service. Our Board leads on this, but it's a commitment that is shared across our organisation and embedded in our culture.

The Board takes strategic responsibility for VfM, ensuring that our priorities and objectives are focused on minimising our operating costs without compromising important services.

Our Executive Team has collective responsibility for embedding VfM within the organisation. We'll support and challenge our Service Leaders in delivery of their service area objectives, working with them to identify opportunities or threats to delivery and their plans to develop or resolve. Our approach to VfM recognises that, in delivering the required outcomes, we need to work collaboratively across services and teams, and this starts with the Board and Executive Team.



View our full **Value for Money** statement here

VfM, for us, is about fully understanding the relationship between our performance and costs. We work to ensure we reduce cost per unit without compromising important services and, at the same time, optimising our return on resources and assets.

In addition to using the HCA's Global Accounts for benchmarking, we also work closely with the South West Housing Associations Influence and Leadership Organisation (HAILO), a group of the largest South West focused housing associations.

In 2017, we'll be joining the pilot group for the new sector scorecard. We hope that this will provide greater insight into our performance when compared to others across the sector.

Our Value for Money objectives

Improving our **productivity**

Allocating **resources** to business **plan priorities**

Maximising the size & impact of our **development** programme

Maximising the social impacts of our **activities**

Making the most of our **assets**

These objectives fully comply with the Value for Money Standard under the HCA's Regulatory Framework.

Financial performance

In 2016/17 we continued to build our financial resilience. Our turnover increased by 8%, which, along with a reduction in operating costs and pension re-measurements, contributed to a 50% increase in operating surplus. Net surplus was a healthy £16.7m, 21% of our turnover.

Five year results

	2017 £'m	2016 £'m	2015 £'m	2014* £'m	2013* £'m
Financial results					
Turnover	**79.5**	73.6	65.1	62.8	60.8
Operating surplus	**21.7**	14.5	16.5	12.2	12.6
Net surplus	**16.7**	20.2	15.2	14.5	9.5
Property costs as % of turnover	**26.5**	26.8	25.7	38.2	39.8
Staff costs as % of turnover	**18.4**	20.5	21.4	21.0	22.7
Interest costs as % of turnover	**11.4**	12.6	13.5	15.8	13.7
Net cash inflow from operating activities	**30.2**	19.0	28.0	8.1	9.6
Statement of Financial Position					
Gross cost of housing, land and buildings	**758**	744	718	693	678
Capital grants	**231**	231	233	349	354
Net debt	**255**	259	250	216	215
Reserves	**125**	109	90	76	62
Financial statistics					
Loan gearing %	**36**	37	36	35	36
EBITDA MRI %	**216**	149	191	126	108
Number of homes owned	**11,533**	11,412	11,450	10,986	11,264
Number of homes managed	**11,296**	11,111	11,503	11,043	12,021
Number of staff employed (FTE)	**386**	437	447	415	429
Rent loss from voids as a % of gross rent	**1.2**	1.2	1.5	1.5	2.0
Arrears as % of gross rent	**2.9**	3.4	4.2	3.6	4.4

All figures £'m unless otherwise stated

*Pre-FRS 102

Statement of Comprehensive Income

Turnover

Our turnover increased by £5.9m (8%) in the year. Strong shared ownership and open market sales accounted for £4.4m (75%) of the increase in the year. Rents from newly developed properties contributed £1.5m (25%) of the increase.

Operating costs

Our operating costs reduced by £1.4m (3%), with the main movements show below:

Operating costs (excluding cost of sales)	2016/17 £m	2015/16 £m	Variance £m	Variance
Depreciation & impairment	11.7	13.4	(1.7)	-12%
Routine maintenance	10.8	9.8	1.0	10%
Group staff costs	14.7	15.1	(0.4)	-3%
Other costs	9.5	9.8	(0.3)	-3%
Total Operating costs	**46.7**	**48.1**	**(1.4)**	**-3%**

Staff costs

Staff costs have reduced by £400k in the year, mainly due to a management restructure. This restructure, along with the TUPE transfer of 35 staff on contracts moved to other providers, resulted in a reduction of 60 posts. Costs include £300k of redundancy costs.

Depreciation

Depreciation of assets and amortisation of intangibles have decreased following the prior year accelerated depreciation charge and review of our fixed assets register, completed as part of the transition to FRS 102. The current year charge also includes the impairment of our Yeovil Foyer following the decision not to retender for our young people's service. The future use of the Foyer has yet to be decided and, as such, the property cost has been reduced in line with market valuations.

Operating surplus

Operating surplus increased by £7.2m (50%) in the year. This has been generated by a reduction in the FRS 102 pension re-measurement in the year, accounting for £2.7m of this increase. On top of this, the increased sales from our shared ownership and market sales created an additional £1.6m surplus, and additional rent from our development programme added £1.5m, whilst the reduction in operating costs of £1.4m makes up the balance.

Routine maintenance

Routine maintenance has increased by £1m due to additional fire risk assessments being undertaken during the year, along with an increased cyclical maintenance programme of works.

Surplus on disposal of property, plant and equipment

Surplus on disposal has reduced by £11.8m following the completion last year of our programme to rationalise our non-heartland stock. Surplus on disposal in the year of £4.2m is made up of staircasings on our shared ownership portfolio, along with surplus on assets sales from our stock rationalisation strategy. We also made a surplus on the sale of an office in Taunton which completed our office rationalisation.

Statement of Financial Position

Our Statement of Financial Position continues to strengthen, predominantly through the development of additional new homes, continued investment in existing assets and increased liquidity to support greater resilience in uncertain times.

Overall the Net Book Value of our housing assets increased by £8.6m in the year, reflecting £24.5m of investment in new homes, £9.8m of disposals under our stock rationalisation strategy and £6.1m of net depreciation.

Our cash balance has been maintained at £17.6m, reflecting our focus on liquidity and exceeding the minimum cash requirement of £15m set out in our Internal Financial Framework.

Creditors falling due within one year have increased by £20.5m, largely due to the bullet repayment of our £20m RBS 'Funding for Lending' loan, that falls due on 5 March 2018. This has resulted in a negative net current asset position in the current year. We have ample liquidity, including £49m of deferred bond receipts in November 2017 to fund the loan repayment.

Statement of Cash Flows

The Statement of Comprehensive Income and Statement of Financial Position changes have been reflected in our cash flows. We spent £24.5m on developing new homes – £16.3m less than in 2015/16. This was due to the uncertainty over rental income caps in future years.

Financial performance

We're financially strong. The value of property being used to secure our existing loans is £476m and the headroom above our lender asset cover requirements is £144m.

Our operating cost per unit decreased by 3% on the previous year and remains below the 2015/16 sector average. Our calculation is based on the HCA global accounts method, which includes capital major repair spend, and the main drivers for the decrease in the year are the reduction in capital spend and higher unit numbers.

	Benchmark HCA Global Accounts 2015/16	**2016/17***	2015/16*	2014/15
Operating cost per unit	£3,970	**£3,887**	£4,020	£3,687
Void loss as a % of gross rent	1.6%	**1.2%**	1.5%	1.5%
Arrears as a % of gross rent	4.5%	**2.9%**	4.2%	3.6%
Bad debt as a % of gross rent	0.7%	**0.4%**	0.2%	1.0%

*Excludes pension re-measurement

Development of new homes

In 2016/17 our commitment to building new homes continued with the development of 221 new affordable homes and 23 homes for outright sale.

The government's rent reduction policy and the uncertainty around the LHA rent cap continues to place significant pressure on the development of new homes. Through a combination of careful re-modelling, attracting additional grant funding and changing the tenure profile of some schemes, we've successfully delivered the majority of our 2016/17 programme in line with our financial parameters and to our customers' requirements.

We've also been busy identifying and securing new projects. Together these measures mean we are well on track to deliver our affordable homes programme as set out in 'Our Journey to 2021'.

In 2015 we reviewed our build specification for new homes to reduce development costs without reducing the quality of new homes. By using the revised specification for most of our 2016/17 development programme, we've been able to counter the financial pressures of reduced rent and build cost inflation.

Operational efficiency has been high on our agenda during the year. We've carried out a number of key process reviews so we can deliver an improved service for customers, as well as save time and money. Our Development and Homeownership teams have reduced by nine FTE in the year.

The overall result is that we're well on track to deliver our new affordable homes business plan targets and using less financial resources to achieve this.

We completed a detailed review of our commercial development subsidiary, Arc Homes, which delivers new private sale housing. We found that the existing operating model has not delivered the desired financial returns for the organisation, so we started to look at developing a new, more efficient business model to deliver stronger results. This work is on track to be completed in 2017/18.

Culture and business transformation

The housing sector and the world around us is evolving at an incredible pace, and it’s vital that we keep up, or stay one step ahead, to be a business fit for the future. We’re moving away from our traditional ways of doing things, becoming more innovative, more agile, more efficient, and more commercially minded.

2016/17 has been a pivotal year for our culture and business transformation programme. In summer 2016 we enlisted the help of Campbell Tickell to carry out a management and organisational review to make sure our internal structure is robust and forward thinking.

As part of the review, we introduced a Business Transformation directorate to drive us on our Journey to 2021.

We held workshops and engagement sessions with employees from across the organisation to help us evaluate our culture as it was standing and define what we wanted it to be for the future. Following this, we launched our new values and behaviours which are embedded across our organisation.

Our values

- EMPATHY
- PROFESSIONALISM
- INTEGRITY
- COMMITMENT

Our behaviours

- ASPIRATIONAL
- ENABLING & EMPOWERING
- INQUISITIVE
- RISK TOLERANT
- ADAPTABLE
- FOCUSED ON DELIVERY & OUTCOMES

We’re driving a ‘digital first’ approach across the organisation and forour residents, to make employee and customer lives easier, relationships stronger and services more accessible.

By 31 March 2017, 15% of our residents had set up an online account allowing them to pay their rent, report repairs and update their personal details. We continue to sign all new residents up to an online account on day one of their tenancy. We also simultaneously ran a social media campaign and empowerment drive which generated nearly 140 sign ups in the month of February alone.

This year we redesigned our website homepage after user and navigational reviews, and it now features a self-service resident toolkit where customers can directly access their My Account and resident information.

We’ll continue to drive digital transformation in 2017/18 and beyond to make our services fit for the future.

Investing in our existing homes and communities

Asset performance

The 2017 30-year Net Present Value (NPV) profile strengthens our financial position with an improvement of the overall NPV from £249m in 2016 to £280m in 2017. At unit level this has increased the average NPV from £26.5k per unit to £29.7k.

	2016/17	2015/16	2014/15
NPV overall	£280m	£249m	£217m
NPV per property	£29,656	£26,544	£24,779
No. of properties with negative NPV	411	753	203

The improvement in overall NPV can be attributed to two main factors:

- A reduction in the NPV of maintenance costs using the assumptions around current repair costs and trends relating to reduced demand. More detailed analysis of repair costs also indicates that repair costs per unit have reduced by 10% since the new contracts were tendered in 2014.
- A reduction in the NPV of major repairs as a result of the implementation of an in-house property data survey team to produce more accurate and consistent data to move costs on and 'sweat the assets'. In addition, the cumulative positive effect of the sustained planned component replacement investments programmes has been factored in to the results.

Significantly, the number of poor performing (negative NPV) properties has reduced from 753 or 9.7% (753 of 7,788) in 2016 to 411 or 5.2% (411 of 7,920) in 2017. The reduction is due to the positive influence of the factors detailed above.

Repairs and maintenance

In 2016/17 we carried out an in-depth review of our repairs service to realign our service offering with our legal and contractual obligations to residents, provide efficiency savings and value for money. By empowering our residents and reducing demand on the service, we were able to reduce direct costs. During the six months since the review, we've seen a clear reduction in demand, 10% fewer jobs than budgeted, which has generated a saving of around £750k. Even though we've seen a big saving, we're pleased to say that it has not affected resident satisfaction with the service. The trend has given us confidence to reduce the repairs budget by £300k (8%) next year.

As outlined in our Business Plan, we're committed to delivering £60m investment in our current homes and communities between 2016 and 2021. As part of this, our Asset Management Strategy commits us to increase stock condition surveys from a 2014 level of 85% to a target 100% in 2019.

Bringing stock condition survey work in-house in 2016 has brought with it real financial and efficiency benefits. The in-house team is significantly less expensive than using external consultants (circa £75k p.a. less). It also enables us to do other tasks in homes at no additional cost, such as checking smoke detectors and repair completions.

The team has already carried out new surveys on 3,800 properties, increasing the percentage of our stock with valid surveys to 98%, which means we're well on the way to achieving our target of 100% by 2019.

We've also been able to reduce the time between surveys on each home from five years to three years, providing more timely, accurate and relevant data to inform future investment planning.

The merging of our Repairs, Compliance, Estate Management and Asset Management teams as part of our Management and Organisational Review helped us to realise financial and practical efficiencies. It enabled us to reduce the staff team by five FTEs, providing an annual revenue saving to the business of £85k. The restructured service also means that residents have only one route for all maintenance queries, decision making on complex work is quicker, collaboration across the various property disciplines is better. It has also enabled us to make better use of key front line staff. For example, empowering estate supervisors to replace light bulbs in communal areas (rather than using contractors) is already resulting in savings of circa £10k p.a.

Improving customer outcomes and Landlord Services

In November 2016 we reshaped and realigned teams to create a Landlord Services division. By bringing together our general rented housing, market and intermediate rented housing, leaseholder and homeownership management and resident engagement functions, we've been able to streamline our services and cut out duplicate work on key areas such as income and estate inspections.

Our restructure promotes:

- Effective inter-team working
- Greater ownership and accountability for customer facing staff who are empowered to make decisions closer to the customer
- Stronger focus on performance and outcomes.

> **"Welfare Reform continues to stretch many of our residents, 51% of whom are reliant on full or partial Housing Benefit."**

We've looked in depth at a number of our business areas this year, mapping demand, reviewing our processes and redesigning our systems to ensure we're achieving value for money.

These business areas include:

- Tenancy and Estate Services
- Former Tenant Arrears
- Income Management
- Voids and Lettings
- Mutual Exchanges

Welfare Reform continues to stretch many of our residents, 51% of whom are reliant on full or partial Housing Benefit. The roll out of Universal Credit, and the potential impact of a change in circumstances resulting in a six-week wait for benefit, has potential to significantly impact our income stream.

