Annual report

year ended 2016/17

Metropolitan

Contents

Members, executives and advisors

Chair
Paula Kahn

Non-executive Board members
Stuart Beevor
Clive Deadman
Janet Dean
Michael Dunn
Mike Green
Jerry Piper
Christine Turner (until 22 September 2016)
Natalie Burrows (from 3 October 2016)
Lesley-Anne Alexander (from 3 October 2016)

Executive Board members
Chief Executive
Brian Johnson

Executive Director, Finance
Ian Johnson (appointed as Executive Board member on 22 September 2016)

Executive Directors
Executive Director, Housing Services
Jenny Danson

Interim Executive Director, People
Craig McCoy (until 17 July 2016)

Executive Director, People
Anthony Perkins (from 18 July 2016)

Executive Director, Care and Support
Ann Gibbons

Executive Director, Development
Richard Vining (until 31 January 2017)

Interim Executive Director, Development
Linda Robinson (from 1 February 2017)

Executive Director, Finance
Ian Johnson (from 12 August 2016,
Interim until 11 August 2016)

Executive Director, Insight and Innovation
Daniel Jones (from 5 December 2016)

Secretary
Mary Keane

Registered office
The Grange, 100 High Street, Southgate, London N14 6PW

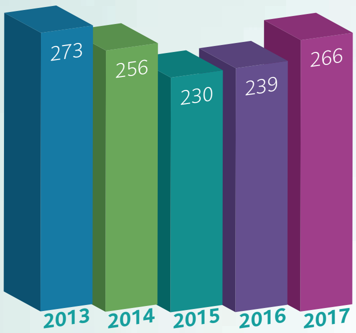
Auditors
BDO LLP, 2 City Place, Beehive Ring Road, Gatwick,
West Sussex, RH6 0PA

Bankers
Lloyds Banking Group

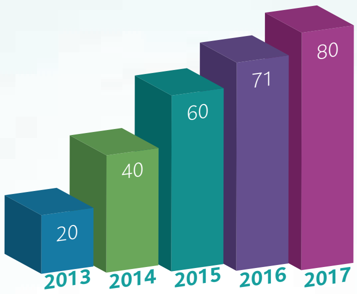
Results at a glance

Group figures

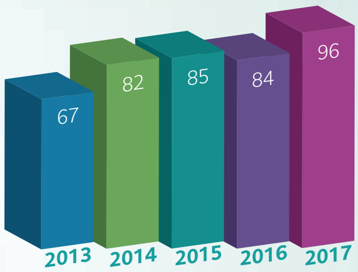
Turnover
£266m



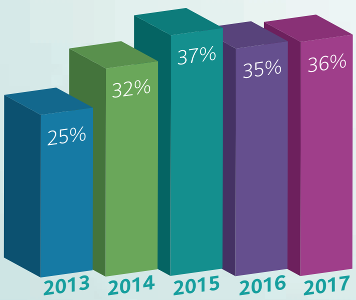
Surplus after tax
£80m



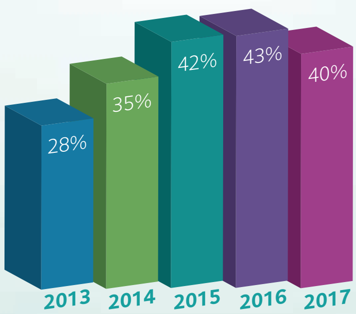
Operating surplus
£96m



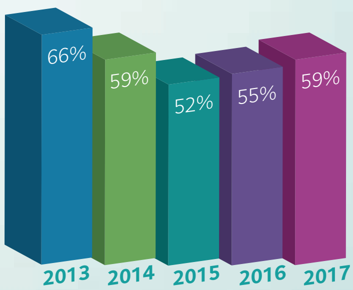
Operating margin
36%



Lettings margin
40%



Gearing
59%



Notes
- Figures for 2016 have been restated following a review of grant amortisation on shared ownership properties
- Figures from 2015 onwards have been prepared under FRS 102
- Gearing is calculated by dividing net debt by capital and reserves

Performance at a glance

832
New homes delivered

£29m
Investment in existing stock

5,803 homes
Development pipeline

£5m
New annual business income in care and support

£190m
Invested in acquiring land and building new homes

17,114
Total independence steps

580
Number of customers supported into employment

Top 100
Stonewall Top 100 Employers ranking

83%
Proportion of repairs fixed first time

A+
A+ credit rating from Standard & Poor's

V1
V1 financial viability rating from Homes and Communities Agency

Chair's introduction

2016-17 was another year of progress and achievement for Metropolitan

In a period of ongoing chronic housing shortage and rising demand for social care, we more than doubled the number of new homes we delivered to 832 (2016: 371) and continued to provide care and support services to nearly 10,000 customers.

We remain firmly committed to using our financial strength to fulfil our mission and social purpose: to help people become more personally independent by providing housing, social care and other support which enables them to have greater control over their lives. The £80m total surplus we have reported this year (2016: £71m*) will be reinvested to deliver much-needed new homes and services for current and future customers.

The fire on 14 June at Grenfell Tower in west London was tragic and, as we publish this report, our thoughts are very much with those affected and their families. Metropolitan takes the safety of its residents and employees very seriously and, alongside other organisations in the sector, we are reviewing both our buildings and procedures as learning emerges from the awful incident. We anticipate significant changes in building standards and regulations resulting from the incident and will be implementing these quickly.

We announced in January that Brian Johnson had decided to step down as Chief Executive in July. On behalf of the Board, I would like to thank him for his contribution. Since joining in 2012, he has managed a wholesale turnaround in Metropolitan's finances and operations. The vision he developed with the Board has influenced Metropolitan in many ways and his successor, Geeta Nanda OBE, will come into a confident and effective organisation. Ms Nanda is currently Chief Executive at Thames Valley Housing and will join Metropolitan in October. She is an exceptional CEO with experience and understanding of the sector. The Board believes that, with her leadership, Metropolitan will continue to strengthen its position as a leading social housing provider.

Going forward, Metropolitan's strategy will remain the same. We believe that helping our customers to take charge of their own lives is the best way in which we

* Restated following a review of grant amortisation on shared ownership properties (see Note 33)

can deliver social value. We will continue to focus on how we can best use our financial resources to help our customers achieve greater independence in their lives.

With reduced public subsidy available, our intention is to continue to leverage our housing assets so we can carry on delivering more homes and better services in the future. Of course, external challenges and change are ever-present. This year marked the introduction of the four-year 1% rent deflator, requiring us to deliver more with less income. In addition, the triggering of Article 50 and the hung parliament returned by the general election in June 2017 have the potential to delay or change the direction of government policy interventions around housing as the focus shifts to Brexit negotiations. This has created further uncertainty for the sector, its customers and its investors.

Our strategy and governance arrangements ensure that potential risks are identified and effectively managed, and that the business has adequate financial headroom and operational capacity to absorb their impact. At the same time, our approach is to advocate on behalf of our customers and seek to inform and influence the pace and shape of external change. We are committed to continuing to work constructively with both central and local government.

In February Metropolitan was awarded the highest financial viability rating, 'V1', by our regulator, the Homes and Communities Agency, while also retaining the agency's top 'G1' rating for governance. This was a fantastic achievement and testament to the hard work put in over the last four years to make Metropolitan the financially strong and high-performing organisation that it is today.

Another highlight was the Transfer of Engagements of Clapham Park Homes to its parent company Metropolitan Housing Trust in January. The transfer allows us to fully apply our financial strength to further accelerate and support the regeneration of the Clapham Park estate in south London – one of the biggest regenerations of its kind in the capital, being wholly self-delivered by a housing association.

We have a wealth of talent and experience within the organisation. Although we said goodbye to Christine Turner – who retired from the Board after making a significant contribution as a non-executive member and as Chair of our Customer Services Committee – we welcomed two new Board members: Natalie Burrows and Lesley-Anne Alexander. They bring unique talents and experience from their backgrounds in digital transformation in the retail sector, and senior leadership in the charity sector, respectively. We also welcomed new members to the executive team, consolidating our strong leadership capabilities.

Finally, on behalf of the Board, I would like to thank all of our people for their continued commitment to our customers and their communities. Without their hard work and determination, none of the achievements set out in this report would have been possible. Their talent, passion and commitment to working through our values continue to drive us forward. The organisation is in great shape and has a bright future ahead.

Paula Kahn,
Chair

Chief Executive's strategic operational review

Who we are

Metropolitan is one of the UK's leading providers of affordable housing and care and support services. We own and manage a large portfolio of more than 37,000 homes and serve nearly 71,000 customers across London, the East Midlands and the East of England.

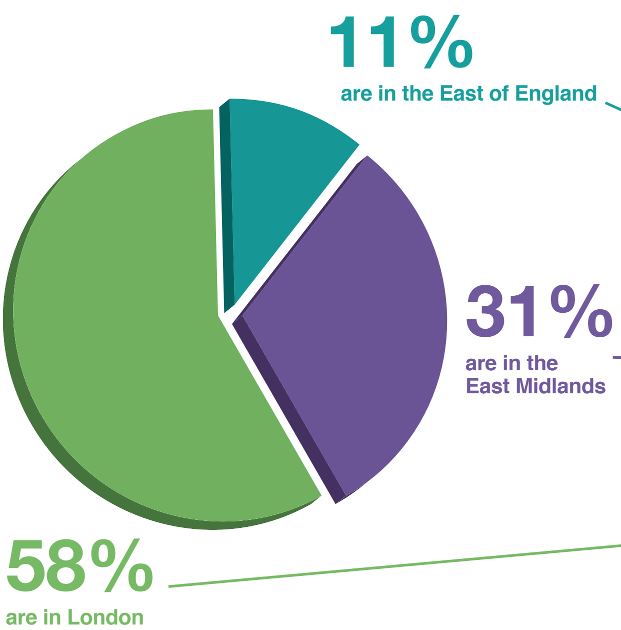
We are a charitable organisation that exists to support our customers to reach their maximum level of personal independence through the services we provide.

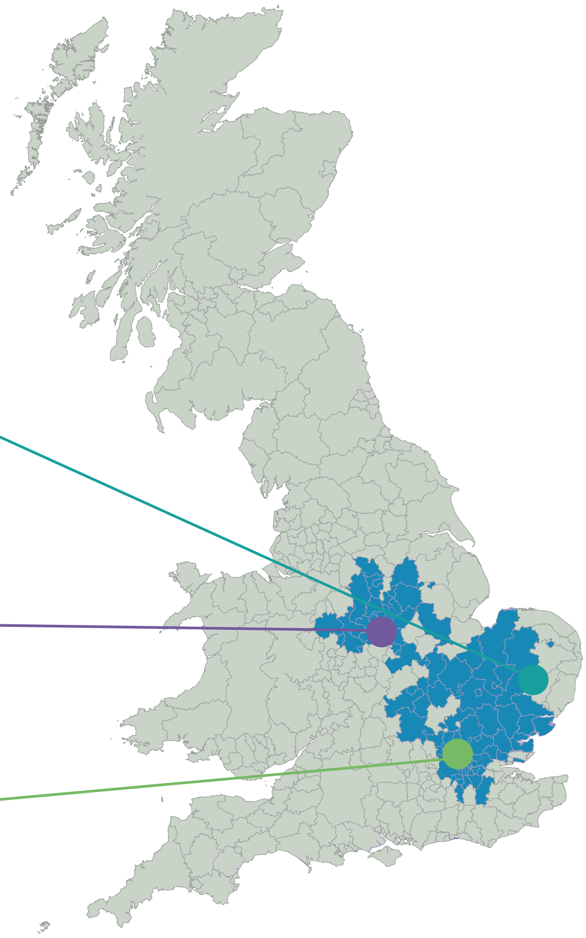
We employ more than 1,500 people and have drawn together a senior leadership team with a strong commercial focus and clear ambitions for the future of the organisation.

We are a member of the National Housing Federation and the g15, which represents London's 15 largest housing associations and houses one in 10 Londoners.

Where we operate

We own and manage more than 37,000 homes





Our homes in London include:
6,346 in Lambeth
2,380 in Haringey
2,235 in Brent
2,044 in Sutton
1,872 in Enfield

Our homes in the East Midlands include:
3,808 in Rushcliffe
2,691 in Derby
2,237 in Nottingham

Our homes in the East of England include:
972 in Cambridge
964 in South Cambridgeshire

The five things we care about

We have five principles that guide everything we do, the way we do things and the decisions we make.

Ambitious for our customers, our people, our company
We demand better. We create environments where people can think independently and act accordingly, taking ownership and making things happen.