Following our income review, we shifted our focus from managing arrears to managing income. Through customer profiling, we identified residents who were at financial risk from welfare changes, and contacted them to help them prepare, encouraging them to set up 'nest eggs'. 618 of our residents have created nest eggs through advance payment of rent to assist them in preparing for a move to Universal Credit, and will in turn, help to protect our income stream.

The combined impact of service redesign and restructure has reduced our staffing costs by £200k p.a.

Improving customer outcomes and Supported Housing and Empowerment Services

We're proud of the social impact we make in our communities by working in partnership with our residents and our wider networks.

Operating in a competitive environment, we need to ensure that our support helps people reach their goals at the same time as being financially viable and sustainable. In 2016/17 we chose not to retender for our young people's service in Somerset, instead working collaboratively with the new provider to ensure minimal impact as the service transitioned.

It's undeniable that uncertainty around the future funding of supported housing has unsettled the sector. Whilst we share others' concerns, and although it's fair to say that we would have been able to do more had the current proposals for reform not been made, we've continued to make long-term investments in care and support for vulnerable people in our communities where this remains viable. This year our Boards approved an ambitious investment strategy for our learning disabilities support services that will see us invest £28m over the next five years, benefitting more than 500 people. We also secured a further £1.5m to enable 10 adults with learning disabilities to leave long-stay hospital care and live independently, with support, close to family and friends.

We continue to work with 63 of our neighbourhoods through our Achieving What Matters programme, delivering a total of 33 sustainable community solutions. Where we've committed to working in communities for three years, we've seen an increase in neighbourhood satisfaction to 77%. Here, the number of anti-social behaviour incidents has dropped, on average, by 38%.

We completed the pilot Connected Communities course, an NOCN accredited training programme, giving residents the opportunity to gain an NVQ Level 2 qualification. We saw 12 learners graduate with our pilot, with 18 learners signed up to our next course.

In 2016/17 we were awarded Sport England funding to extend our Creating Active Communities programme, delivering sports and activities to people and families in Somerset. We were also commissioned to deliver Bristol Ageing Better, a community development and gentrification support programme for older people in areas of Bristol.

Principal risks and uncertainties

- **High inflation**

High inflation could cause the Group's cost to increase more than planned whilst rents are reducing in line with the government's rent reduction policy. Less than 10% of the Group's debt is linked to inflation so the Group is well hedged against this risk. The Group's long-term financial plan assumes costs will rise by RPI each year and the budget setting process allows us to match rents set in advance. In the event of an inflationary period, we would implement service and cost reductions.

- **Ineffective Business Transformation programme**

We are currently scoping a digital transformation strategy to ensure that we advance our digital capacity in pace with the sector and external environments. Failure to implement this strategy effectively could cause increased costs through inefficient processes and damage our reputation if we cannot deliver services in the way our customers want us to. We have appointed a new Director of Business Transformation with appropriate skills and experience and the Executive Team is fully committed to deliver the programme and set an example in exhibiting the culture and behaviours required to realise it.

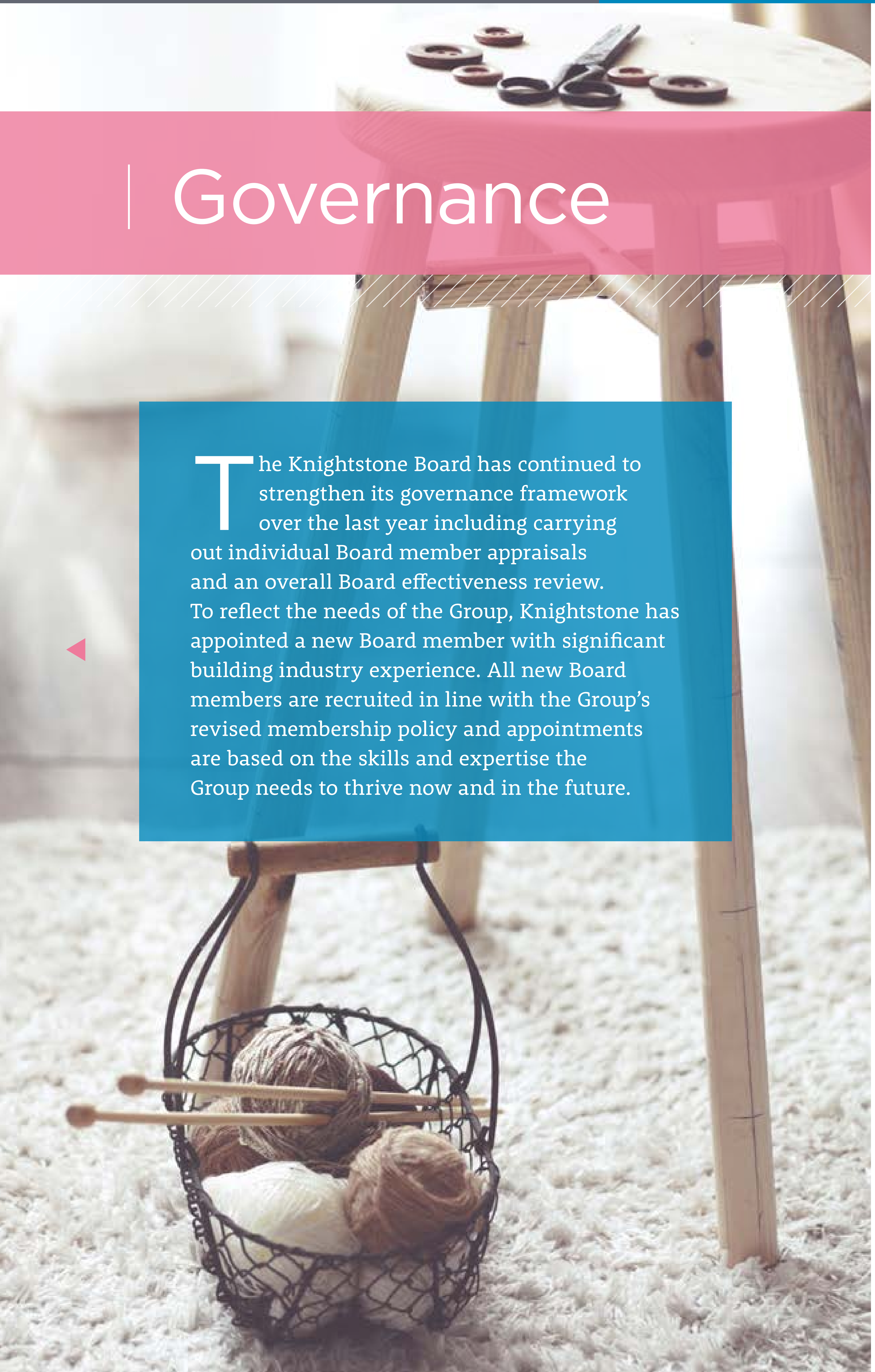
- **Increase in pension provision costs**

Rising pension costs have the potential to increase our cost base and reduce financial capacity. Our final salary pension scheme was closed to new members on 1 January 2014 and closed to all existing members from 1 April 2017 to reduce future accrued funding risk. We have included adequate provision for funding pension liabilities and ongoing auto-enrolment costs in our long-term financial plan.

The Boards also acknowledge responsibility for the management of fraud. The Group has a robust strategy and policy on fraud covering prevention, detection, reporting and the recovery of assets, which were reviewed and updated during the year. There were two instances of fraud during the year, both of which were identified and resolved through effective controls and good staff awareness. No financial losses were incurred and policies and procedures were strengthened as a result of their detection.

The Strategic report of Knightstone Housing Group was approved by the Board on 20 July 2017 and signedon its behalf by:

L Nash
Chair



Governance

The Knightstone Board has continued to strengthen its governance framework over the last year including carrying out individual Board member appraisals and an overall Board effectiveness review. To reflect the needs of the Group, Knightstone has appointed a new Board member with significant building industry experience. All new Board members are recruited in line with the Group's revised membership policy and appointments are based on the skills and expertise the Group needs to thrive now and in the future.

Knightstone's Group Chair, Nick Medhurst stood down on 31 May 2017, having served more than four years as Chair. He was succeeded by an existing Board member, Linda Nash, who was appointed following a comprehensive assessment process supported by independent external advice. Linda took over as Chair on 1 June 2017.

The Group's current operating environment means it continues to face new and enhanced economic, regulatory and political risks. In order to meet those challenges, the Board is reviewing and improving its risk management framework and regularly reviews its internal financial framework to help protect the business and the customers it serves. As a result, controls are continually improving and the Board's oversight of the organisation is broad and rigorous. Its commitment to building new homes remains strong and the Group's plans to achieve this are set out in the Strategic report to these statements.

The Board and its committees are governed and supported by Knightstone's Rules, Standing Orders and Financial Regulations. These are regularly reviewed by the Board and the Audit and Assurance Committee. Knightstone is regulated by the Homes and Communities Agency.

Compliance with our code of governance

In July 2015, the Boards adopted the National Housing Federation's (NHF) 2015 Code of Governance. In arriving at its decision, the Boards considered adopting the UK Corporate Code but decided the NHF Code was still the most appropriate for our operational and regulatory environment. Knightstone was fully compliant with the NHF Code of Governance (promoting Board excellence for housing associations) during the year except that:

All of the Group's non-executive Board members sign a service agreement in relation to their role on the Board. These service agreements stipulate that members' maximum term of office shall not exceed nine years and so comply fully with the code. However, in September 2015, the Knightstone Board approved an exceptional temporary extension of the terms of office of two members of the Board of Arc Developments South West Limited (Arc Homes), Lou Evans and Patrick Emett. This meant that their terms of office exceeded by nine months the maximum term of nine years as set out in the code. This was a commercial decision to provide continuity and manage risk following the unexpected death of the Chair of that Board, and to ensure a robust Board was in place whilst we recruited a suitable successor. Arc Homes is not a Registered Provider and has not signed up to the code of governance. The Board makes this statement for the purposes of maximum transparency.

Compliance with the Governance and Financial Viability Standard

The Homes and Communities Agency (HCA) has assessed the Group's governance and financial viability as G1 and V1. This means that we fully meet the Regulator's requirements as set out in the Governance and Financial Viability Standards.

The Board certifies that the Group complies with the Governance and Financial Viability Standard as set out in the HCA's Regulatory Framework for registered providers of social housing. In making this certification, the Board has made reasonable enquiries and gained appropriate assurance from management and through the Audit and Assurance Committee.

In accordance with the standard, the Group has produced an accessible record of its assets and liabilities and is continuing to enhance this in line with the HCA's Code of Practice.

All required disclosures and returns have been made and registers for the declaration of interests by Board members, disposals and the giving and receiving of gifts and hospitality by Board members and staff have been maintained.

Equality and diversity

The Group's commitment to equality and diversity is reflected in the way we deliver services to our residents and other customers, our procurement activities and our employment policies and practices. All of our employees receive relevant e-learning training.

We believe that access to work opportunities should be based on merit, equality, fairness and need. No one should be treated less favourably on the basis of their sex and sexual orientation, gender reassignment, race, religion or belief, disability, age, relationship status, pregnancy and or maternity. We expect everyone who works for us, or with us, to share these beliefs and to support us in trying to achieve this goal. We expect all our managers to provide equality of employment opportunity to all applicants by eliminating unfair discrimination in our recruitment and section procedures. We also ensure equal access to induction training, learning and development opportunities, and internal promotion opportunities for all employees.

Health and safety

The Boards of the Group take their responsibilities for health and safety seriously. They scrutinise performance on key risks, such as gas servicing on a regular basis, and receive an annual report on the broad range of health and safety matters we deal with.

Our focus this year has again been on ensuring effective potential life-threatening risks are managed, with a deep dive undertaken on our legionella capability and a review of our asbestos management plan. We have also improved IT systems on compliance services to ensure even better reporting and data intelligence. We have made considerable improvements to the personal safety of our employees through the introduction of a state-of-the-art lone worker alarm system for people working at risk.

The Corporate Health and Safety Committee, chaired by the Chief Executive, meets quarterly to oversee the wide range of risks associated with our business and has focused this year on setting up the lone worker system, improving reporting across Knightstone on accidents and incidents and agreeing the learning from specific incidents. The Committee draws on the expertise of senior managers in all divisions reflecting the importance placed on health and safety.

Employee engagement

The Board and its Committees understand the importance of internal communications and giving employees the opportunities to have their say.

Over the last year, employees have been kept updated on matters that could affect them, the performance of the company and any social or economic factors that could impact our performance. Some of the ways this has been done include:

- Weekly email updates to all staff
- Our internal social network Yammer
- An Executive leadership briefing, where we shared performance information and discussed merger progression. It was an opportunity for employees to ask questions and offer feedback
- Quarterly Unison meetings to discuss proposed changes to the business and allow for collective concerns to be raised
- Formal consultations on the organisation and management review process, which included group meetings, individual 1:1s, information packs and support for anyone at risk of redundancy
- Our annual survey.

Our Boards and their Committees

The Boards of Knightstone Housing Group Limited and Knightstone Housing Association Limited (the 'Boards') control the Group's strategic direction and monitor the overall operating and financial position. Subsidiary Boards are responsible for the operational performance of those subsidiaries. All Boards delegate day-to-day management to the Chief Executive and the Executive Team. Those persons who, at any time during the financial year, were Board members in the Group are listed on page 6 of these statements.

The Group's governance framework encourages all Board members to bring an independent judgement to bear on issues of strategy, risk management, performance and resources, including key appointments, standards of conduct and declarations of interest. The Chief Executive is a full member of both Boards and this strengthens the link between Executive and Non-Executive Directors.

The Boards conduct an internal annual review of their effectiveness, with an independent, external review every three years (the next one is due in 2018), with a view to improving individual contributions and collective achievement. They also review the Group's compliance with the Homes and Communities Agency's Regulatory Framework, including the Governance and Financial Viability Standard and the Group's chosen code of governance.

The Boards hold regular workshops and strategy days. These allow more time for detailed consideration of key issues. This year the Boards have focused on the Group's internal financial framework, preparation for a regulatory in-depth assessment, merger strategy, value for money, Board performance and improvement, realising the benefits of its investment in business improvement, open market investment strategy and risk appetite and management. All of these sessions have helped the Board to shape the business for growth and success and ensure it remains robust enough to meet its strategic objectives in a changing environment.

There are three Group-wide sub-committees. They assist each of the Group's Boards to discharge their responsibilities. The Chair of each committee reports the outcome of meetings to the Boards, and the Boards receive minutes of all committee meetings.

Each committee has clearly defined terms of reference and can access resources, call for information and obtain external professional advice. The Committee's terms of reference were revised in 2015 as part of the improvements from the Group's governance review. The terms of reference are reviewed annually as part of the Group's review of Standing Orders.

"The Boards hold regular workshops and strategy days to allow more time for detailed consideration of key issues."

Remuneration and Nominations Committee

Linda Nash chaired the Remuneration and Nominations Committee (to 31 May 2017). She was succeeded as Chair by Barrie Dale on 1 June 2017 but remains on the Committee as a member. The other members of the Committee were Judith Clark, Antony Durbacz (from 1 June 2017) and Nick Medhurst (to 31 May 2017). The Committee met twice during the year.

The Committee met to consider the salary of the Chief Executive and recommendations from the Chief Executive in respect of salary levels for the Executive Team, succession planning for Boards and Committees, ensuring they have the right skills and expertise to provide effective governance, and overseeing Board member recruitment, induction, appraisal and effectiveness processes.

Audit and Assurance Committee

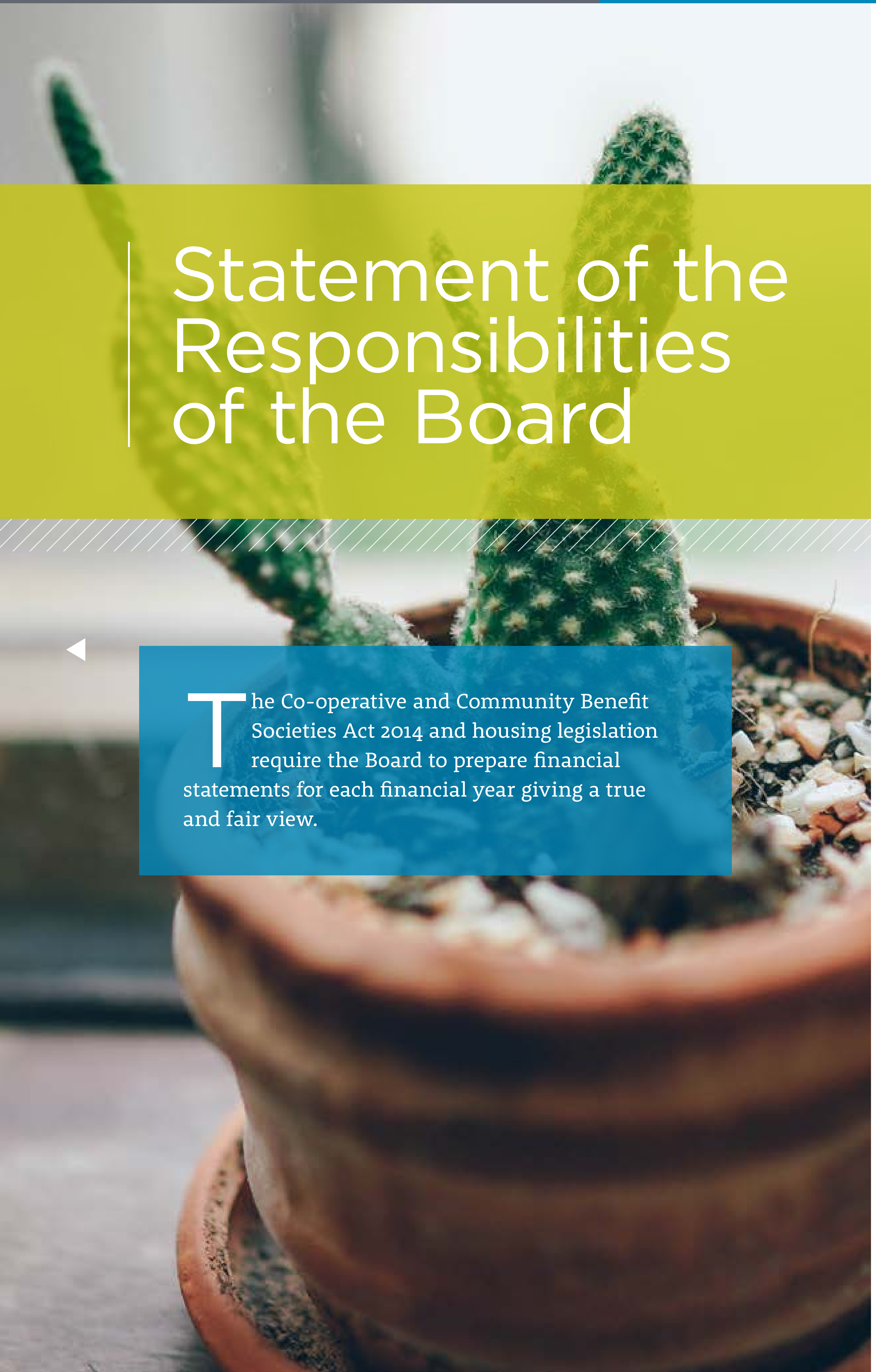
The Committee was chaired by Linda Nash until 31 May 2017. Linda was succeeded by Judith Clark on 1 June 2017 and stood down from the Committee. The Committee's other members were Barrie Dale, Antony Durbacz and Tom Vaughan (from 1 June 2017).

The Committee met five times during the year to review the work of the external assurance providers, including external auditors, and to review the Group's system of risk management and internal control. The Audit and Assurance Committee determines a programme of business assurance work annually to test the effectiveness of its internal control systems against Risk and Assurance maps of individual areas of the business. The programme is closely aligned to operational and corporate risk registers. The Committee meets with management as well as privately with the auditors.

Finance and Scrutiny Committee

The Committee succeeded the Resources Committee in July 2016, chaired by Barrie Dale. Its other members were Tony MacGregor (from 21 July 2016) Linda Nash, and Malcolm Pink (from 1 June 2017). Laurence Sanders (co-optee) stood down from the Committee on 31 May 2016 and Nick Medhurst stood down on 31 May 2017.

The Finance and Scrutiny Committee met five times during the year to consider and recommend to the Boards the Group's long-term financial forecasts, including the underlying assumptions and outputs from stress testing. The Committee also has oversight of the development of annual budgets and value for money plans. The Committee's terms of reference also allow for it to carry out detailed appraisal of any non-routine, higher risk development schemes, new initiatives, projects or proposals. During the year, the Committee scrutinised the Key West consortium bid for funding from the HCA's Shared Ownership and Affordable Housing Programme (SOAHP) for 2016-2021.



Statement of the Responsibilities of the Board

The Co-operative and Community Benefit Societies Act 2014 and housing legislation require the Board to prepare financial statements for each financial year giving a true and fair view.

In preparing these financial statements, the Board has:

- Selected suitable accounting policies and applied them consistently
- Made judgements and estimates that are reasonable and prudent
- Followed applicable accounting standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'
- Prepared the financial statements on a going concern basis.

The Board of Knightstone Housing Group Limited is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group and its Parent Company. It ensures that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Social Housing in England 2015.

Statement as to disclosure of information to the auditor

Each of the Board members at the date of approval of this report has confirmed that:

- So far as the Board member is aware, there is no relevant audit information of which the Parent Company's auditor is unaware
- The Board Member has taken all the steps that he/she ought to have taken as a Board member to make himself/herself aware of any information needed by the Parent Company's auditor in connection with preparing its report and to establish that the Parent Company's auditor is aware of that information.

Going concern

The Board confirms that the Group has adequate resources to continue operating for the foreseeable future. For this reason, the Group Financial Statements have been prepared on a going concern basis.

Annual General Meeting

The Annual General Meeting (AGM) of Knightstone Housing Group Limited will be held on 14 September 2017.

External Auditors

A resolution to appoint BDO UK LLP as auditors will be proposed at the forthcoming Annual General Meeting on 14 September 2017.

Internal control and risk management

The Boards acknowledge responsibility for the Group's systems of internal control and for reviewing their effectiveness. The Boards also acknowledge responsibility for the wider aspects of risk management. The Group's systems of internal control are designed to manage rather than eliminate the risk of failure to achieve Business Plan objectives. They are designed to provide reasonable, but not absolute, assurance over the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information.

The following mechanisms are in place to provide effective internal control:

- Clearly defined corporate and divisional management and reporting structures
- Standing Orders and Financial Regulations setting out clearly the system of delegation
- A risk management framework that provides a comprehensive process for assessing and managing strategic, financial and operational risks, including a quarterly risk review process
- A Group-wide Corporate Risk Register, regularly reviewed by the Executive Team, the Boards and the Audit and Assurance Committee, as part of the business planning and performance management process
- Regular consideration by the Audit and Assurance Committee of significant risks and reports from the Executive Team on each of the risks identified
- A Business Assurance process that ensures key control activities are verified by senior managers and exceptions are brought to the attention of the Audit and Assurance Committee
- Independent oversight of management assurances to the Board by the Group's external Business Assurance advisers
- Independent specialist reviews of the Group's high-risk activities which, in 2016/17, included asbestos management, IT penetration testing, financial controls, business continuity, legionella, HR, assets and liabilities register and safeguarding
- Service reviews by the Group's resident-led Business Improvement Group with the findings reported directly to the Audit and Assurance Committee. In 2016/17 these reviews covered the Group's Welfare Reform strategy and resident involvement
- A Board approved Treasury Policy and Strategy and a Treasury Action Plan which is reported against on a quarterly basis
- A clearly defined process for investment appraisal
- A whistleblowing policy and a fraud, bribery, theft and corruption policy which covers the prevention, detection and reporting of fraud, and the recovery of assets
- Careful staff recruitment, appropriate training and individual performance monitoring systems
- Regular reporting of financial results and other performance indicators against budgets and other internal and external benchmarks to the Boards, Executive Team and divisional management teams
- Reviews and reports from regulatory and other external bodies
- Clearly defined business and strategic planning processes including the preparation of consolidated annual budgets and a 30-year financial forecast.

The Boards have conducted their annual review of the system of internal control.

The review was conducted using:

- The Group's Corporate Risk Register
- Regular reports from the Audit and Assurance Committee and minutes of its meetings
- An annual internal control report from the Audit and Assurance Committee, including a summary of the outcomes of independent assurance work during the year
- Regular reports on performance against key measures
- The external auditor's Audit Completion Report
- Review of the Group's Fraud Register
- Independent testing of the Group's assessment of compliance with the HCA Governance and Financial Viability standard and the NHF Code of Governance.

The Boards confirm that there are currently no significant control weaknesses and that an effective system of internal control has been maintained. The key risks to the Group are set out in the Strategic report to these statements.

Treasury management

The Group's treasury management function ensures that adequate cost-effective funding is available and exposure to financial risk is managed.

During the 2016/17 year, the continuing reduction in long-term interest rates caused mark-to-market exposures to increase on the Group's portfolio of interest rate swaps. This market driven increase was more than offset by the termination of £10m of notional Retail Price Index (RPI) swap in March 2017. The Board approved termination of the Retail Price Index swap at a cost of £7.2m, which is forecast to reduce interest costs by £400k per year in 2017/18, rising to £700k by 2036/37 when the swap matures. The net movement in the mark-to-market exposure of the Group's portfolio of interest rates swaps decreased by £6.3m in the year to 31 March 2017.

The Group secured future liquidity on 2 October 2013 through the issue of the innovative Knightstone 35-year £100m bond. Only £1m of the proceeds were drawn at the date of issue and another £49m will be received in November 2017. The Group has retained £50m of the bonds to sell to investors in the future. This structure has secured certainty of cash receipts to ensure that the future development programme can be effectively planned against agreed funding facilities. The bond was issued at an interest rate of 5.1% until 30 November 2017 and 5.6% beyond that.

On 31 March 2017 the Group had total borrowings of £275.2m (£276.2m on 31 March 2016) from 11 different lenders. The Group had a cash balance of £17.6m on 31 March 2017 (£17.6m on 31 March 2016), which is above our internal financial framework's current minimum requirement of £15m.

The key treasury risks to the Group are:

Liquidity **risk**

Subsequent to the Board-commissioned independent review of liquidity management, the Board implemented a new internal financial framework with a tighter liquidity policy in July 2015.

Counterparty credit risk

This is managed by setting minimum credit ratings within the Treasury Policy for lending, investment, banking and swap counterparties. Actual counterparty credit ratings are communicated monthly by the Group's treasury consultants and monitored for policy compliance on a monthly basis and immediately in the case of a rating downgrade. Surplus cash is invested with six different counterparties. The credit ratings of counterparties, rather than the returns, are the primary consideration when deciding how to invest cash balances.

Margin call risk

The Group uses stand-alone interest rate swaps to manage interest rate risk. On 31 March 2017 the Group held live swaps with a nominal value of £145m (£165m on 31 March 2016). The market value of this portfolio was -£43.7m as at 31 March 2017 (-£49.2m on 31 March 2016). The Group has adequate property security pledged to its swap counterparties to cover current and forecast future margin calls.

Funding **risk**

The Group's Long-Term Financial Plan identifies the private finance facilities required to fund the development programme. The plan is also tested under the new financial framework's tighter liquidity requirements. This assists in planning a funding strategy that ensures all contracted development costs are fully funded as a minimum liquidity position.

Interest rate **risk**

The Annual Treasury Plan sets out a strategy for the percentage of fixed, variable and index linked debt within the loan portfolio. We were compliant with this strategy on 31 March 2017.
Taking account of interest rate swaps, 60% of the Group's debt was fixed, 9% was index linked and 31% was exposed to variable interest rates.