We do what we say, we say it how it is
Simple and straightforward are our watchwords. When we say we're going to do something we do it. We roll our sleeves up and get on with it. We speak the truth as we see it, saying it how it is. People will trust us. Trust breeds trust.

Re-thinking to make a difference
We're restless, we don't stand still. We're passionate about delivering positive change through new and better ways of thinking. We challenge ourselves to think differently and we challenge the status quo. We always want to do better.

We won't walk by
We don't tolerate mediocrity. OK is not good enough. When something's not right we speak up, we don't walk by. The pursuit of excellence inspires and drives us. But where we see good, we notice, appreciate and celebrate it.

Social value through commercial strength
We're unashamedly commercially minded. It's not just all right to be commercial, it's essential. Being commercial helps us build more houses and invest more in helping people live independent lives. With commercial pride comes the courage to make the right decisions.

Our strategy and 2016/17 business goals

Our mission

Our mission is to build homes, environments and services which create better opportunities for the people that need them.

Key measures

Financial performance:
operating surplus

Development:
number of new affordable homes delivered

Independence:
number of independence steps taken by customers

Key objectives

1. Deliver a large number of homes at a level that is consistent with maintaining delivery through downturns in the housing market – in excess of 1,000 per year by 2018/19.
2. Through a constant focus on value for money, remain in the top quartile among our peer group of large housing associations in terms of operating margin to support the development programme.
3. Deliver a large number of independence outcomes – in excess of 20,000 per year by 2017/18.
4. Develop the ability to acquire other companies that would enhance our level of services without compromising our financial policy.
5. Increase contribution from the Care and Support business.
6. Deliver consistently and continuously high standards of operations and services.
7. Build a strong external reputation of being a thoughtful, analytical and innovative housing association and become one of the top influencers of the housing and care sector.

A clear, defined and embedded purpose – to deliver personal independence

All our work has the common objective of helping people take charge of their future. Enabling our customers to reach their maximum level of personal independence and achieve their goals remains our overarching strategic priority. We are unique in that we measure our progress through the number of 'independence steps' we facilitate. They are measurable and auditable and they are one of three key measures by which we assess our performance (along with the number of new homes built and financial strength).

They include achievements such as getting a job, paying off debts, living independently at home for as long as possible or getting onto the property ladder.

This year we enabled 17,114 independence steps (2016: 7,282) – next year we have a target to deliver a total of 20,000.

We have commissioned research that aims to look at translating our steps into a form of currency that has meaning to government and external stakeholders and enables peer comparison. Our aim is to be able to calculate a social return on investment on our steps. By the end of 2017, we will be able to measure the economic value of the real impact that independence steps are making, not just on people's lives but on the government balance sheet too.

17,114 total independence steps this year

Home ownership

279 customers completed a home purchase

212 customers purchased a larger share of their home

Clearing arrears

601 customers cleared arrears

Working and training

580 customers commenced new employment

217 customers awarded an accredited qualification

351 customers commenced volunteering

Preventing isolation

2,246 customers started to engage with new social links

Staying independent

2,737 customers had aids and adaptations fitted to their homes to support independent living

458 left hospital or care, with support

Managing with less support

723 customers moved into lower intensity support accommodation

888 customers able to care for themselves and their families

1,183 customers able to shop and feed themselves

6,639 customers completed goals within a support plan to increase their independence

Homeownership

Jack and Emma, home owners, Hollygate Park in Rushcliffe, Nottinghamshire

Jack and Emma bought their first home through shared ownership at Hollygate Park in Cotgrave, Nottinghamshire.

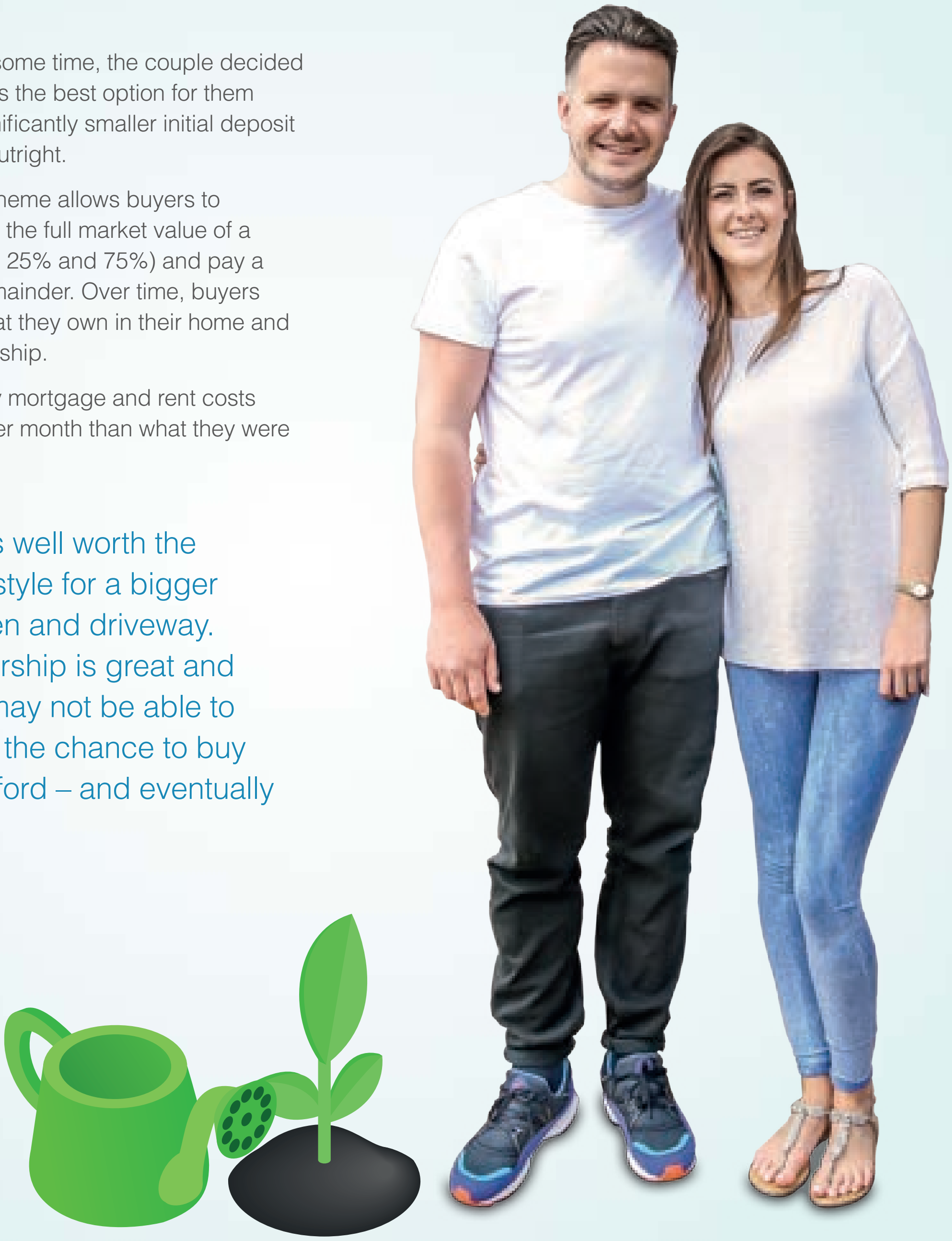
After renting together for some time, the couple decided that shared ownership was the best option for them because it required a significantly smaller initial deposit than if they were buying outright.

The part-buy, part-rent scheme allows buyers to purchase a percentage of the full market value of a property (usually between 25% and 75%) and pay a subsidised rent on the remainder. Over time, buyers can increase the share that they own in their home and 'staircase' up to full ownership.

Jack and Emma's monthly mortgage and rent costs are now just £20 higher per month than what they were paying previously in rent.

Jack says:

"The extra money is well worth the improvement in lifestyle for a bigger house, with a garden and driveway. I think shared ownership is great and gives people who may not be able to afford a full deposit the chance to buy a share they can afford – and eventually the rest!"



Training and employment

Christiana Collins, Metropolitan resident and business entrepreneur

Clapham Park resident Christiana was seeking to start her own personal styling business when she heard about a training programme from Metropolitan called 'Pitch Your Idea'.

Christiana says:

"I've always been interested in style and fashion, and my business idea had existed in one form or another for about eight years – but I didn't know how or where to start."

"Earlier this year, I decided I needed to take the plunge and commit to doing what I really wanted to do. Then I found out about 'Pitch Your Idea' – the timing couldn't have been better!"

Christiana's ambition was to establish a company called 'The Style Closet', providing consultations and a personal shopping service for people wanting to improve or transform their look. Through 'Pitch Your Idea', she completed a nine-week training programme, which provided her and a group of other entrepreneurs with the essential skills and tools they needed to successfully develop their business ideas.

Christiana says: "The training was really useful – I found the parts on marketing and market research particularly good."

The programme culminated in a pitching competition in front of a panel of experts, with prizes of cash investments for the top performers. Christiana succeeded in being awarded £1,000 to get her company going – and is aiming to start consultations with her first clients in the summer.

Living independently

Maggie, former Metropolitan customer, now living independently

Maggie lived with her father in Cambridge when she was diagnosed with anxiety and depression. After spending some time in hospital she was discharged and came to Metropolitan's Vicarage Terrace service for adults with mental health needs in July 2015.

The team helped her with day-to-day tasks such as shopping and attending medical appointments, and supported her as she worked towards achieving her personal goals.

After Maggie became pregnant in 2016, her support worker helped her apply for a permanent affordable home. In December that year she moved into a house in Cambridge, shortly before the birth of her son Alfie.

Maggie says:

"I knew I was ready to leave because by then I was back to my old self again, but I wouldn't have got there without everyone's help."

While Maggie's immediate focus is on Alfie, she plans to go back to college and gain professional qualifications in the future.

She says: "The support at Vicarage Terrace was amazing. They took me to my doctor appointments, helped me find a new home – everyone was so friendly and positive. It's been strange going from where I was a few years ago to living independently and having someone else to be responsible for. But it's lovely being a mum – it's the best thing I've ever done."

Volunteering

William, Metropolitan customer and volunteer

William lives at one of Metropolitan's services for people with learning disabilities in London. With the help of his key support worker Luke Eronini, William secured a voluntary position at a local police station.

Luke says: "William is a friendly person and likes to try new things. He said he'd like to join the police so I helped him look into his options."

He helped William complete an application form for a voluntary position at a local police station, carrying out jobs like cleaning police cars so they are ready to use when they are needed. Following a successful interview, he completed his first shift at the station in March.

Luke says: "The entire process has been great for William's confidence and will teach him new skills. He feels fulfilled – he's got somewhere he wanted to get in life and is very, very proud. For the time being I attend each shift with William but in the future perhaps he'll be able to go by himself."

William says:

"I'm happy to have started my dream job."

A well established and responsible landlord

We are one of the country's largest providers of affordable housing. We own and manage more than 37,000 homes in London, the East Midlands and the East of England, the vast majority of which are locally affordable.

Our core housing business remains very profitable with a lettings margin of 40% (2016: 43%) – despite the introduction this year of the 1% rent deflation policy. This was as a result of our continued focus on improving operating efficiency and delivering quality services at optimal cost.

We continued to improve performance and deliver value through faster re-letting of empty properties (voids). We reduced rent loss from £4.3m to £2.7m (2016: £5.3m to £4.3m). This was achieved with faster re-letting of vacant properties (reduced from 56 days in March 2016 to 29 days in March 2017).

Another significant achievement this year was the reduction of rent arrears from 4.66% to 3.95% of income owed to us – reducing the amount owed to us by £3m (2016: £1.2m).This was achieved through our ongoing programme of targeted support for customers currently or at risk of falling into arrears.

Investment in our planned maintenance programme to improve our customers' homes has continued at pace with the replacement of 1,321 kitchens (2016: 950), 650 bathrooms (2016: 703) and 1,378 boilers (2016: 1,438). Overall our investment in our stock was £29m (2016: £23m).

Overall our investment in our stock was **£29m**

In March, we also completed the dissolution of the joint venture partnership of the regenerated St Martin's estate in Lambeth, south London. We worked with our housing association partners to simplify the ownership and management structure, and to provide a more streamlined service for residents.

Health and safety

We maintained a consistent performance during the year in line with statutory health and safety obligations for fire risk assessments, water safety management, gas and electricity safety checks, and asbestos management.

A major training programme was rolled out to embed understanding and ensure continued compliance with the Construction Design and Management Regulations 2015. This programme has been aligned to work streams so that colleagues across the business gain an understanding of how the regulations affect their day-to-day work processes.