Compliance risk

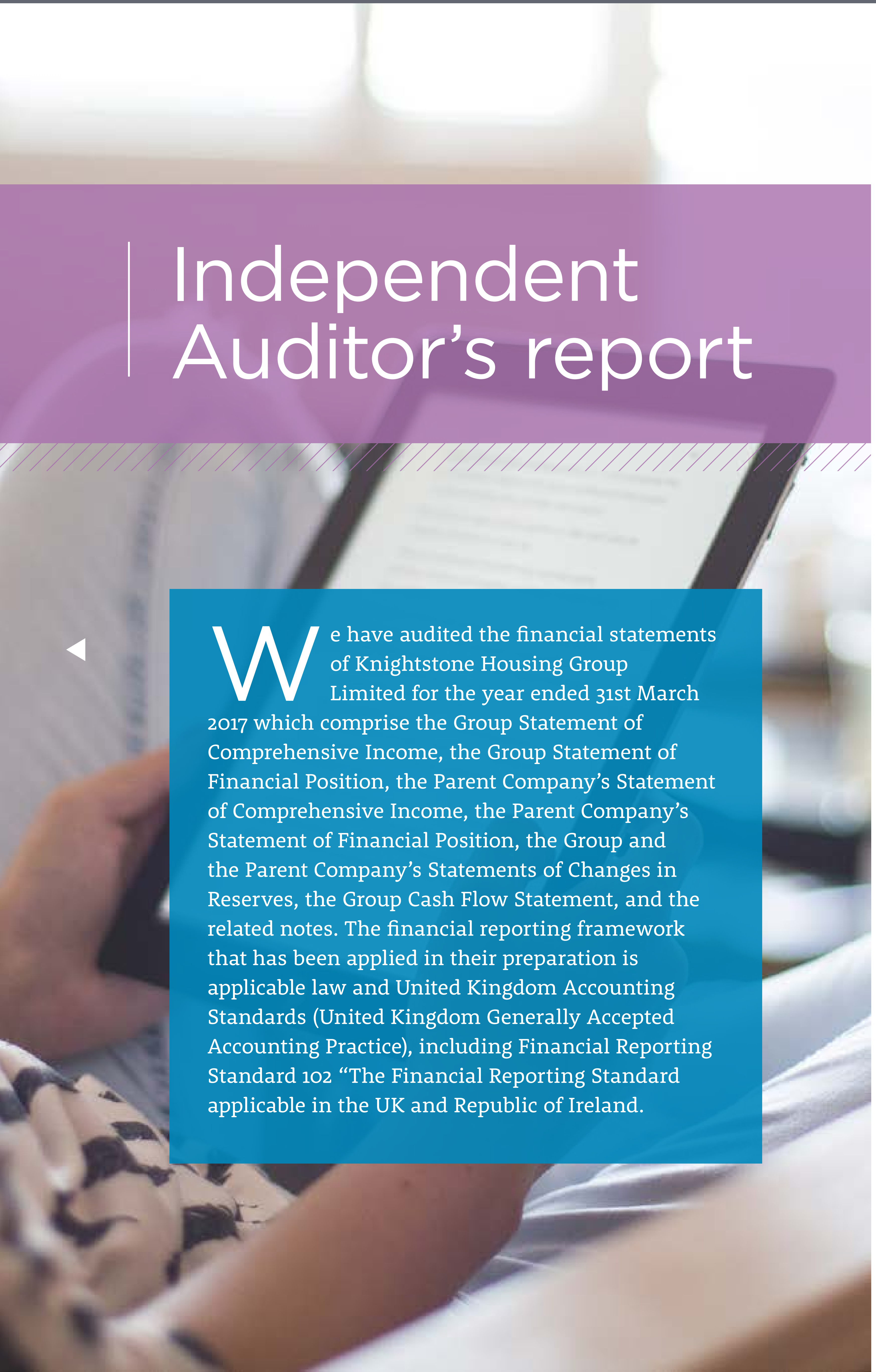
This is managed by maintaining a Long-Term Financial Plan that meets the corporate financial covenants and setting an annual budget within these parameters. Actual performance is monitored against budget and year-end covenants are forecast on a monthly basis to ensure compliance.

Matters covered in the strategic report

The Company has chosen to set out certain information in the Strategic Report which is required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. This includes an indication of the future developments of the group.

The Report of the Knightstone Housing Group Board was approved by the Board on 20 July 2017 and signed on its behalf by:

L Nash
Chair



Independent Auditor's report

We have audited the financial statements of Knightstone Housing Group Limited for the year ended 31st March 2017 which comprise the Group Statement of Comprehensive Income, the Group Statement of Financial Position, the Parent Company's Statement of Comprehensive Income, the Parent Company's Statement of Financial Position, the Group and the Parent Company's Statements of Changes in Reserves, the Group Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Respective responsibilities of the Board and the Auditor

As explained more fully in the Statement of the Board's Responsibilities set out on page 26, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report is made solely to the Parent Company's members, as a body, in accordance with Part 7 of the Co-operative and Community Benefit Societies Act 2014 and Chapter 4 of Part 2 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Group and parent company's affairs as at 31st March 2017 and of the Group and parent company's surplus 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 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.

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

- The parent company has not kept proper books of account; or
- A satisfactory system of control over transactions has not been maintained; 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.

Signed on 31 July 2017

Mazars LLP

Mazars LLP
Chartered Accountants
and Statutory Auditor
45 Church Street
Birmingham
B3 2RT

Group Statement of Comprehensive Income

For the year ended 31 March 2017

	Notes	2017 £'000	As restated 2016 £'000
Turnover	3	**79,499**	73,555
Operating expenditure	3	**(57,547)**	(56,075)
Remeasurement in respect of pension schemes	3	**(256)**	(2,991)
Operating surplus	9	**21,696**	14,489
Surplus on disposal of property, plant and equipment	7	**4,194**	15,954
Surplus on ordinary activities before interest		**25,890**	30,443
Finance income		**25**	31
Interest and financing costs	8	**(9,082)**	(9,266)
Change in fair value of financial instruments	26	**(1,360)**	(1,015)
Surplus on revaluation of investment properties	13	**1,232**	-
Surplus before tax		**16,705**	20,193
Taxation	10	**-**	(2)
Surplus for the year		**16,705**	20,191
Other comprehensive income: Change in fair value of hedged financial instruments	26	**(294)**	(1,530)
Total comprehensive income for the year		**16,411**	18,661

The Group's results all relate to continuing activities.

The prior year interest and financing costs and change in fair value of hedged financial instruments have been restated as disclosed in note 8.

Group Statement of Financial Position

As at 31 March 2017

The financial statements were approved by the Board on 20 July 2017 and signed on its behalf by:

L Nash
Chair

B Dale
Vice Chair

C Ferris
Secretary

	Notes	2017 £'000	2016 £'000
Fixed assets			
Intangible assets	11	**895**	1,162
Housing properties	12	**646,383**	637,738
Investment properties	13	**8,689**	5,339
Other property, plant and equipment	14	**7,446**	8,352
Investments	15	**5,302**	5,755
		668,715	658,346
Current assets			
Inventories	16	**11,215**	13,698
Debtors	17	**5,915**	6,022
Cash	30	**17,645**	17,553
		34,775	37,273
Creditors			
Amounts falling due within one year	18	**(48,427)**	(28,275)
Net current (liabilities) / assets		**(13,652)**	8,998
Total assets less current liabilities		**655,063**	667,344
Creditors – amounts falling due after more than one year	19	**(522,448)**	(550,404)
Provisions	23	**(107)**	(120)
Defined benefit pension liability	25	**(7,696)**	(8,419)
Net assets		**124,812**	108,401
Capital, surplus and reserves			
Share capital	24	**-**	-
Restricted reserve		**246**	260
Revenue reserve		**124,566**	108,141
Group's funds – equity		**124,812**	108,401

Parent Company Statement of Comprehensive Income

For the year ended 31 March 2017

	Notes	2017 £'000	As restated 2016 £'000
Turnover	3	**3,986**	4,081
Operating expenditure	3	**(3,742)**	(4,045)
Surplus before tax	9	**244**	36
Taxation	10	**-**	(2)
Surplus after tax		**244**	34
Gift Aid donation		**(244)**	(35)
Surplus for the financial year		**-**	(1)

The Parent Company's results all relate to continuing activities.

The surplus for the year has been calculated on the historical cost basis.

The prior year Gift Aid donation has been reclassified from the statement of changes in reserves.

Parent Company Statement of Financial Position

As at 31 March 2017

	Notes	2017 £'000	2016 £'000
Current assets			
Debtors	17	**120**	99
Cash		**26**	8
		146	107
Creditors			
Amounts falling due within one year	18	**(144)**	(105)
Net current assets		**2**	2
Total assets less current liabilities		**2**	2
Capital, surplus and reserves			
Share capital	24	**-**	-
Revenue reserves		**2**	2
Company's funds – equity		**2**	2

The financial statements were approved by the Board on 20 July 2017 and signed on its behalf by:

L Nash
Chair

B Dale
Vice Chair

C Ferris
Secretary

Group Statement of Changes in Reserves

For the year ended 31 March 2017

	Notes	Revenue reserve as restated £'000	Restricted reserve £'000	Total reserves as restated £'000
At 1 April 2015		89,451	289	89,740
Surplus for the year		20,191	-	20,191
Other comprehensive income				
Change in fair value of hedged financial instruments	26	(1,530)	-	(1,530)
Transfer to/(from) restricted reserve (from)/to revenue reserve		29	(29)	-
Total comprehensive income		18,690	(29)	18,661
At 31 March 2016		108,141	260	108,401

	Notes	Revenue reserve £'000	Restricted reserve £'000	Total reserves £'000
At 1 April 2016		108,141	260	108,401
Surplus for the year		16,705	-	16,705
Other comprehensive income				
Change in fair value of hedged financial instruments	26	(294)	-	(294)
Transfer to/(from) restricted reserve (from)/to revenue reserve		14	(14)	-
Total comprehensive income		16,425	(14)	16,411
At 31 March 2017		124,566	246	124,812

Revenue reserve

This reserve represents cumulative profits and losses of the Group.

Within the total reserves is the cash flow hedge reserve totalling £20.1m (2016: £19.9m).

Restricted reserve

	2017 £'000	2016 £'000
Restricted reserves - Group		
- Charitable grants	**62**	76
- Kennet Fund	**184**	184
At 31 March 2017	**246**	260

The charitable grants include donations and grants to be applied to specific projects and are therefore restricted funds until such times as they are required.

The Kennet Fund is the proceeds from shared ownership sales in one Local Authority area which are ring-fenced in accordance with an agreement with the Local Authority and can only be used for other shared ownership transactions which are subject to restrictions.

Parent Company Statement in Changes in Reserves

For the year ended 31 March 2017

	Revenue reserve £'000
Parent Company	
At 1 April 2015	3
Profit for the financial year	(1)
Other comprehensive income	-
Total comprehensive income	(1)
At 31 March 2016	2
At 1 April 2016	2
Profit for the financial year	-
Other comprehensive income	-
Total comprehensive income	-
At 31 March 2017	2

Revenue reserve

This reserve represents cumulative profits and losses of the Company.

Prior year distribution to Knightstone Housing Association Limited has been reclassified to Gift Aid donations in the Statement of Comprehensive Income.

Group Statement of Cash Flows

For the year ended 31 March 2017

	Notes	2017 £'000	As restated 2016 £'000
Net cash inflow from operating activities	28	**30,192**	18,965
Cash flows from investing activities			
Purchase of property, plant and equipment		**(26,605)**	(41,301)
Purchase of intangible assets		**(139)**	(174)
Proceeds from sale of property, plant and equipment		**9,280**	22,634
Proceeds from sale of investments		**453**	370
Grants received		**4,677**	5,776
Interest received		**25**	31
Net cash flows from investing activities		**(12,309)**	(12,664)
Cash flows from financing activities			
Interest paid		**(8,884)**	(9,043)
Interest element of finance lease rental payments		**(56)**	(56)
Derivative financial instrument termination		**(8,000)**	(5,421)
New loans		**3,111**	21,071
Repayments of borrowings		**(4,107)**	(3,171)
Payment of loan arrangement fees		**183**	(253)
Capital element of finance lease rental payments		**(38)**	(17)
Net cash flows from financing activities		**(17,791)**	3,110
Net increase/(decrease) in cash and cash equivalents	29	**92**	9,411
Cash and cash equivalents at the beginning of year	30	**17,553**	8,142
Cash and cash equivalents at the end of year	30	**17,645**	17,553

Notes to the Financial Statements

For the year ended 31 March 2017

1. General information

Knightstone Housing Group Limited was incorporated in the United Kingdom in September 2004 and has six fully owned subsidiaries in its group. The registered office is Weston Gateway Business Park, Weston-super-Mare, BS24 7JP.

The objective of the group is to provide social housing and services.

The financial statements have been prepared for the year ended 31 March 2017 and are stated in GBP and rounded to the nearest £'000.

2. Accounting policies

(a) General information and basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council and comply with the Statement of Recommended Practice for Registered Social Housing Providers 2014 (SORP), the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. Knightstone Housing Group Limited is a public benefit entity, as defined in FRS 102.

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with.

The Company is included in the consolidated financial statements of Knightstone Housing Group Limited.

In preparing the financial statements, the Parent Company has taken advantage of the following exemptions:

- from disclosing key management personnel compensation, as required by paragraph 7 of Section 33 Related Party Disclosures;
- from presenting a statement of cash flows, as required by Section 7 Statement of Cash Flows.

On the basis that equivalent disclosures are given in the consolidated financial statements, the Association has also taken advantage of the exemption not to provide certain disclosures as required by Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues'.

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where the Group owns less than 50% of the voting power of an entity but controls the entity by virtue of an agreement with other investors which give it control of the financial and operating policies of the entity it accounts for that entity as a subsidiary.

(b) Basis of consolidation

The Group Financial Statements consolidate the accounts of Knightstone Housing Group Limited and all its subsidiary undertakings at 31 March 2017.

(c) Tangible fixed assets - housing properties

Housing properties are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the cost of acquiring land and buildings, relevant development costs, expenditure incurred in respect of improvements and, in respect of years prior to 1989 and after 1 April 1997, interest charges incurred during the development year.

Depreciation is charged so as to write down the net book value of housing properties to their estimated residual value, on a straight line basis, over their useful economic lives. Freehold land is not depreciated.

The Group's housing properties are depreciated over the following years:

	Houses/Flats
Listed buildings	150
New build	100
Rehabilitation	50
Sheltered	50

Communal assets are depreciated over 10 years.

Properties held on long leases are depreciated over their estimated useful economic lives or the lease duration if shorter.

Major components of housing properties are treated as separate assets and depreciated over their expected useful economic lives or the lives of the properties to which they relate, if shorter, at the following annual rates:

Roof	50-60 years
Doors and windows	30 years
Kitchen	20 years
Bathroom	30 years
Heating system	15 years
Lift	25 years

The costs of replacing these components are capitalised in full. The costs of partially replacing or repairing these components are charged to the Statement of Comprehensive Income.

Where there are improvements rather than component replacements, these are capitalised and treated as fixed asset additions.

Directly attributable development costs such as staff costs are also capitalised in full.

Impairments on all assets are considered on an annual basis in line with the expectations of FRS 102. Any impairment in value of properties would be charged to the Statement of Comprehensive Income.

Rented and shared ownership housing properties are classified in Note 12 as being 'under construction' or 'completed'. They are transferred to completed assets on practical completion.

Where housing properties are swapped with other housing associations, the exchange is treated as a disposal followed by an acquisition at fair value.

(d) Investment properties

The classification of properties as investment property or property, plant and equipment is based upon the intended use of the property. Properties held to earn commercial rentals or for capital appreciation or both are classified as investment properties. Properties that are used for administrative purposes or that are held for the provision of social housing are treated as property, plant and equipment. Mixed-use property is separated between investment property and property, plant and equipment.

Land is accounted for based on its intended use. Where land is acquired speculatively with the intention of generating a capital gain and/or a commercial rental return, it is accounted for as investment property. Where land is acquired for use in the provision of social housing or for a social benefit, it is accounted for as property, plant and equipment.

Investment properties are measured at fair value annually with any change recognised in surplus or deficit in the Statement of Comprehensive Income.

(e) Intangible assets

Intangible assets are stated at historic cost, less accumulated amortisation and any provision for impairment. Amortisation is provided on all intangible assets at rates calculated to write off the cost or valuation of each asset on a straight line basis over its expected useful life, as follows:

Computer software	5 - 7 years

(f) Impairment of social housing properties

Properties held for their social benefit are not held solely for the cash inflows they generate and are held for their service potential.

An assessment is made at each reporting date as to whether an indicator of impairment exists. If such an indicator exists, an impairment assessment is carried out and an estimate of the recoverable amount of the asset is made. Where the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised in surplus or deficit in the Statement of Comprehensive Income.

The recoverable amount of an asset is the higher of its value in use and fair value less costs to sell. Where assets are held for their service potential, value in use is determined by the present value of the asset's remaining service potential plus the net amount expected to be received from its disposal. Depreciated replacement cost is taken as a suitable measurement model.

An impairment loss is reversed if the reasons for the impairment loss have ceased to apply and is included in surplus or deficit in the Statement of Comprehensive Income.

(g) Social housing grant and other grants

Where grants are received from government agencies such as the Homes and Communities Agency, local authorities, devolved government agencies, health authorities and the European Commission which meet the definition of government grants, they are recognised when there is reasonable assurance that the conditions attached to them will be complied with and that the grant will be received.

Government grants are recognised using the accrual model and are classified either as a grant relating to revenue or a grant relating to assets. Grants relating to revenue are recognised in income on a systematic basis over the period in which related costs for which the grant is intended to compensate are recognised. Where a grant is receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs, it is recognised as revenue in the period in which it becomes receivable.

Grants received for housing properties are recognised in income over the expected useful life of the housing property structure. Where a grant is received specifically for components of a housing property, the grant is recognised in income over the expected useful life of the component.

Grants received from non-government sources are recognised as revenue subject to the grant conditions being satisfied in the year of receipt.

(h) Non-housing tangible fixed assets

Non-housing tangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is charged on a straight-line basis over the expected useful lives of the assets. Any impairment in value of such assets is charged to the Statement of Comprehensive Income.

The rates of depreciation are as follows:

Freehold offices	50 years
Lease premiums	over the life of lease
Furniture, fixtures and fittings	10 years
Office improvements	5 years
Office equipment	5 years
Computer equipment	5 years
Vehicles	4 years

(i) Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

(j) Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases.

Payments under operating leases are charged to surplus or deficit in the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

(k) Properties for outright sale (inventory)

Properties developed for outright sale and land held for sale are measured at the lower of cost and estimated selling price less costs to complete and sell. Cost includes materials, direct labour and an attributable proportion of overheads based on normal levels of activity.

(l) Reserves management policy

The proceeds from shared ownership sales in one Local Authority area are ring-fenced in accordance with an agreement with the Local Authority and can only be used for other shared ownership transactions which are subject to restrictions. These proceeds are reflected through the Statement of Comprehensive Income and a transfer to restricted reserves (Kennet Fund) made as appropriate, the reverse transfer made when the proceeds are utilised.

(m) Interest payable

Interest payable represents amounts due for the period on each of the Group's sources of finance and is calculated in accordance with the terms of each loan agreement.

Interest on borrowings used to finance the construction of new housing properties is capitalised during the construction period. The rate at which interest is capitalised is calculated by applying the Group's average cost of borrowing in the year to the net cost of construction.

(n) Taxation

The charge for taxation is based on surpluses arising on certain activities which are liable to tax.

Deferred tax is calculated and disclosed on timing differences that result in an obligation at the Statement of Financial Position date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in years different from those in which they are included in financial statements. Deferred tax is only provided to the extent that it is regarded as more likely than not that any tax will arise. Deferred tax assets and liabilities are not discounted.

(o) Pensions

The Group participates in an industry-wide, multi-employer defined benefit pension scheme where the scheme assets and liabilities cannot be separately identified for each employer. This is accounted for as a defined contribution scheme as there is insufficient information available to account for the scheme as defined benefit. For this multi-employer scheme, there is a contractual agreement between the scheme and the Group that determines how the deficit will be funded and a liability is recognised in the Statement of Financial Position and the resulting expense in surplus or deficit in the Statement of Comprehensive Income for the present value of the contributions payable that arise from the agreement to the extent that they relate to the deficit.

(p) Grant recycling and disposal funds

The Group has established grant recycling and disposal funds in accordance with the provisions of the Housing and Regeneration Act 2008 which are administered in accordance with regulations issued by the Homes and Communities Agency.

Where there is a requirement to either repay or recycle a grant received for an asset that has been disposed of, a provision is included in the Statement of Financial Position to recognise this obligation as a liability. When approval is received from the funding body to use the grant for a specific development, the amount previously recognised as a provision for the recycling of the grant is reclassified as a creditor in the Statement of Financial Position.

For shared ownership staircasing sales, when full staircasing has not taken place, the recycling of the grant may be deferred if the net sales proceeds are insufficient to meet the grant obligation relating to the disposal and is not to be recognised as a provision. On subsequent staircasing sales, the requirement to recycle the grant becomes an obligation if sufficient sales proceeds are generated to meet the obligation and a provision is recognised at this point.

On disposal of an asset for which government grant was received, if there is no obligation to repay or recycle the grant, any unamortised grant remaining within liabilities in the Statement of Financial Position related to this asset is derecognised as a liability and recognised as revenue in surplus or deficit in the Statement of Comprehensive Income.

(q) Turnover

Turnover represents rental income receivable and proceeds from the first tranche sale of shared ownership properties together with revenue grants from local authorities and the Homes and Communities Agency and charitable fees and donations. All income is accounted for on a receivable basis. However, property sales are not accounted for as being receivable until all of the requirements of the sale contract have been satisfied including receipt of the proceeds and legal transfer of the property has taken place.

(r) Supported housing and hostels

The Group provides property maintenance and other services in respect of hostels which it owns but which are managed by external agencies. Included within supported housing accommodation in Note 4 to the accounts is income representing the charges made for these services and expenditure representing the Group's costs in providing these services.

The figures exclude any income and costs relating to hostels, where there has been a substantial transfer of the risks and benefits attached to the risks and rewards of running the hostels to the agencies that manage them and not to the Group.

(s) Shared ownership properties

The cost of the initial equity to be sold in a new shared ownership property is included in current assets. The sales proceeds from the initial equity sale are included within turnover and the cost of sale is transferred from current assets to operating costs. The retained equity is included in fixed assets net of depreciation with properties under development being separately disclosed in the note to the accounts. Proceeds from subsequent tranche sales are treated as disposals of fixed assets.

(t) Investments

Investments are measured at amortised cost less impairment.

(u) Loan arrangement fees

Housing loans are stated in the Statement of Financial Position at the amount of the net proceeds. Loan issue costs are deducted from the nominal value of the loans which are held at amortised cost.

(v) General needs managed properties

Where properties are managed by other housing associations who provide housing management, maintenance and in some cases major repairs functions, the income recorded in the financial statements is the net rental income after deduction of allowance for voids and bad debts. The expenditure recorded in the financial statements relates to the fees paid to the other housing associations to provide these services.

(w) Service charges

Service charges on rented properties are recognised in the financial statements when the weekly rent debit is raised. Service charges on shared ownership properties are credited monthly. The amount recognised in the financial statements is adjusted to reflect either additional amounts to be collected or amounts to be repaid based on the costs incurred in the year.

Unutilised contributions to service charge sinking funds and over-recovery of service costs which are repayable to tenants or leaseholders or are intended to be reflected in an under-recovery of leaseholders' or tenants' variable service charges and recovery of the outstanding balance is virtually certain, the balance is recognised in the Statement of Financial Position as a trade payable. Debit and credit balances on individual schemes are not aggregated as there is no right of set-off, reductions to future service charge contributions are recognised as a liability in the Statement of Financial Position. The amount included in liabilities in respect of service charge sinking funds includes interest credited to the fund. Where there has been an under-recovery of leaseholders' or tenants' variable service charges and recovery of the outstanding balance is virtually certain, the balance is recognised in the Statement of Financial Position as a trade receivable. Debit and credit balances on individual schemes are not aggregated as there is no right of set-off.

(x) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets carried at amortised cost

Financial assets carried at amortised cost comprise rent arrears, trade and other receivables and cash and cash equivalents. Financial assets are initially recognised at transaction value plus directly attributable transaction costs. After initial recognition, they are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

If there is objective evidence that there is an impairment loss, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced accordingly.

A financial asset is derecognised when the contractual rights to the cash flows expire, or when the financial asset and all substantial risks and reward are transferred.

If an arrangement constitutes a financing transaction, the financial asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial liabilities carried at amortised cost

These financial liabilities include trade and other payables and interest bearing loans and borrowings.

Non-current debt instruments which meet the necessary conditions in FRS 102, are initially recognised at transaction value adjusted for any directly attributable transaction cost and subsequently measured at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance costs in the Statement of Comprehensive Income. Discounting is omitted where the effect of discounting is immaterial.

A financial liability is derecognised only when the contractual obligation is discharged, cancelled or expires.

Financing transactions – rent arrears

For rent arrears where the arrangement constitutes, in effect, a financing transaction because of extended credit arrangements the arrears are derecognised as a financial asset and a new financial asset is measured at the present value of the future payments discounted at an appropriate market rate of interest. The present value adjustment is recognised in surplus or deficit in the Statement of Comprehensive Income.

Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and is subsequently re-measured to its fair value at each reporting date. The resulting gain or loss is recognised in surplus or deficit immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in surplus or deficit depends on the nature of the hedge relationship.

Public benefit entity concessionary loans

Where loans are made or received between a public benefit entity within the Group or an entity within the public benefit entity group and another party at below the prevailing market rate of interest that are not repayable on demand and are for the purposes to further the objectives of the public benefit entity or public benefit entity parent, these loans are treated as concessionary loans and are recognised in the Statement of Financial Position at the amount paid or received and the carrying amount adjusted to reflect any accrued interest payable or receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

Restricted reserves

Where reserves are subject to an external restriction they are separately recognised within reserves as a restricted reserve. Revenue and expenditure is included in surplus or deficit in the Statement of Comprehensive Income and a transfer is made from the general reserve to the restricted reserve.

(y) Significant management judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Management judgements

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

Impairment of social housing properties

The Group have to make an assessment as to whether an indicator of impairment exists. In making the judgement, management considered the detailed criteria set out in the SORP.

Deferred tax

The Group makes the decision whether to recognise the deferred tax balance in the group according to the nature of the deferred tax and the remote possibility of any tax arising.

Estimation uncertainty

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

Fair value measurement

Management uses valuation techniques to determine the fair value of investment properties and derivatives. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases the assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual process that would be achievable in an arm's length transaction at the reporting date.

Provisions

Provision is made for redundancy costs. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management's judgement.

Provision for pension contributions payable

The Group has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the Statement of Financial Position. The assumptions reflect historical experience and current trends.

3. Particulars of turnover, operating costs and operating surplus

	Year 2017				
	Turnover £'000	Operating costs £'000	Cost of sales £'000	Remeasurement in respect of pension schemes £'000	Operating surplus/ (deficit) £'000
Group					
Social housing lettings (note 4)	64,718	(43,367)	-	(208)	21,143
Other social housing activities					
Development and agency	129	(494)	-	(13)	(378)
First tranche sale of shared ownership	8,922	(32)	(6,466)	(1)	2,423
Individual & Community Empowerment	260	(2,510)	-	(32)	(2,282)
Non-social housing activities					
Market rents	219	(56)	-	-	163
Leasehold property	206	(158)	-	(2)	46
Residential developments	5,045	(78)	(4,386)	-	581
2017 Group total	79,499	(46,695)	(10,852)	(256)	21,696

	Year 2016				
	Turnover £'000	Operating costs £'000	Cost of sales £'000	Remeasurement in respect of pension schemes £'000	Operating surplus/ (deficit) £'000
Group					
Social housing lettings (note 4)	63,397	(44,540)	-	(2,401)	16,456
Other social housing activities					
Development and agency	83	(343)	-	(178)	(438)
First tranche sale of shared ownership	6,154	(27)	(4,559)	(15)	1,553
Individual & Community Empowerment	168	(2,886)	-	(360)	(3,078)
Non-social housing activities					
Market rents	115	(43)	-	(18)	54
Leasehold property	268	(131)	-	(4)	133
Residential developments	3,370	(140)	(3,406)	(15)	(191)
2016 Group total	73,555	(48,110)	(7,965)	(2,991)	14,489

	Year 2017		
	Turnover £'000	Operating costs £'000	Operating surplus/ (deficit) £'000
Parent Company			
Other social housing activities	3,986	(3,742)	244
2017 Parent Company total	3,986	(3,742)	244

	Year 2016		
	Turnover £'000	Operating costs £'000	Operating surplus/ (deficit) £'000
Parent Company			
Other social housing activities	4,081	(4,045)	36
2016 Parent Company total	4,081	(4,045)	36

4. Group particulars of income and expenditure from social housing lettings

Included in the income and expenditure are grants and costs relating to Block Gross Accommodation Contracts (BGC) and Block Subsidy Contracts (BSC). The grant income for these contracts totals £2.3m (2016: £2.5m) with associated costs totalling £1.9m (2016: £2.1m).