The business continues to empower colleagues to take more responsibility for managing health and safety through its learning and development plan. This is being achieved by enhancing skills and competence in risk management through tailored training programmes. These included the Institution of Occupational Safety and Health's (IOSH) 'Managing Safely' and 'Managing Safely in Construction' e-learning courses, as well as the National Examination Board in Occupational Safety and Health's 'Health and Safety Management Certificate'. An IOSH health and safety course for senior managers is also due to be delivered to members of the Executive Team in the coming financial year.

The Health and Safety team has worked closely with members of the Board's Safeguarding Committee during the year, to develop an online incident management system to improve the capture and processing of information relating to safeguarding. The system, due to be rolled out in the 2017/18 financial year, will be accessible to colleagues and contractors.

During the year we also developed a new health and wellbeing strategy for the organisation. In the coming year we will work to reduce the risk to staff of stress and ill health and foster an improved and supportive working environment through the programme.

Improving customer service and satisfaction

Our overall customer satisfaction rate this year remained static at 57%. Improving our performance in this area remains a priority and key to this is ensuring our repairs service – the service our customers tell us is the most important to them – is efficient, flexible and customer-focused. Our in-house repairs contractor Metworks launched in the East Midlands in February 2016 – and in its first full financial year of operation recorded an 87% first-time fix rate against a target of 85%. This compared with a total first-time fix rate of 83% across all of our areas of operation. Metworks also recorded a 99% customer satisfaction score in surveys conducted by operatives on completion of repairs work.

The in-house contractor service is a key part of our ongoing strategy to provide efficient, value for money services which raise the levels of customer satisfaction for repairs overall. The in-house service rolled out in London following the end of the financial year, taking on responsive repairs for our homes in the capital – and later in the year will also provide planned maintenance services.

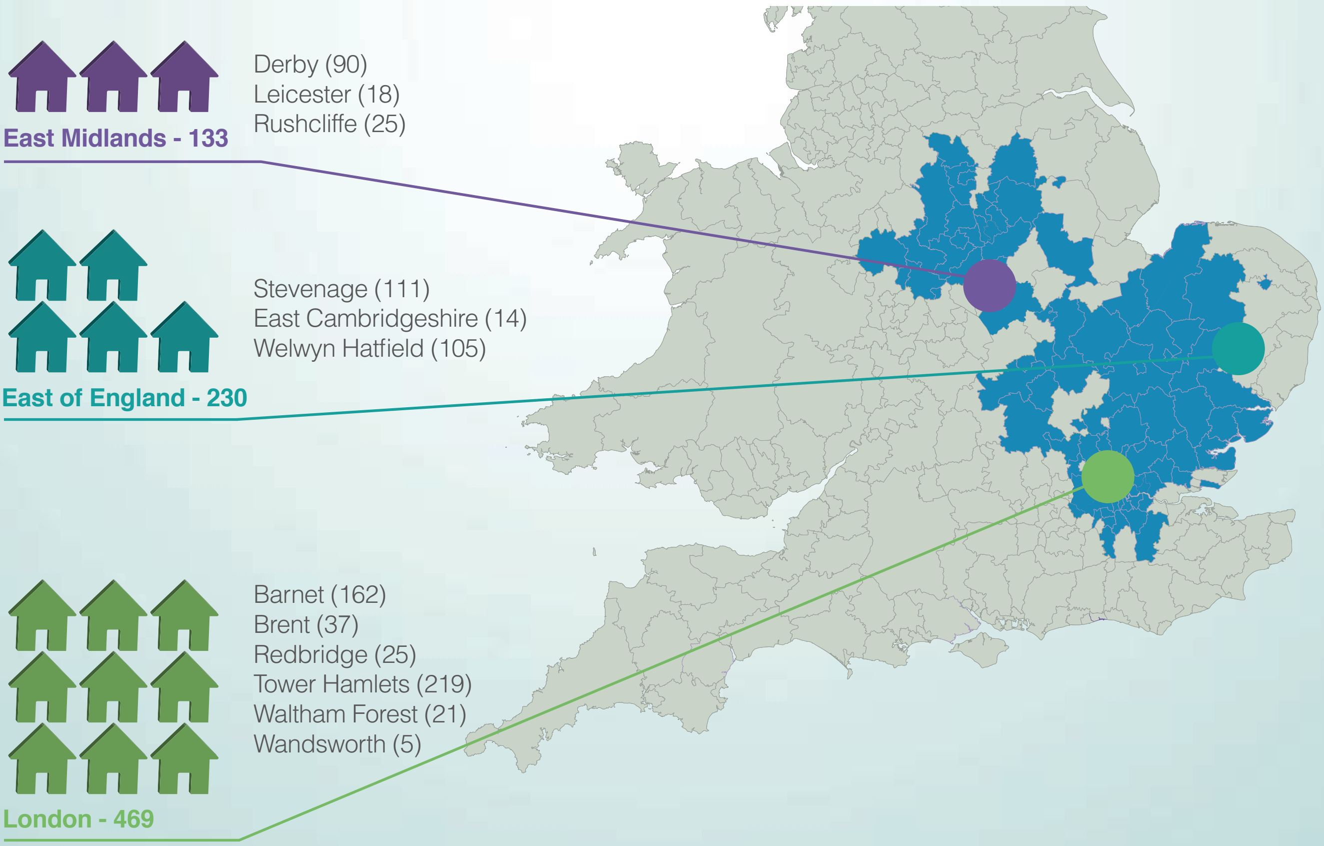
The performance of our customer contact centre – as the first port of call for all enquiries – has a critical role in our plans for improving customer service. We have strengthened our senior management team in the year by hiring new and talented leaders from a range of sectors – providing us with new insights, innovation and best practice – and increased the resources available to run the 24-hour service.

Our customer contact centre also achieved the accreditation of the government's Customer Service Excellence® standard in October 2016. The accreditation provides a framework for driving continuous improvement in customer service standards. We have also successfully embedded a service improvement function which investigates the root causes of complaints and implements action plans to prevent recurrence of dissatisfaction.

Delivering more new affordable homes than ever

Building affordable new homes at a time of chronic housing shortage is one of the most important ways in which we deliver social value. This year, alongside our development partners, we more than doubled the number of new homes we delivered to 832 this year (2016: 371) of which 324 were for rent (302 affordable rent and 22 social rent), 300 were for shared ownership, and 208 were for private sale.

We delivered 832 homes this year:



Our new homes at Times Square in Welwyn Garden City are available for rent and sale.

Of those 832 homes, 624 formed part of our GLA and HCA 2015-18 programmes – through which we expect to receive at least £23m largely via recycled capital grant funding, which in turn will help to deliver a total of 1,044 homes by 2018.

In addition to building new homes, we invested in the infrastructure of the areas where we operate – partnering with the local community and stakeholders on long-term physical, economic and social regeneration. This year we achieved significant progress on our major regeneration projects in London, comprising Clapham Park and Ashmole in Lambeth and West Hendon in Barnet.

In completing the Transfer of Engagements for Clapham Park Homes into its Metropolitan parent in January, we opened the way to funding the remaining phases of this flagship regeneration scheme. Work currently underway includes the building of 242 new homes for affordable rent and sale, and a new nursery. We worked closely with the London Borough of Lambeth on a detailed, revised development framework to make sure the regeneration will deliver what the local community needs today and into the future.

With the assistance of specialist consultants which we engaged in August 2016, we are undertaking a consultation with local residents and stakeholders on a revised Clapham Park masterplan. Consultation initiatives have included exhibition events, interactive workshops and surveys. Four local residents were employed to help with the consultation, which has also included educational projects with two local primary schools. We plan to submit a new planning application for the delivery of the rest of the regeneration this summer.

This year also marked the completion of our regeneration of the Ashmole estate in south London. Over the course of the project, more than 500 homes benefited from a programme of refurbishment, and a range of improvements were made across the estate – including the introduction of new community facilities and recreation spaces.

Elsewhere in London, work at our joint venture (JV) development with Barratt London in West Hendon made good progress – a total of 142 new homes were delivered and a new community hub completed. Demolition works were completed and ground works started on the next phase, which will deliver 909 new homes.

Overall this year we invested £190m in acquiring land and building new homes (2016: £114m). We have a delivery pipeline of 5,803 units (2016: 3,410) and we are now on track to meeting our strategic objective of delivering new homes at a rate of 1,000 per year by 2018/19.

Our strategy remains to pursue development opportunities in our established geographical areas of Greater London, the East Midlands and the East of England – with a continued focus on the M1/M11 corridor. Our approach has been to buy prospective developments based on their planning approved tenure mix, developing as many affordable homes as possible within our financial viability criteria.

One of our aims is to help more people to own their own homes, or to purchase greater shares of their homes. This year we improved our performance, completing 272 sales (2016: 220) – comprising 240 homes for shared ownership and 32 homes (excluding JV homes) for private sale – and enabling 212 (2016: 264) households to own a greater proportion of their own home through staircasing.

A growing provider of care and support services

In a period of prolonged uncertainty for the sector, our care and support business, which also has accountability for the management of more than 6,000 units of supported housing, has performed well again this year. We secured £5m of annualised new business income (2016: £2.5m) in our specialist areas: older people, mental health and transitional services which provide intensive support to marginalised or vulnerable individuals or groups.

2016/17 marked the completion of a three-year rationalisation and turnaround programme. Our focus during this time has been on establishing solid foundations from which to grow the business in a very challenging market.

We have adapted to an environment of continued pressure on local authority funding and proposed policy change by continually reviewing our contracts and services with a view to reconfiguring and adapting our business plan as necessary. We have exited from or re-modelled services which were not financially viable or which did not meet our strategic objectives around risk or delivery of greater personal independence outcomes for our customers. We have also changed our management structure to enhance our organisational efficiency and capability.

The business is now viewed as a stable and effective partner for service commissioners and customers in these challenging times. This was evidenced during the year by a total of 17 contract extensions of between six months and three years.

One of the most significant contracts we entered into this year was a 140-customer extra care service in Brent delivered across four properties. Following the transfer of the service to Metropolitan in November 2016, the service has been remodelled to deliver an integrated care and support service based on customer-focused outcomes where colleagues are paid the London Living Wage.

In October, we completed the transfer of our learning disability services in Cambridge – essentially life-time homes for people with moderate to profound learning disabilities - to Voyage Care. The cluster of eight Care Quality Commission (CQC) registered services had been an area of focus for some time following two "inadequate" CQC ratings in October 2015. The decision to exit the contract was ours and we worked closely with these services to improve their standards of care, and at the time of transfer, the majority of services were rated as 'good'.

At the end of year, 11 of the 13 CQC-registered services in our portfolio had a 'good' rating in terms of the five key elements assessed by the CQC in its inspection reports – putting us comfortably above average for the sector. The two other services had a 'requires improvement' rating, with both actively working to an improvement plan.

Our safeguarding team, set up just over a year ago, has spent much of the year helping us to develop a more consistent and rigorous approach across the whole organisation.

Going forward, we will continue to assess potential risks and impacts of proposed policy change, including the potential capping of Housing Benefit at Local Housing Allowance levels across all supported housing in 2019. In this context, as well as seeking to inform and shape proposed change, we are currently investigating ways of designing future schemes to keep service charges as low as possible and make supported housing more affordable and accessible. For example, the model we are developing for older people is to build new schemes in the heart of local communities, where customers can access local amenities rather than having to pay to have them provided on-site.

The Metropolitan Migration Foundation

The Metropolitan Migration Foundation uses income from an endowment to help make migration work for people and communities. This year we refreshed our strategy for the fund. We continued to invest in organisations that resolve destitution and benefit the communities in which we work.

We also made new investments in schemes that increase homeless bed spaces, those that renovate empty property to provide crisis support and accommodation, and organisations that help refugee children to integrate after their arrival into the UK. We also trialled preventative work to help new housing customers avoid destitution and remain independent.

Investing in our people

We are as ambitious for our people as we are for our customers and this year saw a number of positive changes in this area of the business.

During the year we had an average of 1,436 full-time equivalent staff (2016:1,321). This included 188 colleagues in our in-house repairs service, Metworks.

Our overall colleague engagement score remained the same as last year at 67%. We recognise that this is an area for improvement and have a programme in place to build on our current performance and raise overall engagement levels.

We are proud to be a diverse organisation, and see this as a real strength. We continue to run a very active diversity and inclusion programme and have consistently been a Stonewall Top 100 employer for the past 12 years. Alongside our LGBT staff network group, we have groups relating to gender, physical and mental wellbeing at work, and ethnicity.

Stonewall Top 100 employer for 12 years

During the year, we strengthened our senior management team by hiring a number of new and talented leaders from a range of sectors, providing us with new insights, innovation and best practice. We continue to focus on ensuring robustness in our executive and senior teams.