	General housing £'000	Supported housing £'000	Intermediate rent £'000	Residential care homes £'000	Shared ownership £'000	Keyworker accommodation £'000	**Year 2017 £'000**	Year 2016 £'000
Net rents receivable	41,383	8,212	773	64	2,752	118	**53,302**	52,397
Service charge income	1,501	2,691	53	7	197	10	**4,459**	4,028
Amortised government grant	2,297	789	69	14	398	10	**3,577**	3,296
Revenue grants	-	2,317	-	-	-	-	**2,317**	2,513
Income from others	(41)	547	13	82	462	-	**1,063**	1,163
Turnover from social housing lettings	45,140	14,556	908	167	3,809	138	**64,718**	63,397
Service charge costs	(1,363)	(2,130)	(30)	(25)	(92)	(3)	**(3,643)**	(3,559)
Management	(1,564)	(699)	(22)	(6)	(23)	(5)	**(2,319)**	(2,478)
Routine maintenance	(7,942)	(2,489)	(214)	(25)	(94)	(45)	**(10,809)**	(9,847)
Bad debts	(142)	(58)	(6)	-	21	(2)	**(187)**	(130)
Major repair expenditure	(1,120)	(434)	(27)	(49)	(11)	(2)	**(1,643)**	(1,468)
Depreciation	(8,190)	(2,395)	(162)	(28)	(715)	(20)	**(11,510)**	(13,389)
Impairment of housing properties	-	(222)	-	-	-	-	**(222)**	-
Direct staff costs	(4,184)	(2,554)	(75)	(1)	(274)	(7)	**(7,095)**	(7,278)
Staff-related costs	(290)	(227)	(7)	-	(9)	(1)	**(534)**	(865)
Professional fees	(98)	(55)	(1)	-	(3)	-	**(157)**	(193)
Other costs	(470)	(281)	-	(1)	(114)	-	**(866)**	(805)
Operating costs of social housing lettings	(25,363)	(11,544)	(544)	(135)	(1,314)	(85)	**(38,985)**	(40,012)
Contribution	19,777	3,012	364	32	2,495	53	**25,733**	23,385
Central overheads	(1,075)	(713)	(19)	(1)	(62)	(2)	**(1,872)**	(2,901)
Central staff costs	(1,441)	(956)	(26)	(1)	(83)	(3)	**(2,510)**	(1,627)
Operating surplus from social housing lettings	17,261	1,343	319	30	2,350	48	**21,351**	18,857
Remeasurements in respect of pension schemes	(120)	(79)	(2)	-	(7)	-	**(208)**	(2,401)
Total surplus from social housing lettings	17,141	1,264	317	30	2,343	48	**21,143**	16,456
Void losses	(210)	(429)	(30)	(2)	-	(37)	**(708)**	(670)

Accommodation in management								
Owned and managed by Knightstone	8,359	1,370	163	71	1,507	27	**11,497**	11,391
Leasehold and RTB units	-	191	-	-	712	-	**903**	902
Managed for others	-	-	-	-	-	-	**-**	-
Managed by others	(700)	(344)	-	(65)	(26)	-	**(1,135)**	(1,198)
Number of homes in management	7,659	1,217	163	6	2,193	27	**11,265**	11,095
Non-social housing – market rented							**36**	21
Non-social housing – market rented managed by others							**(5)**	(5)
Total homes managed							**11,296**	11,111

5. Board members and senior management

The emoluments of the Board Members, Group Chief Executive and the Executive Team who served during the year were:

		Earnings £'000	Pension costs £'000	Benefits in kind £'000	**2017 Total £'000**	2016 Total £'000
Mark Beard	Director of Customer and Community Operations	147	8	1	**156**	110
Nick Horne	Group Chief Executive	143	6	1	**150**	151
Selina White	Director of Planning & Resources	110	1	-	**111**	27
Anne Duff	Director of Corporate Services (to 28.10.16)	81	2	1	**84**	98
Steve Blake	Development and Sales	77	-	-	**77**	43
Dominic Lynch	Interim Finance Director (from 4.10.16 to 31.01.17)	48	-	-	**48**	43
David Greenhalgh	Director of Property Services (from 01.11.16)	33	3	1	**37**	-
Sonia Furzland	Director of Landlord Services (from 01.11.16)	33	3	1	**37**	-
Nick Medhurst	Group Chair	11	-	-	**11**	11
Malcolm Pink	Arc Homes Chair (from 05.04.16)	10	-	-	**10**	-
Linda Nash	Board Member	8	-	-	**8**	6
Barrie Dale	Group Vice Chair	7	-	-	**7**	7
Michael Meanley	Arc Homes Board Member	6	-	1	**7**	5
Judith Clark	Board Member	5	-	-	**5**	5
Tony MacGregor	Board Member	5	-	-	**5**	2
Antony Durbacz	Board Member	5	-	-	**5**	1
Ian Mellor	Arc Homes Board Member	5	-	-	**5**	6
Tom Vaughan	Board Member (from 26.05.16)	4	-	-	**4**	-
Patrick Emett	Arc Homes Board Member	3	-	-	**3**	5
Judith Gannon	Arc Homes Board Member	2	-	-	**2**	2
Lou Evans	Arc Homes Board Member (to 30.06.16)	1	-	-	**1**	7
Mike Day	Director of Development and Home Ownership (to 30.11.15)	-	-	-	**-**	77
Duncan Brown	Director of Resources	-	-	-	**-**	49
Jacqui Cross	Board Member (to 10.9.15)	-	-	-	**-**	7
Richard Taylor	Board Member (to 10.9.15)	-	-	-	**-**	7
Delyth Lloyd-Evans	Chair of Audit and Assurance Committee (to 10.9.15)	-	-	-	**-**	3
Tony Gosling	Board Member (to 03.9.15)	-	-	-	**-**	2
Robert Winstone	Arc Homes Board Member (to 14.09.15)	-	-	-	**-**	2
Graham Watts	Board Member (to 23.9.15)	-	-	-	**-**	2
Jamir Ali	Board Member (to 10.9.15)	-	-	-	**-**	2
Total emoluments of the Board and Senior Management Team		744	23	6	**773**	680

Expenses paid during the year to the members of the Board amounted to £9,080 (2016: £13,065).

Jamir Ali was a Board Member of Knightstone Housing Association only and was paid by Knightstone Housing Association Limited. The Director of Customer & Community Operations was paid by Knightstone Housing Association Limited.

Our key management personnel include the Chief Executive, Director of Planning & Resources, Director of Property Services, Director of Landlord Services and the Director of Development & Sales.

The Chief Executive and the Director of Resources are employed by Knightstone Housing Group Limited. The Director of Property Services and the Director of Landlord Services are employed by Knightstone Housing Association Limited. The Director of Development & Sales is engaged through a service company whose costs are reported within Knightstone Housing Group Limited.

Knightstone Housing Group Limited participates in The Social Housing Pension Scheme (see note 25) of which the Group Chief Executive, the Director of Planning & Resources, the Director of Landlord Services and the Director of Property Services are members on the same terms as other employee members. Board members do not participate in The Social Housing Pension Scheme, but would be able to participate in the defined contributions scheme if eligible.

6. Group employee and staff costs

Bands (£)	FTE number	Headcount number	Wages and salaries £'000	Employers NI £'000	Employers pension £'000	Total £'000
<59,999	364	401	11,102	979	198	12,279
60,000–69,999	13	13	934	103	29	1,066
70,000–79,999	3	3	205	15	5	225
80,000-89,999	2	2	304	31	10	345
90,000–99,999	-	-	256	20	6	282
110,000-119,999	2	2	110	14	1	125
140,000-149,999	2	2	290	34	10	334
Year ended 31 March 2017	**386**	**423**	**13,201**	**1,196**	**259**	**14,656**
Year ended 31 March 2016	437	483	13,636	1,173	269	15,078

Parent Company employee and staff costs

Bands (£)	FTE number	Headcount number	Wages and salaries £'000	Employers NI £'000	Employers pension £'000	Total £'000
<59,999	64	71	1,888	180	44	2,112
60,000–69,999	3	3	254	28	9	291
70,000–79,999	1	1	77	-	-	77
80,000–89,999	-	-	81	7	2	90
110,000-119,999	2	2	110	14	1	125
140,000-149,999	1	1	143	19	6	168
Year ended 31 March 2017	**71**	**78**	**2,553**	**248**	**62**	**2,863**
Year ended 31 March 2016	69	77	2,581	237	69	2,887

Group full time equivalents by category

	2017 FTE number	2016 FTE number
Housing Management	**89**	96
Supported Housing	**77**	110
Central Support Services	**71**	68
Asset Management and Maintenance	**46**	48
Individual & Community Empowerment	**39**	44
Development and Homeownership	**25**	34
In-house Maintenance Service	**39**	37
Total full time equivalents	**386**	437

The full time equivalent calculation for the Group is based on 37.5 hours per week.

Parent Company full time equivalents by category

	2017 FTE number	2016 FTE number
Central Support Services	**70**	68
Development and Homeownership	**1**	1
Total full time equivalents	**71**	69

The full time equivalent calculation for the Parent Company is based on 37.5 hours per week.

7. Group surplus on sale of property, plant and equipment

	2017			2016		
	Proceeds £'000	**Cost of sales £'000**	**Surplus/ (deficit) £'000**	Proceeds £'000	Cost of sales £'000	Surplus £'000
Office asset disposals	**873**	**(270)**	**603**	-	-	-
Shared ownership staircasing	**3,652**	**(1,759)**	**1,893**	1,869	(1,111)	758
Housing properties transferred to other Registered Providers	**437**	**(661)**	**(224)**	18,868	(4,427)	14,441
Asset sales	**4,121**	**(2,292)**	**1,829**	1,642	(1,095)	547
Right to Buy	**197**	**(104)**	**93**	255	(47)	208
Total Housing Assets	**8,407**	**(4,816)**	**3,591**	22,634	(6,680)	15,954
Total Asset disposals	**9,280**	**(5,086)**	**4,194**	22,634	(6,680)	15,954

8. Group interest and finance costs

	2017 £'000	2016 £'000
Interest on bank loans	**(9,619)**	(10,206)
Net settlement gain on derivative financial instrument	**200**	49
Unwinding of discounts on provisions		
Net interest on defined benefit funding obligation (see note 25)	**(184)**	(131)
Finance lease charges	**(56)**	(56)
Total	**(9,659)**	(10,344)
Interest payable capitalised on housing properties under construction	**887**	1,363
Historic loan arrangement fees written off	**(310)**	(285)
Total interest payable and similar charges	**(9,082)**	(9,266)

Interest is capitalised at a rate of 3.5% (2016: 3.8%).

The prior year comparison for 'interest on bank loans' has been restated by a reduction of £5.4m which has been reallocated to 'net settlement gain on derivative financial instrument'. A further reclassification of £5.4m has been made from 'change in fair value of hedged financial instruments' which was classified as other comprehensive income in the previous year. These reclassifications represent the movement in relation to the swap breaks in the prior year to more fairly reflect the Boards view of how financing and operating decisions have been made.

9. Surplus on ordinary activities before taxation

	Group		Parent Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Amount stated after charging/(crediting)				
Impairment on property, plant and equipment	**222**	-	**-**	-
(Gain)/loss on disposal of property, plant and equipment	**(4,194)**	(15,954)	**-**	-
Depreciation on housing properties	**10,381**	12,311	**-**	-
Depreciation on non-housing property, plant and equipment	**735**	707	**-**	-
Amortisation on intangible assets	**394**	371	**-**	-
External auditors' remuneration in their capacity as auditors (excluding VAT)	**44**	43	**-**	43
External auditors' remuneration in relation to audit related assurance services (excluding VAT)	**41**	37	**41**	37
External auditors' remuneration in relation to other assurance services (excluding VAT)	**15**	15	**-**	15
External auditors' remuneration in relation to other services (excluding VAT)	**4**	9	**-**	-
Operating lease rentals	**84**	98	**-**	-
Government grant amortisation	**(3,579)**	(3,296)	**-**	-

During 2017, the audit fees for the Group were paid for by Knightstone Housing Association Limited.

10. Taxation

	Group		Parent Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
(a) Analysis of charge in year				
Statement of Comprehensive Income UK Corporation Tax on profits	**-**	-	**-**	-
Adjustments for prior year	**-**	1	**-**	1
Total	**-**	1	**-**	1
Deferred tax				
Origination and reversal of timing differences	**-**	-	**-**	-
Change in tax rates	**-**	-	**-**	-
Adjustments in respect of prior years	**-**	1	**-**	1
Tax charge/(credit) on surplus	**-**	2	**-**	2

	Group		Parent Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
(b) Factors affecting tax charge for the current year				
Surplus on activities before tax	**16,705**	20,193	**244**	36
Gift Aid donation to Knightstone Housing Association Limited	**-**	-	**(244)**	(35)
Surplus on activities after Gift Aid	**16,705**	20,193	**-**	1
Surplus on ordinary activities multiplied by standard rate of UK Corporation Tax 20% (2016: 20%)	**3,341**	4,038	**49**	-
Effects of				
Expenses not deductible for tax purposes	**282**	26	**-**	-
Utilisation of losses	**(41)**	34	**-**	-
Chargeable gains	**-**	600	**-**	-
Charitable income	**(3,416)**	(4,698)	**-**	-
Qualifying charitable donation	**(165)**	-	**(49)**	-
Unrecognised deferred tax	**(1)**	-	**-**	-
Adjustments for prior year	**-**	2	**-**	2
Current tax charge/(credit) for year	**-**	2	**-**	2

	Group		Parent Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
(c) Provision for tax				
Analysis of movement in provisions Opening Balance	**(2)**	(3)	**-**	-
Income and expenditure account movement in year	**-**	1	**-**	-
Closing balance	**(2)**	(2)	**-**	-
Analysis of unprovided deferred tax balances				
Accelerated capital allowances	**(2)**	(3)	**(1)**	(1)
Short term timing differences	**(2)**	(2)	**(1)**	(1)
Revaluation	**348**	-	**-**	-
Losses	**-**	(40)	**-**	-
Unprovided deferred tax balance	**344**	(45)	**(2)**	(2)

The Board is not aware of any reason why the future tax charge will be materially different from the standard rate.

A decision has been taken not to recognise the deferred tax balance in the group due to the nature of the deferred tax and the remote possibility of any tax arising.

11. Group intangible fixed assets

	Total £'000
Cost	
At 1 April 2016	2,534
Additions	139
Disposals	(165)
At 31 March 2017	**2,508**
Amortisation	
At 1 April 2016	1,372
Charges for the year	394
Eliminated on disposals	(153)
At 31 March 2017	**1,613**
Net Book Value	
At 31 March 2017	**895**
At 31 March 2016	1,162

All intangible assets relate to purchased assets. Amortisation costs are included in operating expenditure in the Statement of Comprehensive Income.

12. Group tangible fixed assets – housing properties

	Under construction		Completed properties		Total
	Shared ownership properties £'000	Rented properties £'000	Shared ownership properties £'000	Rented properties £'000	£'000
Cost					
At 1 April 2016	3,211	30,332	59,228	650,783	**743,554**
Additions	6,294	10,292	-	7,977	**24,563**
Disposals	-	-	(1,784)	(7,840)	**(9,624)**
Transferred to investment properties	-	-	-	(200)	**(200)**
Transferred to completed schemes	(6,566)	(26,987)	6,566	26,987	**-**
At 31 March 2017	**2,939**	**13,637**	**64,010**	**677,707**	**758,293**
Depreciation					
At 1 April 2016	-	-	6,729	99,087	**105,816**
Charge for the year	-	-	557	9,667	**10,224**
Impairment losses	-	-	-	222	**222**
Disposals	-	-	(223)	(4,129)	**(4,352)**
At 31 March 2017	**-**	**-**	**7,063**	**104,847**	**111,910**
Net Book Value					
At 31 March 2017	**2,939**	**13,637**	**56,947**	**572,860**	**646,383**
At 31 March 2016	3,211	30,332	52,499	551,696	**637,738**

Impairment losses have resulted from our Yeovil Foyer property becoming vacant following the decision not to retender for our young people's service. The future use of the Foyer has yet to be decided and as such the property cost has been reduced in line with market valuations.

12. Group tangible fixed assets – housing properties (cont)

	2017 £'000	2016 £'000
Total expenditure on works to existing properties		
Amounts capitalised		
Replacement of components	**7,520**	8,298
Improvements	**1,045**	1,226
Subtotal	**8,565**	9,524
Amounts charged to the Statement of Comprehensive Income	**12,451**	11,315
Total	**21,016**	20,839

An amount of £1.4m (2016: £1.7m) has been capitalised in respect of the costs of administering the development programme.

Shared ownership properties with a Net Book Value (NBV) of £0.9m (2016: £1.1m) have been financed through sale and leaseback transactions. No new funds were advanced to Knightstone Housing Association Limited during the year (2016: £Nil). Repayments of £19,745 (2016: £Nil) have been made during the period. The remaining finance, which has no fixed repayment date, is to be repaid on any subsequent sale of the remaining interest in these properties.

Assets held within housing properties under finance leases during the year had a cost of £1.4m (2016: £1.5m), depreciation of £0.4m (2016: £0.4m) and a NBV of £0.9m (2016: £1.1m).

Knightstone Housing Association Limited has granted fixed charges over its housing assets as security for borrowings and margin calls under interest rate swap transactions.

	2017 £'000	2016 £'000
Housing properties Net Book Value comprise:		
Freehold land and buildings	**593,432**	583,582
Long leasehold land and buildings	**52,916**	53,602
Short leasehold land and buildings	**35**	554
Total	**646,383**	637,738

13. Group investment properties

Investment properties owned at the start of the year were valued to fair value at 1 April 2014 based on a valuation undertaken by Adrian Shippey BSc (Hons) MRICS of Savills UK Limited, James Redman BSc (Hons) MRICS of Alder King LLP and Edward Le Masurier BSc (Hons) MRICS of ETP Property Consultants. These are independent valuers with recent experience in the location and class of the investment property being valued. With the exception of one property valued at £385,000 (on which a desktop valuation was performed based upon location and market rent), the method of determining fair value was in accordance with the RICS Valuation – Professional Standards (January 2014 Edition) (the red book) and significant assumptions applied were as follows:

	Investment properties £'000
Fair Value	
At 1 April 2016	5,339
Transfers from housing properties	200
Additions	1,918
Revaluation gains as recognised in the Statement of Comprehensive Income	1,232
At 31 March 2017	**8,689**

a) That the properties are in a good condition and well managed and maintained to institutionally acceptable standards; and

b) That the properties comply with legal or statutory consents. There are no restrictions on the reliability of investment property.

The Directors are of the opinion that for the properties owned at the start of the year, there has been no material change in value since the 2014 valuation, which is further supported by external updates in the valuation of the properties held.

Current year additions and transfers have been valued at 31 March 2017 by means of desktop valuations by independent valuers Besley Hill Chartered Surveyors, Holden Heal Estate Agents, and Wilkie May & Tuckwood Lettings, in accordance with the RICS valuation standards as detailed above.

If investment properties had not been revalued they would have been included at the following amounts:

	2017 £'000	2016 £'000
Cost	**5,762**	3,644
Depreciation	**(447)**	(329)
Net Book Value	**5,315**	3,315

14. Group non-housing tangible fixed assets

	Furniture fixtures and fittings £'000	Office equipment £'000	Computer equipment £'000	Office improvements £'000	Freehold offices £'000	Commercial properties £'000	Vehicles £'000	**Total £'000**
Cost								
At 1 April 2016	1,864	115	1,789	384	7,024	35	436	**11,647**
Reclassification of assets	-	-	107	-	(198)	-	91	**-**
Additions	1	-	95	-	(29)	-	57	**124**
Disposals	(229)	(11)	(181)	(369)	(1,125)	-	-	**(1,915)**
At 31 March 2017	**1,636**	**104**	**1,810**	**15**	**5,672**	**35**	**584**	**9,856**
Depreciation								
At 1 April 2016	628	115	846	381	1,142	35	148	**3,295**
Charge for year	165	-	321	1	117	-	131	**735**
Disposals	(227)	(11)	(140)	(367)	(875)	-	-	**(1,620)**
At 31 March 2017	**566**	**104**	**1,027**	**15**	**384**	**35**	**279**	**2,410**
Net Book Value								
At 31 March 2017	**1,070**	**-**	**783**	**-**	**5,288**	**-**	**305**	**7,446**
At 31 March 2016	1,236	-	943	3	5,882	-	288	8,352

15. Group fixed asset investments

	Homebuy / keyworker loan £'000	Equity loans £'000	Equity loans impairment £'000	Total £'000
At 1 April 2016	5,755	249	(249)	5,755
Disposals	(453)	-	-	(453)
At 31 March 2017	**5,302**	**249**	**(249)**	**5,302**

Homebuy and Keyworker homes were built and sold in previous years under specific grant-funded initiatives. The Group retains a charge over the properties and when they are sold the Group receives a payment and repays the grant. The investment balance represents the value of the charge over these properties, whilst the grant is reported within deferred income – government grants (see note 20).

The equity loans represent a loan towards the purchase price of new properties built for sale by Arc Homes. The loan is secured against the property by way of second legal charge. Equity loans are fully provided for until the loan is redeemed.

16. Group inventories

	2017 £'000	2016 £'000
Work in progress		
Shared ownership	**2,635**	2,213
Properties for outright sale	**6,958**	9,649
	9,593	11,862

Included within the work in progress there is £0.5m (2016: £0.3m) of capitalised interest.

	2017 £'000	2016 £'000
Properties held for sale		
Shared ownership	**242**	1,836
Properties for outright sale	**1,313**	-
Leasehold properties for the elderly	**67**	-
	1,622	1,836
Total inventories	**11,215**	13,698

17. Debtors

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Amounts falling due within one year				
Arrears of rent and service charges	**1,688**	1,897	**-**	-
Net present value adjustment	**(510)**	(502)	**-**	-
Less: Provision for bad and doubtful debts	**(333)**	(372)	**-**	-
	845	1,023	**-**	-
Prepayments and rental cash due	**1,646**	1,726	**57**	13
Due from managing agents	**2,089**	2,295	**-**	-
Other debtors	**246**	101	**1**	-
Sundry debtors	**304**	214	**-**	-
Insurance control	**475**	334	**-**	-
Capital debtors	**310**	329	**-**	-
Amounts owed from other Group companies	**-**	-	**62**	86
	5,915	6,022	**120**	99

18. Creditors: Amounts falling due within one year

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Amounts falling due within one year				
Accruals and deferred income	**4,771**	5,086	**72**	40
Capital retentions	**2,673**	3,118	**-**	-
Trade creditors	**1,478**	2,618	**-**	-
Borrowings (note 22)	**24,648**	4,158	**-**	-
Derivative financial instruments (note 27)	**880**	38	**-**	-
Amounts held on behalf of homeowners	**1,824**	1,416	**-**	-
Accrued interest on loans	**753**	823	**-**	-
Recycled capital grants (note 21)	**3,713**	4,076	**-**	-
Rent received in advance	**1,856**	1,399	**-**	-
Pension deficit liability (note 25)	**1,163**	1,120	**-**	-
Taxation and social security	**468**	550	**72**	65
Government grants (note 20)	**3,579**	3,296	**-**	-
Other creditors	**621**	577	**-**	-
	48,427	28,275	**144**	105

Approved invoices are all paid within 30 days or within agreed contract terms.

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

	Group		Parent Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Net borrowings (note 22)	**247,657**	268,998	**-**	-
Government grants (note 20)	**227,440**	227,978	**-**	-
Recycled capital grant fund (note 21)	**4,496**	3,386	**-**	-
Derivative financial instruments (note 27)	**42,855**	50,042	**-**	-
	522,448	550,404	**-**	-

20. Group deferred income – Government grants

	2017 £'000	2016 £'000
Social Housing Grant		
At 1 April 2016	**253,831**	254,435
Grants receivable	**4,146**	4,021
Grants disposed (recycled or disposed of)	**(1,207)**	(4,625)
At 31 March 2017	**256,770**	253,831
Other Capital Grant		
At 1 April 2016	**38,779**	38,327
Grants receivable	**532**	1,756
Grants disposed (recycled or disposed of)	**(809)**	(1,304)
At 31 March 2017	**38,502**	38,779
Amortisation		
At 1 April 2016	**61,336**	59,313
Amortisation to Statement of Comprehensive Income	**3,579**	3,296
Grants disposed (recycled or disposed of)	**(662)**	(1,273)
At 31 March 2017	**64,253**	61,336
Closing balance	**231,019**	231,274
Due within one year (note 18)	**3,579**	3,296
Due after one year	**227,440**	227,978

Grants attached to housing stock which were swapped in from other housing providers in prior years are held off the balance sheet totalling £64.9m (2016: £65.4m). This will only be recognised at the point of disposal if the grant is allowable for recycling or repayment.

21. Group recycled capital grant fund

	2017 £'000	2016 £'000
Opening balance	**7,462**	6,164
Grant recycled	**2,809**	1,566
Interest accrued	**28**	74
New build	**(2,090)**	(342)
Carried forward	**8,209**	7,462
Grants to be recycled less than one year (note 18)	**(3,713)**	(4,076)
Grants to be recycled more than 1 year (note 19)	**4,496**	3,386

22. Group borrowings

	2017 £'000	2016 £'000
Housing loans	**274,750**	275,747
Obligations under finance leases	**441**	478
Total borrowings	**275,191**	276,225
Less loan arrangement fees	**(2,886)**	(3,069)
Loans net of arrangement fees	**272,305**	273,156
Loans falling due within one year (note 18)	**24,648**	4,158
Loans falling due after more than one year (note 19)	**247,657**	268,998
Loans net of arrangement fees	**272,305**	273,156

	2017 £'000	2016 £'000
Borrowings comprise loans at fixed, variable and index linked interest rates and are repayable as follows		
Up to one year (note 18)	**24,648**	4,158
Over one year and up to two years	**5,733**	24,611
Over two years and up to five years	**42,101**	39,852
Over five years (including finance lease)	**202,709**	207,604
Total borrowings	**275,191**	276,225
By interest rate basis		
Fixed rate	**23,555**	24,550
Variable rate	**246,101**	244,944
Indexed linked	**5,094**	6,253
Finance lease	**441**	478
Total borrowings	**275,191**	276,225

Where loans are borrowed at variable rates, the Group uses interest rate swaps and a limited range of other financial instruments to manage interest rate risk. The final instalments on these loans fall in the years 2035 to 2041. The fair value and nominal value of open interest rate swaps is provided on page 53 (note 26).

Housing loans repayable by half-yearly instalments after one year are secured at fixed rates of interest ranging from 5.65% to 12.1%. The final instalments on these loans fall in the years 2020 to 2029.

There are five housing loans repayable by bullet repayment; three £20m loans, each on a variable rate of interest repayable in March 2018, July 2019 and April 2020, one £5.5m loan secured at a fixed rate of interest of 5.1% repayable in 2035 and Knightstone's £100m bond issued in October 2013 at a fixed rate for four years of 5.058% and 5.576% beyond that, repayable in 2048.

Total committed loan facilities are £393.2m (2016: £397.2m) of which £118m (2016: £121m) are undrawn at 31 March 2017.

The financial instruments are all secured against properties.

23. Group provisions

	2017 £'000	2016 £'000
Redundancy provision	**107**	120
At end of the year	**107**	**120**

These provisions have been raised in relation to staff at risk of redundancy at 31 March 2017.

24. Parent Company share capital

	2017	2016
Brought forward	**6**	10
Shares issued during the year	**1**	2
Shares surrendered during the year	**-**	(6)
At end of the year	**7**	**6**

The shares of £1 each provide members with the right to vote at general meetings, but do not provide any rights to dividends or distribution on a winding up.

25. Group pension obligations

The Pensions Trust – Social Housing Pension Scheme

The Group participates in 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. It is not possible for the Group 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 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

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

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

25. Group pension obligations (cont)

Deficit contributions	
Contribution tier	Contribution amounts
Tier 1 From 1 April 2016 to 30 September 2020	£40.6m per annum (payable monthly and increasing by 4.7% each year on 1 April)
Tier 2 From 1 April 2016 to 30 September 2023	£28.6m per annum (payable monthly and increasing by 4.7% each year on 1 April)
Tier 3 From 1 April 2016 to 30 September 2026	£32.7m per annum (payable monthly and increasing by 3.0% each year on 1 April)
Tier 4 From 1 April 2016 to 30 September 2026	£31.7m per annum (payable monthly and increasing by 3.0% each year on 1 April)

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 and 3 deficit contributions.