We began a comprehensive Hay job evaluation process to ensure fairness and increased rigour in our pay and organisational structures.

We also reviewed our performance management system and will introduce a new approach, better suited to the organisation's needs in the new financial year.

Our health and safety capability was enhanced with a new head being appointed and a plan agreed to augment the team further.

To provide a better service to the business in the future, we have been putting plans in place to bring our recruitment function in-house in the new financial year.

A year-long leadership development programme was put in place for 25 senior managers to further strengthen management capability and succession strength. This programme will broaden, to include a wider management group in the year to come.

To address challenges in the care and support sector around recruitment and retention, we developed a career and pay progression approach called Metrocademy. This will offer real development opportunities, based on acquiring key skills and qualifications, to enhance employees' contributions. We believe it will differentiate Metropolitan as an employer of choice in the sector.

We are also adapting to new changes to employment legislation including the new apprenticeship levy which will see us take on up to 12 apprentices and the gender pay reporting regulations, our reporting for which will take place in early 2018.

IT infrastructure

We successfully transitioned our core IT infrastructure to private cloud-based technologies during the year, reducing cost, improving reliability and agility, and delivering greater value for money.

A major project to overhaul our desktop, network and mobile platforms commenced, allowing our teams to work more efficiently and flexibly with the introduction of upgraded hardware and modern mobile devices.

The IT team supported our Metworks in-house repairs service as it bedded down in the East Midlands, following its launch in the region in February – as well as its expansion to London following the end of the financial year.

We take cybersecurity very seriously and during the year delivered continuous improvements to our IT systems to ensure the maintenance of our strong overall risk profile.

Customers and colleagues work together to improve services.

Executive Director of Finance's review

Financial review

There were three key highlights in the year:

- Underlying operating surplus of £96.3m rose by £2.6m compared to last year
- We completed the Transfer of Engagements on Clapham Park which enabled us to restructure the loan book in a way that will release investment funding for this key regeneration project, and led to an improvement in our viability rating to V1
- We completed the dissolution of the St Martin's regeneration project, resulting in disposal profits of £11.5m.

Operating surplus was £96m

Overview

Group turnover was £266m (2016: £238m), up 11% on the prior year. The main contribution to this increase came from turnover from outright sales and first tranche sales of £38m (2016: £14m).

Operating surplus was £96m (2016: £94m*) up £2m, due to additional surplus from outright and first tranche sales offset by increased depreciation costs.

Total surplus was flat at £80m (2016: £81m*).
We continued to experience strong performance from our shared equity operations, including shared ownership equity sales ('staircasing') and mortgage loan buy-backs ('redemptions'). Net interest cost and related finance charges were down 7% at £46m (2016: £49m). More details of the performance of the individual operating units and segments are found in the Chief Executive's strategic operational review from page 8.

Cash generation remained strong with free cash flow of £44m in the year (2016: £45m). Capital expenditure on development projects was £190m (2016: £114m).

Covenant gearing ended the year at 59% (2016: 60%) and interest cover was 3.0 times (2016: 3.1 times)

* Comparative operating and total surplus were adjusted for a £9m exceptional pensions charge pursuant to a SHPS triennial valuation and restated for £3m of additional amortised grant on shared ownership properties.

Segment margin analysis

	2016/2017			2015/2016		
	Turnover £m	Operating surplus £m	Margin %	Adjusted* turnover £m	Adjusted* operating surplus £m	Adjusted* margin %
Housing lettings	158.2	65.6	41	161.3	68.8	43
Care and Support	58.9	15.6	26	53.4	14.0	26
First tranche sales	34.8	11.0	32	12.2	3.7	30
Outright sales	2.8	0.3	11	1.5	1.1	73
Other	11.0	3.8	34	10.0	6.1	61
Total	**265.7**	**96.3**	**36**	**238.4**	**93.7**	**38**

* Restated for grant amortisation on shared ownership properties, and adjusted and stated before a £9m charge related to pension deficit reduction scheme obligations pursuant to the triennial valuation of the SHPS pension scheme

Lettings surplus was £66m (2016: £69m). This year saw the introduction of the government's 1% rent deflation policy, which reduced our rental income by around £1.5m. Increased unit numbers, and a continued focus on arrears, voids management and service charge recovery, meant that this impact was more than mitigated. Our lettings surplus included the operational result of Metworks, our in-house contractor, which went live in the East Midlands at the start of the year and was rolled out in London following the end of the financial year.

Care and Support margin was £16m (2016: £14m), up 11%. This year we completed a programme of contract rationalisation, exiting contracts that did not match our risk and return profile. With the exception of those targeted exits, no other work was lost during the year, with a number of commissioning bodies extending our contracts by negotiation. The contribution to central overheads from our Care and Support service contracts business was 16% (2016: 15%), in line with our tender expectations.

Combined margin from first tranche sales (of shared ownership units) and outright sales was 30%, or £11m (2016: £5m), in line with our expectations for both volumes and selling prices.

Surplus from asset disposals

The Group continues to earn strong margins from its shared ownership portfolio, generating a surplus of £11m (2016: £13m) from staircasing transactions at an average margin of 32% (2016: 40%). In addition, we delivered a surplus of £9m (2016: £9m) from mortgage loan redemptions and a net £12m surplus (2016: £24m) from land asset disposals, including profits in respect of the dissolution of the St Martin's partnership.

Finance costs

Net interest costs for the year ended 31 March 2017 were £47m (2016: £49m). External interest receivable amounted to £1.5m (2016: £3.2m) and total interest payable was £48.5m (2016: £52.3m). Non-cash fair value adjustments totalled -£0.9m (2016: £0.7m).

Cash generation and utilisation

The Group continues to deliver a strong operating cash performance. Free cash in the year was £44m (2016: £45m). Development spend in the year was £190m (2016: £114m). We spent £29m (2016: £23m) across our existing estate on home improvements, our highest ever annual investment.

Development spend in the year was **£190m**

Balance sheet

The net book value of housing assets was £2,839m (2016: £2,729m), with £17m (2016: £15m) of depreciation charged in the year. This figure includes assets under construction at 31 March 2017 of £147m (2016: £145m). Current assets, including development work in progress (WIP), were £237m (2016: £250m), reflecting higher levels of development WIP and high cash balances, following the bond issue. Short and long-term creditors are £1,575m (2016: £1,621m), including £1,046m of borrowings (2016: £1,095m) and £102m (2016: £96m) of housing grant repayable. Total provisions amounted to £10m (2016: £15m), as we utilised various provision balances, largely in respect of transactions relating to our historic VAT arrangements.

Funding and treasury

At 31 March 2017, Metropolitan had net debt of £969m (2016: £889m). We define net debt as amounts owed to lenders less funds available to repay lenders. 95% (2016: 92%) of the loan book was fixed at rates of interest ranging from 2% to 12%, with the remainder at floating rates of interest. We had £189m (2016: £189m) of derivative contracts forming part of our fixed rate hedging. Our overall cost of debt was 4.9% per annum (2016: 5.0%).

In 2015, Metropolitan Group was awarded a debut credit rating by Standard & Poor's, a leading credit rating agency in the sector, prior to issuing a public bond. At the anniversary of that issue in 2016, we were pleased to report that, allowing for the downgrade of the underlying sovereign debt, we maintained our credit rating, rated A+ (negative), which is one of the strongest in the sector.

At 31 March 2017 the Group had committed undrawn facilities of £328m (2016: £377m) – which are fully secured and available at 48 hours' notice – in addition to cash and short-term investments balances, totalling £418m (2016: £599m). Cash is invested at average returns of 0.3% (2016: 0.6%). The Group remains well funded and has sufficient resources to meet the requirements of its future development plans.

Managing treasury risk

Treasury risk management is a key and complex area of financial control and is included here separately from the report of the Board and the statement on internal controls.

Governance and control

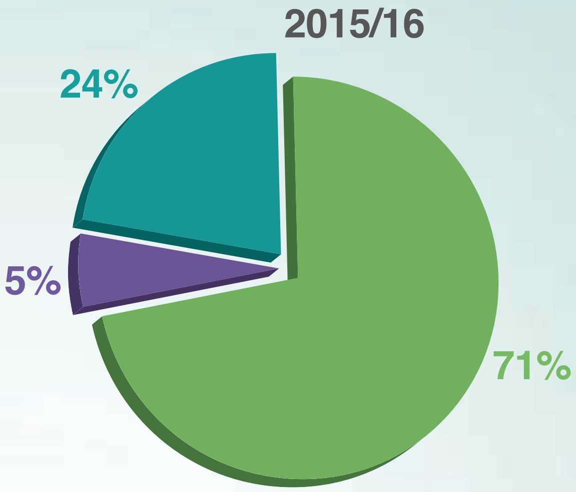
Metropolitan operates a central treasury function under a Head of Corporate Finance who reports to the Executive Director of Finance. Oversight is provided by a Treasury Committee of experienced and qualified non-executives who report in turn to the main Board. The activities of the treasury function are governed by a treasury policy and strategy which are approved each year by the Treasury Committee and Board. The policy is based on the CIPFA Code of Practice for Housing Associations as well as treasury management policy statements and good practice notes issued by the Homes and Communities Agency (HCA) and its predecessor bodies.

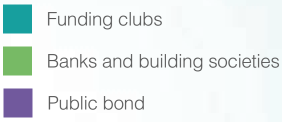
A risk-based approach is adopted with the overriding objective of managing risk in line with the Board's risk appetite. Risks are regularly assessed and recorded in the Finance risk register, which forms part of the Group's risk register.

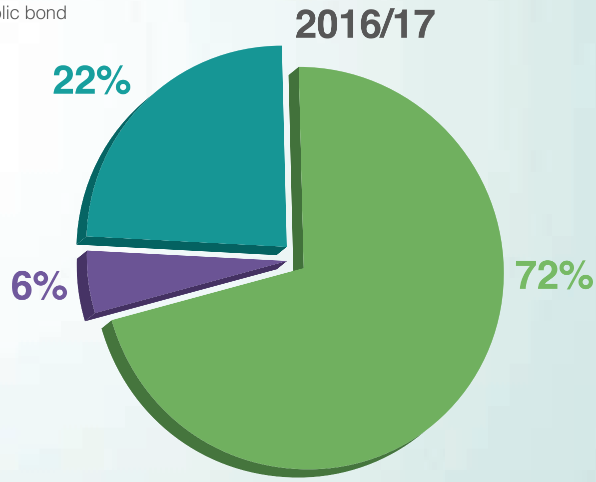
Loans and credit structure: maturity risk

The Group is funded from a number of sources including long-term loans, bonds, retained earnings and various forms of grant primarily provided by government agencies. All funding is denominated in sterling: the Group has no foreign exchange exposures.

The funding sources are split as follows:







As detailed in note 23 to the accounts, the borrowings and related interest rate hedges are structured with staged maturities to ensure that no more than 10% of the total loan book matures in any one year and to mitigate the related refinancing risk. Metropolitan has £56m (2016: £93m) of loans maturating in the next five years, which represents 5% (2016: 8%) of our total drawn loans.

Interest rate risk

The Group has entered into a number of hedging contracts in order to mitigate the risks on interest cost volatility arising from its floating rate debt and RPI-based cash flows. At 31 March 2017 95% (2016: 96%) of the Group's total debt cost was hedged either by fixed interest arrangements, floating-fixed swaps or index-linked loans.

As detailed in note 19 to these accounts, Metropolitan has £189m (2016: £189m) nominal value of ISDA swaps which hedge interest costs at rates between 2% and 6%. The mark to market exposure is monitored closely and collateralised with a mixture of cash and property assets.

Counterparty risk

Surplus cash is invested with approved banks and counterparties with the priority on the preservation of capital rather than maximising returns. The treasury policy requires that the maximum deposit exposure to any approved bank is £10m, with the exception of the Group's operational bank, Lloyds Bank plc, where a higher level is approved.

Covenant compliance

Metropolitan's loan covenants are based primarily on interest cover and gearing ratios. Interest cover is calculated after adding back housing property depreciation and includes surpluses from property sales, including staircasing. Covenant gearing is calculated as total debt divided by general reserves and housing grant. Interest cover and gearing ratios are monitored monthly and reported to the Board. Quarterly performance information is provided to our lenders and we hold meetings annually with bondholders and lenders, and provide covenant certification as part of the annual audit process. As a result of the Transfer of Engagement with Clapham Park Homes, loans of £117m have been novated to Metropolitan.

Liquidity risk

We prepare monthly and quarterly cash flow re-forecasts and, in addition, at least annually we carry out a budget and long-range forecasting exercise which ensures we can expect to operate well within our safe limits for covenant tests, even under highly adverse changes in performance and market conditions.