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.

	31 March 2017 £'000	31 March 2016 £'000	31 March 2015 £'000
Present value of provision	**8,859**	9,539	7,225

Reconciliation of opening and closing provisions	Period ending 31 March 2017 £'000	Period ending 31 March 2016 £'000
Provision at start of period	**9,539**	7,225
Unwinding of the discount factor (interest expense)	**184**	131
Deficit contribution paid	**(1,120)**	(808)
Remeasurements – impact of any change in assumptions	**256**	(60)
Remeasurements – amendments to the contribution schedule	**-**	3,051
Provision at end of period	**8,859**	**9,539**
Payments due within one year (see note 18)	**1,163**	1,120
Provision outside of one year	**7,696**	8,419

Income and expenditure impact	Period ending 31 March 2017 £'000	Period ending 31 March 2016 £'000
Interest expense	**184**	131
Remeasurements – impact of any change in assumptions	**256**	(60)
Remeasurements – amendments to the contribution schedule	**-**	3,051
Costs recognised in income and expenditure account	**440**	3,122

25. Group pension obligations (cont)

Assumptions	31 March 2017 % per annum	31 March 2016 % per annum	31 March 2015 % per annum
Rate of discount	**1.33**	2.06	1.92

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:

Deficit contributions schedule

Year ending	31 March 2017 £'000	31 March 2016 £'000	31 March 2015 £'000
Year 1	**1,163**	1,120	808
Year 2	**1,208**	1,163	841
Year 3	**1,254**	1,208	876
Year 4	**1,108**	1,254	912
Year 5	**946**	1,108	950
Year 6	**979**	946	795
Year 7	**857**	979	623
Year 8	**721**	857	647
Year 9	**742**	721	514
Year 10	**382**	742	368
Year 11	**-**	382	379
Year 12	**-**	-	195

26. Group financial instruments

The carrying values of the Group's financial assets and liabilities are summarised by category below:

	2017 £'000	2016 £'000
Financial assets		
Measured at amortised cost		
Cash	**17,645**	17,553
Rent arrears and other debtors (note 17)	**845**	1,023
Due from Managing agents (note 17)	**2,088**	2,295
Other debtors (note 17)	**246**	101
Investments (note 15)	**5,302**	5,755
	26,126	26,727
Financial liabilities		
Measured at fair value		
Derivative financial liabilities (note 27)	**(43,735)**	(50,080)
Measured at amortised cost		
Loans payable (note 22)	**(274,750)**	(275,747)
Measured at undiscounted amount payable		
Trade and other creditors (note 18)	**(1,478)**	(2,618)
Other creditors (note 18)	**(621)**	(577)
	(320,584)	(329,022)

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

	2017 £'000	2016 £'000
Interest income and expense		
Total net interest expense for financial liabilities at amortised cost	**(8,841)**	(9,079)
Fair value gains and losses		
On financial liabilities measured at fair value through Statement of Comprehensive Income	**(1,360)**	(1,015)
On hedged financial liabilities measured at fair value through Statement of Comprehensive Income	**(294)**	(1,530)

The prior year comparison for interest on bank loans has been restated by a reduction of £5.4m which has been reallocated to 'net settlement gain on derivative financial instrument'. A further reclassification of £5.4m has been made from 'change in fair value of hedged financial instruments' which was classified as other comprehensive income in the previous year. These reclassifications represent the movement in relation to the swap breaks in the prior year to more fairly reflect the Boards view of how financing and operating decisions have been made.

27. Group derivative financial instruments

Derivatives that are designated and effective as hedging instruments carried at fair value:

	Current 2017 £'000	Current 2016 £'000	Non-current 2017 £'000	Non-current 2016 £'000	Total 2017 £'000	Total 2016 £'000
Liabilities						
Interest rate swaps	(880)	(38)	(25,384)	(26,042)	(26,264)	(26,080)
Inflation rate swaps	-	-	(17,471)	(24,000)	(17,471)	(24,000)
	(880)	(38)	(42,855)	(50,042)	(43,735)	(50,080)

Interest rate swaps are valued at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Interest rate swap contracts

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date, designated as hedges of variable interest rate risk of recognised financial liabilities:

Outstanding receive floating pay fixed contracts	Weighted average contract fixed interest rate		Notional principal value		Fair value	
	2017 %	2016 %	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Less than 1 year	1.6	1.4	80,000	10,000	(880)	(38)
1 to 2 years	N/A	1.6	-	60,000	-	(1,547)
2 to 5 years	N/A	N/A	-	-	-	-
5 years +	4.6	4.6	45,000	45,000	(25,384)	(24,495)
	2.9	2.6	125,000	115,000	(26,264)	(26,080)

The interest rate swaps settle on a one, three and six-month basis. The variable rate on the interest rate swaps is one, three and six-month LIBOR. The Group will settle the difference between the fixed and variable interest rate on a net basis.

All interest rate swap contracts are designated as hedges of variable interest rate risk of the Group's variable rate borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swaps.

Inflation rate swap contracts

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date, designated as hedges of variable interest rate risk of recognised financial liabilities:

	Notional principal value		Fair value	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
5 years +	20,000	30,000	(17,471)	(24,000)
	20,000	30,000	(17,471)	(24,000)

Losses of £0.3m (2016: losses of £1.5m as restated) were recognised in other comprehensive income and losses of £1.4m (2016: losses of £1m) in excess of the fair value of hedging instruments over the change in the fair value of expected cash flows were recognised in profit or loss.

28. Group Statement of Cash Flows

	2017 £'000	2016 £'000
Surplus for the year	**16,705**	20,191
Adjustment for non-cash items		
Depreciation of property, plant and equipment	**10,959**	11,543
Amortisation of intangible assets	**394**	371
Amortisation of grants	**(3,579)**	(3,296)
Decrease/(increase) in inventories	**2,483**	(4,482)
Decrease/(increase) in debtors	**107**	(562)
(Decrease)/increase in creditors	**(1,070)**	1,995
(Decrease)/increase in provisions	**(14)**	120
Change in fair value of financial instruments	**1,360**	1,015
Pension costs less contributions payable	**(864)**	2,183
Carrying amount of property, plant and equipment disposals	**5,580**	10,375
Carrying amount of grant disposals	**1,455**	(6,746)
Impairment loss on property, plant and equipment	**222**	-
Adjustments for investing or financing activities		
Increase in fair value of investment properties	**(1,232)**	-
Proceeds from the sale of property, plant and equipment	**(9,280)**	(22,634)
Government grants utilised in the year	**(2,091)**	(342)
Corporation tax paid	**-**	(1)
Interest payable	**9,082**	9,266
Interest received	**(25)**	(31)
Cash generated by operations	**30,192**	18,695

29. Group reconciliation of net cash flow to movement in net debt

	2017 £'000	2016 £'000
Increase in cash in the year	**92**	9,411
Cash flow from decrease/(increase) in debt and lease finance	**3,920**	(17,919)
Increase/(decrease) in net debt	**4,012**	(8,508)
Net debt at beginning of year	**(258,672)**	(250,164)
Net debt at end of year	**(254,660)**	(258,672)

30. Group analysis of net debt

	1 April 2016 £'000	Prior year adjustment £'000	Cash flow £'000	31 March 2017 £'000
Cash at bank and in hand	17,369	-	92	**17,461**
Current asset investments	184	-	-	**184**
Net cash and cash equivalents	17,553	-	92	**17,645**
Loans falling due within one year	(4,158)	-	(20,490)	**(24,648)**
Loans due after more than one year	(271,588)	-	(21,486)	**(250,102)**
Finance leases	(479)	-	38	**(441)**
Arrangement fees	-	3,069	(183)	**2,886**
Net cash outflow from financing and changes in debt	(276,225)	3,069	(851)	**(272,305)**
Total	(258,672)	3,069	(943)	**(254,660)**

31. Group capital commitments

	2017 £'000	2016 £'000
Expenditure authorised by the Board and contracted for	**24,250**	33,228
Expenditure authorised by the Board but not contracted	**77,425**	143,934
Total	**101,675**	177,162

The total expenditure authorised and contracted but not yet provided for in the financial statements is £24.2m (2016: £33.2m). These schemes are funded by grants totalling £2.7m (2016: £3.2m), sales proceeds of £12.6m (2016: £25.7m) and deferred bond proceeds of £8.9m (2016: £4.3m) and £Nil from cash balances (2016: £Nil).

32. Group operating leases

Knightstone Housing Group Limited has several office premises and equipment on non-cancellable operating leases. Total future minimum lease payments under non-cancellable operating leases are as follows:

	2017 £'000 Total	2016 £'000 Total
Group and Parent Company		
Payments due:		
In less than one year	**34**	53
In one to five years	**46**	66
In more than five years	**-**	-
Total	**80**	119

33. Events after the end of the reporting period

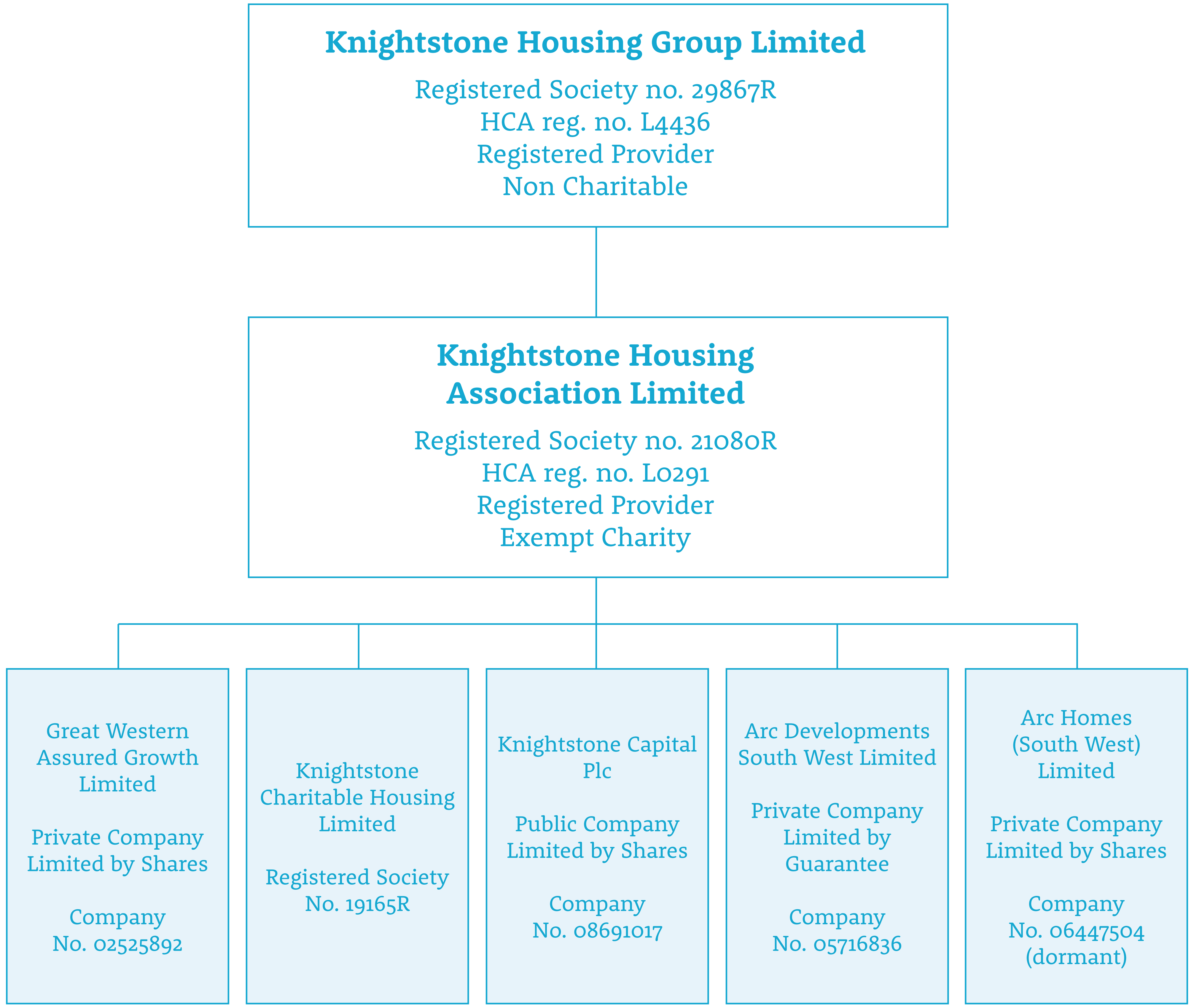
Knightstone Housing Group is progressing potential merger discussions with DCH, a housing association with similar geography, values and objectives.

34. Ultimate controlling party

The ultimate controlling party of the Knightstone Housing Group is the Board. The Group, and it's subsidiaries prepare publically available Annual Financial Statements, copies of which are available upon request from the registered office: Weston Gateway Business Park, Weston-super-Mare, Somerset, BS24 7JP.

35. Subsidary undertakings

These Group Financial Statements consolidate the results of Knightstone Housing Group Limited (HCA number L4436, Registered Society number 29867R) and its six fully owned subsidiaries. The registered address for the Group and all its subsidiaries is Weston Gateway Business Park, Weston-super-Mare, BS24 7JP. Details of the Group structure and subsidiaries concerned as at 31 March 2017 are:



Knightstone Capital Plc	A special purpose vehicle incorporated to issue a bond on the London Stock Exchange. The bond will provide £50m of funding to the Group in November 2017 with potential to provide a further £50m of funding in the future.
Knightstone Charitable Housing Limited	Supports the charitable activities of Knightstone Housing Association Limited by raising funds from a variety of sources to enable projects for the benefit of residents and others in need. The objective of each project is to improve the quality of peoples' lives through the provision of better housing and support services.
Great Western Assured Growth Limited	Owns a small portfolio of properties that are managed by Knightstone Housing Association Limited.
Arc Developments South West Limited	Commercial developer of properties for open market sale.
Arc Homes (South West) Limited	Currently dormant – available for future development activity.

36. Related party transactions

The Group has taken advantage of the exemption contained in FRS102 'Related Party Transactions' and has not disclosed transactions with other group entities.