Short-term surplus cash balances are placed on deposit for terms of not more than 364 days, with a number of approved counterparties. Cash balances held are sufficient to fund short-term development, capital expenditure and working capital requirements.

Value for money

Value for money at Metropolitan

Value for money is fundamental to the way Metropolitan operates – it is woven through the organisation as part of our culture. When we talk about our values, we talk about "delivering social value through commercial strength". Seeking to have the maximum impact with the resources at our disposal underpins our way of working.

Clearly, we actively manage our performance to improve value for money. As the table on page 25 shows, we have been successful in a number of key areas. But value for money must be considered with reference to our purpose of providing housing and services to those in need. We measure customer outcomes through independence steps at Metropolitan. Delivering value for money is about striking the balance between efficient delivery and doing the most we can for our residents and customers.

Increasingly, our approach to delivering value for money – be that through optimising our return on assets or refining our development strategy – involves striking a considered balance between financial and social return. For Metropolitan, delivering value for money is about balancing the interests of all our stakeholders.

Value for money and the regulator

Our sector regulator, the HCA, publishes a Value for Money Standard to which we must demonstrate adherence. It requires each registered provider to understand its cost base and return on assets, and to have the appropriate performance management and scrutiny functions in place to deliver improved value for money. This standard is increasing in prominence and – as demonstrated by our recent viability rating upgrade following an In-Depth Assessment by the HCA – is one we take very seriously. We publish our formal report on value for money annually in September.

How we deliver value for money

Throughout the organisation, co-ordinated processes ensure our delivery of value for money. In outline, these are:

- Governance: Our Executive Team and Board scrutinise performance, review policies and ensure compliance. The Board is accountable for ensuring our compliance with regulatory standards.
- Business planning: The budgets and objectives set by the organisation seek to 'raise the bar' on performance and efficiency.
- In-depth cost-base analysis: We have a number of initiatives, e.g. on asset performance and service charges, aimed at developing a richer understanding of our cost base, in order to identify opportunities for further improvement.
- Performance tracking: We scrutinise and report on our ongoing operating performance to identify trends and areas of opportunity for improvement.
- Developing new operating models: Where the operation can be improved, we constantly look at ways of delivering better service more efficiently.
- Resident involvement: We use resident forums to capture valuable feedback from our residents on where and how to improve – this helps us understand value for money from the perspective of our customers.
- Our colleagues: Our people are key to delivering the right service to our residents and we are reviewing our reward and recognition policies in order to ensure we drive the right delivery.

Our value for money performance

Some of our key costs lines are shown in the table which follows as actual and on a per unit and % of revenue basis.

Overall, these numbers show a strong positive movement. This performance has been underpinned by some key highlights during the year, as described in the following section.

Actuals (£m)		**2016/17**	**2015/16**	**2014/15**	**2013/14**
Key denominators	Units owned	36,709	35,984	35,627	35,503
	Units not owned but managed	796	1,847	2,788	2,818
	Total units	37,505	37,831	38,415	38,321
	Staff FTE	1,541	1,321	1,308	1,453
	Group revenue	265.7	234.9	230.3	256.2
Central costs	Staff cost base	52.3	49.6	42.3	44.2
	IT costs	5.4	5.0	5.3	5.2
	Printing and copying	0.1	0.2	0.2	0.5
	Office property costs	2.1	2.2	2.5	3.4
Financing costs	Debt interest cost	47.5	52.3	52.0	52.3
Key operating costs	Responsive repairs	16.6	18.6	14.0	16.7
	Planned maintenance	10.4	9.1	7.5	7.4
	Major works	32.6	22.8	12.1	15.2
Opportunity costs	Lost revenue	2.7	4.3	5.3	3.6
	Arrears	18.8	21.8	23.0	22.9

Per unit		**2016/17**	**2015/16**	**2014/15**	**2013/14**
Central costs	Staff cost base	1,394	1,311	1,101	1,153
	IT costs	144	132	138	136
	Printing and copying	1	5	5	13
	Office property costs	56	58	65	89
Financing costs	Debt interest costs	1,265	1,382	1,354	1,365
Key operating costs	Responsive repairs	442	492	364	436
	Planned maintenance	277	241	195	193
	Major works	868	603	315	397
Opportunity costs	Lost revenue	72	114	138	94
	Arrears	501	576	599	598

% of revenue		**2016/17**	**2015/16**	**2014/15**	**2013/14**
Central costs	Staff cost base	19.7%	21.1%	18.4%	17.3%
	IT costs	2.0%	2.1%	2.3%	2.0%
	Printing and copying	0.0%	0.1%	0.1%	0.2%
	Office property costs	0.8%	0.9%	1.1%	1.3%
Financing costs	Debt interest costs	17.9%	22.3%	22.6%	20.4%
Key operating costs	Responsive repairs	6.2%	7.9%	6.1%	6.5%
	Planned maintenance	3.9%	3.9%	3.3%	2.9%
	Major works	12.3%	9.7%	5.3%	5.9%
Opportunity costs	Lost revenue	1.0%	1.8%	2.3%	1.4%
	Arrears	7.1%	9.3%	10.0%	8.9%

Delivering value for money

Throughout the year, value for money was demonstrated across a wide number of areas. Some of the highlights are explained below.

- We launched our in-house contractor, Metworks, in the East Midlands. In addition to delivering a better service to our residents (as measured through customer satisfaction), immediate operational benefits were delivered. As an example, repairs following voids work halved – and routine repairs were, on average, completed in just over half the target time.
- We were able to increase our major works spend. Historically, errors in our stock records led to a risk of inefficient spending and the scaling back of our major works programme. Our ability to increase the programme is a sign of improved stock records management.
- We lost less revenue due to a strong focus on improving our voids turnaround time, with an improvement of several weeks on the year before. This improvement has come through a focus on both long-term voids as well as the overall voids management process.
- The reduction in arrears due to the successes of our tenancy sustainment initiative. By working with Experian, we have been able to target customers for support even before arrears arise.
- Our Care and Support business lost none of its contracts and had 17 extended. We see this as evidence that services are meeting the needs of customers and commissioners – and this allows us to develop our services far more efficiently.
- We are currently undertaking a root and branch review of how we deliver our services to customers. This covers defining all service levels, both internally and to end customers, so that we are focusing on delivering services as we should, at the cost we expect.
- Across the business, we delivered a huge number of independence steps as the concept became championed across the business. We see this as showing that our colleagues are focusing on delivering outcomes that matter to customers.

Our in-house contractor Metworks went live in the East Midlands at the start of the year and was rolled out in London following the end of the financial year.

How we compare with the sector

	Measure/indicator	MHT Group 2017	MHT Group 2016	g15 2016 average - revised basis
	Business health			
1	Operating margin:	-	-	-
	- Overall	36%	35%	32%
	- Social housing lettings	40%	43%	36%
2	EBITDA MRI (as a % of interest)	152%	135%	190%
	Development			
3	Units developed	832	371	781
4	Units developed as % of units owned	2.6%	1.2%	2%
5	Gearing (total debt/housing properties)	37%	41%	45%
	Outcomes delivered			
6	Customer satisfaction	58%	56%	76%
7	£s invested in new housing supply for every £ generated from operations	£2.90	£1.32	£1.20
	Effective asset management			
8	Return on capital employed	3.6%	3.6%	4.5%
9	Occupancy	99.88%	99.61%	n/a
10	Ratio of responsive repairs to planned maintenance spend	0.39	0.57	0.64
	Operating efficiencies			
11	Headline social housing cost per unit	£4,414	£4,033	£4,690
	- Management cost	£1,175	£1,151	£1,278
	- Service charge	£848	£854	£613
	- Maintenance cost	£846	£859	£1,084
	- Major repairs	£1,020	£727	£855
	- Other social housing cost	£525	£442	£860
12	Rent collected	99.6%	100.8%	98.0%
13	Overheads as a % of adjusted turnover	12.2%	10.4%	11.7%

Most of our variances to the sector reflect our business mix, in that we have different volumes of outright sales and Care and Support contract operations compared with the g15 average. These dilute operating margins and increase service costs per unit; however, we remain a consistent and strong performer in our core social housing lettings business. The high level of new homes completions and the increase in investment in new housing reflect our focus in this area over the last three years. Voids and arrears rates have also shown continued improvement over this period as a result of our business improvement initiatives. A particular area for improvement going forward (and addressed in the Chief Executive's strategic operational review) is customer satisfaction, where we have a number of strategic initiatives in place.

Managing our return on assets

A top level view of our return on assets performance comes from comparing our letting properties (general needs, supported housing etc.) with our low cost home ownership (LCHO) properties. As the table below shows, the scale of our development programme, combined with the rent deflator effect and an increase in our major repairs programme, has led to a dilution of our lettings returns – although LCHO returns, which are not impacted by the deflator effect, have shown a marked improvement.

	2017 Lettings	2017 LCHO	2017 Total	2016* Lettings	2016* LCHO	2016* Total	2015 Total
Surplus	£59.100m	£20.396m	£79.496m	£65.227m	£18.942m	£84.169m	£76.438m
Net book value**	£2.336bn	£0.307bn	£2.643bn	£2.242bn	£0.291bn	£2.533bn	£2.533bn
Return on assets	2.5%	7.6%	3.0%	2.9%	6.4%	3.3%	3.0%

* The figures for 2016 have been restated for an additional £3.549m of amortised grant income
** Based on closing net assets – deemed cost

We are required by our regulator to manage our asset base effectively. As a social landlord we believe that our approach to optimising return on assets needs to be more sophisticated than a straight comparison of financial return.

Therefore, we have developed our own unique approach to managing the social value we deliver. In this context, we define social value as the benefit delivered to the customer through rental discount between the local market and our rents. This allows us to combine higher performing assets (from a financial point of view) with those where a greater discount is given to a customer – for instance in comparatively expensive areas such as cities. We strongly believe this is a powerful approach that helps foster healthy mixed communities and counters the movement of lower income groups to satellite communities. As such, this stands as a strong example of value for money being delivered to our customers.

Metropolitan has invested in IT infrastructure which allows us to understand the performance of individual assets. The output is used both strategically as above but also tactically. Successful trials have used the output to drive tactical local investigations into asset underperformance. This has allowed improvements to be made based on detailed local knowledge.

Future initiatives

As the business moves into a new phase, the challenges of delivering value for money have moved beyond immediate (and important) activities such as delivering operational efficiency. We need to develop an even deeper understanding of customers' needs and attitudes, and shape our delivery accordingly.

Our business plan contains a number of themes aimed, ultimately, at improving our performance and enhancing the value for money that we deliver. Examples include:

- Metworks is taking on an increasingly prominent role, both geographically and in the services that it delivers. This has the benefit of improving our cost control while at the same time delivering a better service to customers.
- Launching research into customer attitudes, aimed at supporting the design of even more effective services and interventions.
- Roll-out of mobile working technology, in tandem with upgrades to our IT. This will improve our colleagues' ability to work effectively and efficiently, reducing the time taken by front line staff on administrative tasks.
- Further development of our portfolio strategy, based on the approach described above.

These examples are supplemented by a raft of initiatives delivered through our Service Improvement function that seeks to deliver a better service to our customers at a lower cost.

Jenny Danson (left), Executive Housing Services Director and Christiana Collins (right), finalist on our Pitch Your Idea programme for entrepreneurs in Lambeth.

Statement on corporate governance

Metropolitan has adopted the 2015 National Housing Federation's (NHF) 'Code of governance – promoting board excellence for housing associations'. Metropolitan complies with the requirements of the code and, in fulfilling its obligations under the code, makes use of good practice drawn from guidance associated with the code, the UK Corporate Governance Code and, where relevant, the Charity Commission.

Governance

The Metropolitan Housing Trust (MHT) Board acts as the Parent Board for the Group with overall responsibility for Group strategy and oversight. MHT and its subsidiaries are governed by the same policies. Each subsidiary also has a board and the Parent Board has nomination rights to each of the subsidiary boards, and makes all the appointments to Board committees. In January, as part of an agreed plan to improve the funding arrangements for delivering the regeneration programme, Clapham Park Homes Limited undertook a Transfer of Engagements to Metropolitan Housing Trust Limited. This is a process provided for in the Co-operative and Community Benefit Societies Act 2014, which allows similar organisations to transfer or amalgamate.

The other group subsidiaries are Metropolitan Living Limited, Clapham Park Development Limited, EM Property Services Limited (our in-house repairs contractor, trading as Metworks), Metropolitan Funding plc (our funding vehicle), Longsdale Limited and Spiritagen Limited. The wider group also includes two joint ventures which operate through limited liability partnerships.

The MHT Board has satisfied itself that the organisation complies with the HCA's Governance and Financial Viability Standard. Following an In-Depth Assessment by the Homes and Communities Agency, Metropolitan has achieved the highest governance and viability ratings – G1 and V1 – which is a reflection of the achievements made by the organisation.

During the year, the MHT Board met on 12 occasions, including two strategic away-day sessions when the Board considered future growth and development plans and the Group's long-term strategy.

The MHT Board comprises nine non-executive members and two executive members (the Chief Executive and the Executive Director of Finance). There are Parent Board members on the boards of subsidiaries in the Group, which provides a clear line of sight to the main MHT Board.

The roles of Chair of the Metropolitan Board and Chief Executive are separate, reflecting the different responsibilities of leading the Board and the Executive. These roles are defined in writing and each member of the Board is bound by an agreement for services, the code of conduct and other agreed policies and documents. The secretary maintains a group register of Board members' interests, which is updated on a regular basis.

The Board committee structure includes the following Group committees, which meet on a quarterly cycle. Each committee provides a report to the main MHT Board after it meets and also provides an annual assurance report on activities reviewed during the year. Committee membership comprises Board members in the main, with specialist and resident input on the Safeguarding and Quality, Customer Services, and Clapham Park Homes committees.

Safeguarding and Quality Committee

The Safeguarding and Quality Committee provides assurance that Metropolitan is a quality provider of care and support services and safe housing services for vulnerable children and adults. The committee reviews how Metropolitan responds to serious incidents of harm to customers and colleagues, reviews outcomes from Care Quality Commission reports and embeds learning from these throughout the business. The committee includes input from independent external experts in the safeguarding field.

Audit and Risk Committee

The Audit and Risk Committee is responsible for ensuring that internal controls are adequate and effective and that the organisation's approach to risk management is commensurate with risk appetite. The committee approves the internal audit work plan and reviews internal audit findings. It considers significant issues relating to the financial statements, including the accounting policies. It also recommends the appointment of internal and external auditors.

Development Committee

The Development Committee provides oversight and assurance in relation to new developments, including any new or innovative proposals, and an understanding of funding mechanisms. Its remit also includes oversight and assurance of regeneration activity at Clapham Park and West Hendon, and key metrics for development finance and appraisal assumptions.

Customer Services Committee

The focus of our main customer-facing committee has changed and the Customer Services Committee (CSC) now provides assurance to the Board on our service delivery and customer service. There is a direct link with the customer-led scrutiny committee through service audits, and the National Customer Group, providing valuable customer insight. The committee is combining its meetings with estate visits in order to develop members' knowledge about our properties. The committee includes four resident members.

Customer participation is achieved through the Customer Services Committee, scrutiny committees and the National Customer Group. Customers are also members of Clapham Park Homes Committee and the Parent Board.

Treasury Committee

The Treasury Committee provides an expert focus on the management of the Group's loans and investments portfolio.

Nominations Committee

The Nominations Committee keeps under review the composition of the Board and the framework for appointing, developing and appraising Board members. During the year, the Committee took responsibility for overseeing the appointment of two new Board members.

Remuneration Committee

The Remuneration Committee has oversight of senior executive pay and remuneration matters, including Board member remuneration.

Clapham Park Homes Committee

Following the Transfer of Engagements from Clapham Park Homes, the Clapham Park Homes Committee was established to ensure that residents continue to be engaged in the regeneration and management of the Clapham Park estate. The committee had its first meeting in April. Membership includes four resident members and a Lambeth councillor.

Corporate and social responsibility

As a social business we believe corporate responsibility and sustainability should be embedded across our organisation. This includes working with suppliers to embed sustainable practices and our commitment to openness and transparency.

The Modern Slavery Act requires Metropolitan to disclose information relating to the steps we have taken to ensure there is no slavery or trafficking in its own business or supply chains. The risk of slavery and human trafficking within our organisation is avoided and mitigated by policies and procedures.

As part of our continued commitment to identify and mitigate risk we use the central government procurement documents which address modern slavery. Where applicable our procurement documents request transparency in relation to working conditions, including health and safety, fair remuneration, non-discrimination and forced, cheap labour. We continue to expect our incumbent and new suppliers to have up-to-date, suitable anti-slavery and human trafficking policies and processes.

Induction, development and appraisal of non-executive Board members

All non-executive Board members are required by the rules to be members of Metropolitan. All members of the Board, executive and non-executive, have the same legal status and share responsibility equally for decisions taken by the Board.

The Board undertook a review of its effectiveness in early 2016 and an independent external assessment of the Board's performance is scheduled for later this year.

Remuneration of non-executive Board members

The level of remuneration of Board members has been arrived at after benchmarking levels of Board member pay in comparable housing associations, and takes into account the need to attract, retain and motivate members who have the required levels of skill and experience. Board members' salaries were increased in 2014/15; these levels have been maintained for this financial year.

Metropolitan has robust, transparent and independent systems for the recruitment of Board members. Advertising for new members is sufficiently broad to ensure that equal opportunities and diversity standards are met and the recruitment process is governed by principles of transparency, openness and accountability. Two Board members were recruited during the year and their skills and experience complement those of other Board members. A Board member skills audit has been undertaken, which confirms that the Board has an appropriate range of skills in place.

Individual Board members' performance is appraised annually by the Chair and each Board member has clear objectives for the year. The Chair's role is also annually appraised, with the process led by the Senior Independent Director. There are clear mechanisms in place for members who fall short of the required standards.

Note 10 in the notes to the accounts shows the salaries paid to Board members and expenses incurred during the discharge of their duties during 2016/17.

Expenses mainly comprise travel costs incurred in order to attend Board and Committee meetings. Board members are based in geographically diverse areas of the country and so the necessary travel expenses incurred in order to attend meetings will vary between members.

Board statement on internal control and risk assurance

Internal control and risk

The Board has overall responsibility for the system of internal control and risk across the Group and for reviewing its effectiveness.

The review process

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

The framework also exists to give reasonable assurance about the reliability of financial and operational information and the safeguarding of Metropolitan's assets and interests. The Audit and Risk Committee regularly reviews the effectiveness of internal controls through the assurance provided by internal audit, regular updates on risk management and assurance provided by the Executive Team.

The Board is responsible for overseeing the framework of delegation and systems of internal control, including risk appetite and strategic risks. The Board has reserved certain matters to itself, including determining the long-term business objectives of the group and any material decisions. A formal scheme of delegation and financial regulations set out the delegations framework in place for Board committees, the Chief Executive and the Executive Team. Board committees provide assurance to the Board on key areas of activity such as service delivery, safeguarding, and finance and treasury.

Key risks and mitigations

The key risks and how they are mitigated are summarised below. The approach to strategic risk identification and risk management is firmly embedded across the Group. Management responsibility is clearly defined with regard to the identification, evaluation and control of significant risks. The formal ongoing process of risk review includes a strategic risk review at each meeting of the Audit and Risk Committee and the Board. The review by the Executive Team includes a review of the strategic risks and scheduled review of risk registers for each operational area.

At Metropolitan we have a systematic approach to risk and uncertainty that has been embedded within the business at multiple levels. This approach ensures ownership of risks, and the management and mitigation of them, throughout the organisation.

Each operational area of the business has developed a risk register which is reviewed by its management team on a periodic basis. Risks can then be escalated to the next level based on an internal scoring matrix. These risks are then re-assessed and a decision is taken as to whether or not they should remain on the next level risk register. This process is continued at each level, ensuring that those areas that need focus at different levels within the Group receive the right levels of scrutiny.

At a Group level the risk register represents a combination of risk that may impact on our ability to achieve our strategic goals, as well as those that may have a significant impact on our operations. The risk register is reviewed by the Executive Team each month, the Audit Committee each quarter and the Board at all of its formal meetings.

The Board has also agreed its 'risk appetite' across various aspects of the organisation's work under the headings of finance, reputation, licence to operate, ethics and mission. The risk rating of the areas summarised in the table that follows, after mitigation is taken into account, is considered to be at, or heading towards, an acceptable level.

Key corporate risks

Risk	Impact	Mitigation
Customer risks		
Changes in public policy and legislation	Government reforms to benefits and rent control measures affect Metropolitan's income streams and business model.	We are using customer insight to proactively identify and provide support to customers who are likely to be affected by recent welfare changes. Our financial inclusion teams also use targeted approaches to work with customers who are at risk of falling into arrears. We are assessing areas likely to be most affected by current proposed changes to the funding model for housing with care and support.
Our digital customer interface is limited by availability of fit-for-purpose IT solutions	Reduced efficiency in customer service. Additional cost.	Full update of core data and housing management system is now completed. A capable Customer Relationship Management (CRM) interface is in the process of being procured.
Major changes must be made to buildings as a result of new and necessary standards emerging from the Grenfell fire	Without making these changes, Metropolitan may not be minimising risk to its residents.	The asset and development teams are keeping a close watch on the developing understanding of the fire and on recommendations as they emerge. Skills and resources exist in Metropolitan to enable changes to be made.
Best practice regarding fire precautions and evacuation procedures is likely to change	Without implementing this best practice, Metropolitan may not be minimising risk to its residents.	Our safety manager will initiate changes needed. A best practice review of the Metropolitan fire risk assessment processes used is underway.
Development risks		
Costs escalate at Clapham Park and this adversely affects the balance of the programme	Failure to deliver strategic development objective of 1,000 units each year which has adverse affect on business plan.	Masterplan for delivery of Clapham Park programme has now been agreed and a planning application is intended to be made in the near future. Regular cost reviews are taking place. Peak funding requirements identified and overall development programme phasing kept under constant review.
Exposure to market conditions and private sales	If there is a downturn in the property market, our ability to sell properties developed for outright sale and shared ownership will be affected, reducing trading surplus and cashflow.	The financial business plan has been stress tested to ensure there is resilience to downturns. Ability to convert properties built for sale to rented models and slowing down the development pipeline will alleviate impacts of a slowing market.

People/business risks		
Failure to build and retain talent within the organisation	A lack of internal candidates for permanent succession to senior roles. Additional cost of interim staff and recruitment.	Formal succession plans have been developed. Talent review process is embedded and capabilities identified. Senior Leadership Development programme underway.
Failure to adequately prepare for new General Data Protection Regulation	Being unable to comply with new regulation when it comes into effect fully in May 2018. Potential for fines.	Programme and timeline being developed which has highlighted key areas for action. Training already taken place on data protection impact assessments and records management project launched earlier in the year.
Cyber attack on IT systems	An inability to operate securely as a result of a malicious attack on IT systems. Business disruption affecting day-to-day operations and customer service.	Extensive firewall, virus protection and screening tools in place. Annual system restoration test undertaken by internal auditors, which was deemed satisfactory. Cyber culture awareness programme in place.

Specific financial risks are dealt with in the Executive Director of Finance's review.

Parkside Place in Clapham Park, south London, where we built 20 new town houses.

Information and financial reporting systems

Our business plan is monitored regularly by management and the Board to ensure that the business remains financially healthy and that targets for financial growth and other objectives are met in order to enable the delivery of our social objectives. The business plan is stress tested against a range of challenging regulatory, investment, economic, financial and business performance scenarios.

Our ability to control the business and monitor progress against plan has been enhanced by making improvements to the quality of our performance reports and monthly management accounts.

Fraud

Fraud is an ever-present threat to resources and may occur from outside or from within the organisation. Metropolitan has an approved fraud policy that covers the prevention, detection, investigation and reporting of fraud, including remedial action to prevent a recurrence. All cases of fraud and attempted fraud are reported to the Executive Team and to the Audit and Risk Committee. The policy was reviewed by the Audit and Risk Committee in April 2016. The group has appointed a Money Laundering Reporting Officer as part of its compliance with anti-money laundering legislation.

Anti-bribery and whistleblowing

Metropolitan values its reputation and is committed to maintaining the highest possible ethical standards in all its business activities. Metropolitan has a whistleblowing policy, 'Won't walk by', that encourages staff and others to express any serious concerns regarding suspected misconduct or malpractice going on within the organisation. Our anti-bribery policy makes clear that we have zero tolerance of any form of bribery. These policies were reviewed by the Audit and Risk Committee in April 2016.

Monitoring, control environment and control procedures

A process of control, self-assessment and regular management reporting on control issues provides hierarchical assurance to successive levels of management and the Board, together with an auditable trail of accountability. The certification is tailored to reflect the potential risks and the control environment of the business. This enables corrective action to be taken where appropriate and provides assurances to management and the Board. The CEO provides an annual assurance report to the Audit and Risk Committee and the Board, which includes assurance that key legislative and regulatory requirements have been met.

The Code of Conduct sets out Metropolitan's expectation of staff with regard to quality of service, business disciplines, honesty and integrity. It is supported by a framework of policies and procedures with which staff must comply.

These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection, and fraud prevention and detection. Policies are periodically reviewed in accordance with a prescribed timetable.

Audit assurance

The internal audit function is outsourced and reports directly to the Executive Director of Finance and has direct access to the Audit and Risk Committee. The internal audit programme of work is aligned to strategic objectives and risk. The Audit and Risk Committee meets four times a year and considers internal control and risk management at each meeting. The committee provides an annual report to the Board and a report following each of its meetings. The work of the external auditors provides further independent assurance on the control environment as described in their audit report. Metropolitan receives a letter from the external auditors identifying any weaknesses in internal control with recommendations for improvement. This letter is considered by the Audit and Risk Committee together with a detailed action plan to address any issues. A review of the effectiveness of the internal and external auditors takes place annually.

Going concern

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

Clapham Park in south London is one of the biggest regenerations of its kind in London wholly self-delivered by a housing association.

Statement of responsibilities of the Board

The Board members are responsible for preparing the report of the Board, which for Metropolitan comprises Chair's introduction, Chief Executive's strategic operational review, Executive Director of Finance's review, Value for money, Statement on corporate governance, Board statement on internal control and risk assurance and this Statement of responsibilities of the Board; and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law and social housing legislation require the Board members to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing these financial statements, the Board members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by Registered Social Housing Providers 2014 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Trust will continue in business.

The Board members are responsible for keeping adequate accounting records that are sufficient to show and explain the group and the Trust's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Trust and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

They are also responsible for safeguarding the assets of the Group and the Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for ensuring that the report of the Board is prepared in accordance with the Statement of Recommended Practice: Accounting by Registered Social Housing Providers 2014.

Financial statements are published on the Group and the Trust's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group and the Trust's website is the responsibility of the Board members. The Board members' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Signed on behalf of the Board

Paula Kahn, Chair

22 June 2017

Independent auditors' report to the members of Metropolitan Housing Trust Limited

We have audited the financial statements of Metropolitan Housing Trust Limited for the year ended 31 March 2017 which comprise the consolidated and Trust statement of comprehensive income, the consolidated and Trust statement of financial position, the consolidated and Trust statement of changes in reserves, the consolidated 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).

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

Respective responsibilities of the board and auditors

As explained more fully in the statement of board member responsibilities, the board members are 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 Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the Trust's affairs as at 31 March 2017 and of the group's and the Trust'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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- the information given in the Report of the Board for the financial year for which the financial statements are prepared is not consistent with the financial statements;
- adequate accounting records have not been kept by the Trust; or
- a satisfactory system of control has not been maintained over transactions; or
- the Trust financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

BDO LLP, statutory auditor
Gatwick, West Sussex
United Kingdom
23 June 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated and Trust statements of comprehensive income and expenditure for year ended 31 March 2017

	Note	Group 2017 £'000	Restated Group 2016 £'000	Trust 2017 £'000	Restated Trust 2016 £'000
Turnover	2	265,689	238,446	258,049	229,615
Cost of sales	2	(25,912)	(8,525)	(23,403)	(8,472)
Operating costs	2	**(143,517)**	**(136,270)**	**(138,896)**	**(129,451)**
Adjusted operating surplus	2,3 & 5	**96,260**	**93,651**	**95,750**	**91,692**
Remeasurement - amendments to the pension contribution schedule	24	-	(9,433)	-	(9,433)
Total operating costs		**(143,517)**	**(145,703)**	**(138,896)**	**(138,884)**
Operating surplus		**96,260**	**84,218**	**95,750**	**82,259**
Surplus on disposal of fixed assets	6	16,912	23,640	17,062	22,011
Surplus on disposal of fixed asset investments	6	8,721	9,498	8,721	9,498
Surplus/(deficit) on disposal of other investments		-	(257)	-	(257)
Revaluation of investments	35	1,856	(593)	1,856	(593)
Share of operating surplus in joint ventures	32	3,784	3,395	-	-
Interest receivable	7	1,456	3,215	2,733	3,384
Interest and finance costs	8	(48,459)	(52,276)	(44,758)	(46,767)
Movement in fair value of financial instruments	7	(1,557)	180	(1,557)	180
Movement in fair value of investment property	12	686	480	686	480
Surplus before tax		**79,659**	**71,500**	**80,493**	**70,195**
Taxation	11	(8)	(52)	-	(52)
Surplus for the year		**79,651**	**71,448**	**80,493**	**70,143**
Actuarial (loss)/gain on defined benefit pension scheme	24	(1,357)	320	(1,357)	320
Change in fair value of hedged financial instruments	8	(2,731)	(3,561)	(2,731)	(3,561)
Total comprehensive income and expenditure for the year		**75,563**	**68,207**	**76,405**	**66,902**

All amounts relate to continuing activities.
The notes on pages 45 to 88 form part of these financial statements

Consolidated and Trust statements of financial position as at 31 March 2017

Tangible fixed assets	Note	Group 2017 £'000	Restated Group 2016 £'000	Trust 2017 £'000	Restated Trust 2016 £'000
Housing properties	12	2,791,377	2,688,740	2,791,376	2,511,442
Investment properties	12	47,824	40,481	47,627	38,574
Other tangible fixed assets	13	12,020	11,444	11,772	11,162
Total tangible fixed assets		**2,851,221**	**2,740,665**	**2,850,775**	**2,561,178**
Investments					
HomeBuy loans	14	138,439	157,082	138,439	157,082
Other investments	15	26,796	82,037	26,809	77,049
Investments in joint ventures	32	7,989	8,162	-	-
		3,024,445	**2,987,946**	**3,016,023**	**2,795,309**
Current assets					
Stock	16	97,092	29,628	33,597	27,284
Debtors					
receivable within one year		36,136	37,456	42,387	33,541
receivable after one year	17	61	740	81,361	12,940
Cash at bank and in hand		104,190	182,283	103,099	171,252
		237,479	**250,107**	**260,444**	**245,017**
Creditors: amounts falling due within one year	18	**(135,638)**	**(156,916)**	**(134,076)**	**(155,832)**
Net current assets		**101,841**	**93,191**	**126,368**	**89,185**
Total assets less current liabilities		**3,126,286**	**3,081,137**	**3,142,391**	**2,884,494**
Creditors: amounts falling due after more than one year	19	1,439,878	1,464,386	1,439,560	1,288,153
Provision for liabilities	25	9,802	15,001	9,663	5,755
Pension liability	24	34,412	35,119	34,412	35,119
Capital and reserves					
Income and expenditure reserve		805,259	723,117	821,821	711,953
Cashflow hedge reserve		(27,082)	(24,351)	(27,082)	(24,351)
Restricted reserve		13,994	11,843	13,994	11,843
Revaluation reserve		850,023	856,022	850,023	856,022
Total reserves		**1,642,194**	**1,566,631**	**1,658,756**	**1,555,467**
Total funding		**3,126,286**	**3,081,137**	**3,142,391**	**2,884,494**

The financial statements were approved and authorised for issue by the Board on 22 June 2017 and were signed on its behalf by:

Paula Kahn
Chair

Ian Johnson
Executive Director, Finance

Mary Keane
Company Secretary

Consolidated statement of cash flows for period ended 31 March 2017

	31 March 2017 £'000	Restated 31 March 2016 £'000
Cash flows from operating activities		
Surplus for the year	79,651	71,448
Adjustment for:		
Surplus on disposal of fixed assets	(16,912)	(23,640)
Surplus on disposal of fixed asset investments	(8,721)	(9,498)
Surplus on disposal of other investments	-	257
Share of operating surplus in joint ventures	(3,783)	(3,395)
Interest receivable	(1,456)	(3,215)
Interest and financing costs	48,459	52,276
Movement in fair value of financial instruments	1,557	(180)
Movement in fair value of investment property	(686)	(480)
Revaluation of investments	(1,856)	593
Tax charged	8	52
Depreciation	17,681	15,798
Amortised grant	(4,855)	(4,340)
Impairment	619	141
(Increase) in stock	(55,875)	(11,600)
Decrease in trade and other receivables	1,999	16,969
(Decrease) in trade payables	(3,176)	(2,441)
Contributions (from) provisions	(5,199)	(8,342)
Increase/(decrease) in pension liability	707	(184)
Cash generated from operations	**48,162**	**90,219**
Tax paid	(52)	(84)
Net cash from operating activities	**48,110**	**90,135**
Cash flows from investing activities		
Purchase of property, plant and equipment	(162,396)	(112,440)
Proceeds from sale of property, plant and equipment	61,543	46,055
Purchase of other investments	(1,932)	(62,372)
Proceeds from the sale of other investments	78,217	35,238
Interest received	1,456	3,215
Dividend received	3,250	3,325
Net capital grants (repaid)	(4,318)	(5,540)
Net cash from investing activities	**(24,180)**	**(92,519)**
Cash flows from financing activities		
Proceeds from borrowings	-	174,912
Repayment of borrowings	(49,191)	(59,018)
Capital element of finance lease payments	(23)	(21)
Interest paid	(52,762)	(52,228)
Interest element of finance lease payments	(47)	(48)
Net cash used in financing activities	**(102,023)**	**63,597**
Net movement in cash and cash equivalents	**(78,093)**	**61,212**
Cash and cash equivalents bought forward	182,283	121,071
Cash and cash equivalents carried forward	**104,190**	**182,283**

The notes on pages 45 to 88 form part of these financial statements

Consolidated and Trust statements of changes in reserves for the year ended 31 March 2017

Group	Income and expenditure reserve £'000	Financial instruments reserve £'000	Restricted reserve £'000	Revaluation reserve £'000	Total reserves £'000
Restated balance at 1 April 2016	**723,117**	**(24,351)**	**11,843**	**856,022**	**1,566,631**
Surplus for the year	79,651				79,651
Actuarial loss on pension scheme	(1,357)	-	-	-	(1,357)
Change in fair value of hedged financial instruments	-	(2,731)	-	-	(2,731)
Other comprehensive income for the year	(1,357)	(2,731)	-	-	(4,088)
Reserves transfers:					
Revaluation of gains on disposals	5,848	-	-	(5,848)	-
Depreciation on disposal	151	-	-	(151)	-
Transfer of restricted income to restricted reserve	(2,151)	-	2,151	-	-
Balance at 31 March 2017	**805,259**	**(27,082)**	**13,994**	**850,023**	**1,642,194**

Trust	Income and expenditure reserve £'000	Financial instruments reserve £'000	Restricted reserve £'000	Revaluation reserve £'000	Total reserves £'000
Restated balance at 1 April 2016	**711,953**	**(24,351)**	**11,843**	**856,022**	**1,555,467**
Surplus for the year	80,493				80,493
Actuarial gain on pension scheme	(1,357)	-	-	-	(1,357)
Change in fair value of hedged financial instruments	-	(2,731)	-	-	(2,731)
Other comprehensive income for the year	(1,357)	(2,731)	-	-	(4,088)
Reserves transfers:					
Revaluation of gains on disposal	5,848	-	-	(5,848)	-
Depreciation on disposal	151	-	-	(151)	-
Transfer of restricted income to restricted reserve	(2,151)	-	2,151	-	-
Transfer of engagement from subsidiaries	26,884	-	-	-	26,884
Balance at 31 March 2017	**821,821**	**(27,082)**	**13,994**	**850,023**	**1,658,756**

Consolidated and Trust statements of changes in reserves for the year ended 31 March 2016

Group	Restated income and expenditure reserve £'000	Financial instruments reserve £'000	Restricted reserve £'000	Revaluation reserve £'000	Restated total reserves £'000
Balance at 1 April 2015 as previously stated	**609,461**	**(20,790)**	**12,435**	**857,474**	**1,458,580**
Grant amortisation	39,844	-	-	-	39,844
Restated balance at 1 April 2015	**649,305**	**(20,790)**	**12,435**	**857,474**	**1,498,424**
Surplus for the year	71,448	-	-	-	71,448
Actuarial gain on pension scheme	320	-	-	-	320
Change in fair value of hedged financial instruments	-	(3,561)	-	-	(3,561)
Other comprehensive income for the year	320	(3,561)	-	-	(3,241)
Reserves transfers:					
Revaluation of gains on disposal	1,452	-	-	(1,452)	-
Transfer of restricted expenditure to income and expenditure reserve	592	-	(592)	-	-
Balance at 31 March 2016	**723,117**	**(24,351)**	**11,843**	**856,022**	**1,566,631**

Trust	Restated income and expenditure reserve £'000	Financial instruments reserve £'000	Restricted reserve £'000	Revaluation reserve £'000	Restated total reserves £'000
Balance at 1 April 2015 as previously stated	**599,698**	**(20,790)**	**12,436**	**857,474**	**1,448,818**
Grant amortisation	39,748	-	-	-	39,748
Restated balance at 1 April 2015	639,446	(20,790)	12,436	857,474	1,488,566
Surplus for the year	70,142	-	-	-	70,142
Actuarial gain on pension scheme	320	-	-	-	320
Transfer from subsidiary undertaking	-	-	-	-	-
Change in fair value of hedged financial instruments	-	(3,561)	-	-	(3,561)
Other comprehensive income for the year	320	(3,561)	-	-	(3,241)
Reserves transfers:					
Revaluation of gains on disposal	1,452	-	-	(1,452)	-
Transfer of restricted expenditure to income and expenditure reserve	593	-	(593)	-	-
Balance at 31 March 2016	**711,953**	**(24,351)**	**11,843**	**856,022**	**1,555,467**

1a. Accounting policies

Basis of preparation

Metropolitan Housing Trust ('the Trust') is registered under the Co-operative and Community Benefit Societies Act 2014 (Registered Number 16337R) and is a registered provider of social housing with the Homes and Communities Agency (Registered Number L0726). It is a public benefit entity.

These financial statements are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102), the Statement of Recommended Practice Accounting by registered social housing providers (Housing SORP 2014) and the Accounting Direction for private registered providers of social housing from April 2015.

The preparation of the financial statements requires the Group management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. The impact that potential variations in these judgements may have on the financial statements is explained in the accounting policies below.

Going concern

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

Basis of consolidation

The Consolidated Financial Statements include Metropolitan Housing Trust and its subsidiaries (together 'the Group'). Non-exchange transactions where there is a clear gift of control are accounted for as business combinations. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of the subsidiaries are included in the consolidated Statement of Comprehensive Income from the date of their formation or gift in to the Group. All intra-Group transactions, balances, surpluses and deficits are eliminated in full on consolidation.

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements.

The Trust participates in a number of regeneration partnerships with other Registered Providers. These arrangements involve jointly controlled assets and the Trust's share of those jointly controlled assets, any related liabilities and any income or expenditure in relation to those jointly controlled assets are included in the results of the Group, in proportion to its share in those assets.

The Group has entered into a number of contractual arrangements that are classified as jointly controlled entities. Jointly controlled entities are accounted for using the equity method, which reflects the Group's share of the profit or loss, other comprehensive income and equity of the jointly controlled entity.

1b. Key judgements and estimates in the preparation of these accounts

Metropolitan has had to make certain key judgements about complex transactions or those involving uncertainty about future events while preparing these accounts. The key judgements made are shown below and the effect changes in those judgements might have on the comprehensive income statement.

Useful economic life of fixed assets

The useful economic life of housing structure is estimated to be 125 years and is therefore depreciated over that period. A 10% decrease in the life would result in an increased charge of £460k to the comprehensive income statement.

Valuation of investment properties

Investment properties are valued on an annual basis. Commercial properties are revalued internally based on the lease agreements and market rental properties are revalued using the Office of National Statistics market rent index. A 1% movement in valuation would result in a £490k movement in the comprehensive income statement.

Government grant

Government grant is amortised over the useful economic life (UEL) of the asset. A 10% decrease in the life would result in increased income in the comprehensive income statement of £533k. The UEL of shared ownership properties was reviewed in 2016-17 and changed to 25 years; this resulted in a prior year adjustment (see Note 33) to reflect additional grant amortisation.

Capitalised overhead on developments

Overheads are capitalised up to a maximum of 3.5% of works and acquisitions costs or 100% of development salaries and related overheads.

Judgements used in the preparation of pension fund accounts

Pension figures in these accounts are prepared based on advice provided by independent actuaries. In preparing the figures the actuaries use a number of judgements based on information provided to them by the Institute and Faculty of Actuaries.

Other areas where a degree of judgement has been applied are shown in boxes in the accounts.

2a. Particulars of turnover, cost of sales, operating costs and operating surplus

Turnover comprises rental and service charges income receivable (net of any voids), income from first tranche sales, sales of properties built for sale and other services at the invoiced value (net of VAT where recoverable), amortisation of deferred capital grants, and other grants receivable.

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting. Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale. Care and support income is recognised when the contract condition is fulfilled.

Group	Turnover 2017 £'000	Cost of sales 2017 £'000	Operating costs 2017 £'000	Operating surplus/ (deficit) 2017 £'000	Restated operating surplus/ (deficit) 2016 £'000
Social housing activities					
Income and expenditure from lettings - Note 3	**197,994**	-	**118,498**	**79,496**	**84,169**
Other social housing activities					
First tranche sales	34,806	23,403	417	**10,986**	**3,716**
Mortgage rescue	301	-	22	**279**	**276**
Supporting people	13,552	-	11,702	**1,850**	**1,398**
Community investment	347	-	805	**(458)**	**(381)**
Other	1,627	-	1,392	**235**	**724**
Total other social housing activities	**50,633**	**23,403**	**14,338**	**12,892**	**5,733**
Non-social housing activities					
Development of properties for sale	2,815	2,509	-	**306**	**247**
Market renting	4,593	-	657	**3,936**	**3,630**
Registered care homes	5,561	-	5,695	**(134)**	**(134)**
Other	4,093	-	4,329	**(236)**	**6**
Total non-social housing activities	**17,062**	**2,509**	**10,681**	**3,872**	**3,749**
	265,689	**25,912**	**143,517**	**96,260**	**93,651**
Pension deficit remeasurement	-	-	-	-	**(9,433)**
Total	**265,689**	**25,912**	**143,517**	**96,260**	**84,218**

Trust	Turnover 2017 £'000	Cost of sales 2017 £'000	Operating costs 2017 £'000	Operating surplus/ (deficit) 2017 £'000	Restated operating surplus/ (deficit) 2016 £'000
Social housing activities					
Income and expenditure from lettings - Note 3	**189,918**	-	**114,154**	**75,764**	**80,466**
Other social housing activities					
First tranche sales	34,806	23,403	417	**10,986**	**3,718**
Mortgage rescue	301	-	22	**279**	**275**
Donations from subsidiaries	4,912	-	-	**4,912**	**3,310**
Supporting people	13,552	-	11,702	**1,850**	**1,398**
Community investment	347	-	805	**(458)**	**(381)**
Other	1,860	-	1,392	**468**	**724**
Total other social housing activities	**55,778**	**23,403**	**14,338**	**18,037**	**9,044**
Non-social housing activities					
Development of properties for sale	-	-	-	**-**	**261**
Market renting	2,955	-	410	**2,545**	**2,154**
Registered care homes	5,561	-	5,695	**(134)**	**(134)**
Other	3,837	-	4,299	**(462)**	**(99)**
Total non-social housing activities	**12,353**	**-**	**10,404**	**1,949**	**2,182**
	258,049	**23,403**	**138,896**	**95,750**	**91,692**
Pension deficit remeasurement	-	-	-	**-**	**(9,433)**
Total	**258,049**	**23,403**	**138,896**	**95,750**	**82,259**

2b. Group management segmental analysis

	Housing £'000	Development £'000	Care and support £'000	Metworks £'000	Central services £'000	2017 Total £'000	2016 Restated total £'000
Turnover	170,011	41,690	53,987	14,669	(14,668)	**265,689**	238,446
Cost of sales	-	(25,912)	-	(5,338)	5,338	**(25,912)**	(8,525)
Operating costs	(79,789)	(3,757)	(33,009)	(7,958)	(19,004)	**(143,517)**	(136,270)
Adjusted operating surplus	**90,222**	**12,021**	**20,978**	**1,373**	**(28,334)**	**96,260**	**93,651**
Remeasurement - amendments to the pension contribution schedule	-	-	-	-	**-**	-	(9,433)
Operating surplus	**90,222**	**12,021**	**20,978**	**1,373**	**(28,334)**	**96,260**	**84,218**

3. Particulars of income and expenditure from lettings

Group	General needs housing 2017 £'000	Supported housing 2017 £'000	Other housing provision 2017 £'000	LCHO 2017 £'000	Total 2017 £'000	Restated total 2016 £'000
Income from letting						
Rent receivable net of identifiable service charges	123,799	27,157	589	18,652	**170,197**	168,823
Service charges receivable	8,353	8,349	42	4,715	**21,459**	22,181
Net rental income	**132,152**	**35,506**	**631**	**23,367**	**191,656**	**191,004**
Amortised grant	624	-	2	4,229	4,855	4,340
Management fees	187	-	3	1,293	1,483	1,442
Total income from lettings	**132,963**	**35,506**	**636**	**28,889**	**197,994**	**196,786**
Expenditure on letting activities						
Service charge costs	16,218	8,267	56	2,496	**27,037**	27,494
Management	26,145	7,827	120	3,400	**37,492**	37,047
Routine maintenance	14,174	2,008	1	409	**16,592**	18,566
Planned maintenance	8,834	932	17	601	**10,384**	9,065
Major repairs	3,086	680	11	174	**3,951**	1,968
Bad debts	1,275	495	124	14	**1,908**	358
Lease charges	2,782	1	-	51	**2,834**	2,211
Depreciation	12,946	2,318	34	1,348	**16,646**	14,975
Accelerated depreciation	1,035	-	-	-	**1,035**	823
Impairment	619	-	-	-	**619**	110
Total expenditure	**87,114**	**22,528**	**363**	**8,493**	**118,498**	**112,617**
Surplus on social housing	**45,849**	**12,978**	**273**	**20,396**	**79,496**	**84,169**
Rent loss through voids	(1,045)	(1,438)	(177)	(52)	**(2,712)**	(4,327)

Trust	General needs housing 2017 £'000	Supported housing 2017 £'000	Other housing provision 2017 £'000	LCHO 2017 £'000	Total 2017 £'000	Restated total 2016 £'000
Income from letting						
Rent receivable net of identifiable service charges	118,553	26,714	433	18,290	**163,990**	161,093
Service charges receivable	7,699	8,144	36	4,422	**20,301**	20,403
Net rental income	**126,252**	**34,858**	**469**	**22,712**	**184,291**	**181,496**
Amortised grant	244	-	2	4,155	**4,401**	3,788
Management fees	29	-	3	1,194	**1,226**	1,280
Total income from lettings	**126,525**	**34,858**	**474**	**28,061**	**189,918**	**186,564**
Expenditure on letting activities						
Service charge costs	15,370	8,106	53	2,349	**25,878**	24,937
Management	26,094	7,758	116	3,397	**37,365**	35,875
Routine maintenance	15,873	1,946	1	415	**18,235**	18,323
Planned maintenance	7,478	892	14	601	**8,985**	8,541
Major repairs	2,136	660	3	165	**2,964**	1,780
Bad debts	1,231	491	124	14	**1,860**	288
Lease charges	2,157	1	-	51	**2,209**	2,114
Depreciation	11,691	2,078	31	1,208	**15,008**	13,367
Accelerated depreciation	1,031	-	-	-	**1,031**	763
Impairment	619	-	-	-	**619**	110
Total expenditure	**83,680**	**21,932**	**342**	**8,200**	**114,154**	**106,098**
Surplus on social housing	**42,845**	**12,926**	**132**	**19,861**	**75,764**	**80,466**
Rent loss through voids	(838)	(1,438)	(125)	(52)	**(2,453)**	(3,626)

4. Housing units

	Group 2017 £'000	Group 2016 £'000	Trust 2017 £'000	Trust 2016 £'000
General needs rented housing - social	20,887	20,890	20,887	19,675
General needs rented housing - affordable	832	672	832	672
Low cost home ownership	3,712	3,632	3,712	3537
Supported	1,423	1,458	1,423	1,458
Housing for older people	3,153	3,152	3,153	3,062
Total social housing units	**30,007**	**29,804**	**30,007**	**28,404**
Intermediate rent	133	138	133	138
Keyworker accommodation	138	138	138	138
Residential care home bed spaces	153	195	153	195
Market rent	447	457	447	267
Other - Rent to HomeBuy	36	36	36	36
Total owned and managed	**30,914**	**30,768**	**30,914**	**29,178**
Accommodation managed for others	761	1,212	761	1,212
Total managed accommodation	**31,675**	**31,980**	**31,675**	**30,390**
Units managed by others	1,350	1,367	1,350	1,367
Leaseholders	4,480	4,484	4,480	3,997
Total owned or managed accommodation	**37,505**	**37,831**	**37,505**	**35,754**
Units under construction	1,499	1,596	1,499	1,538

5. Operating surplus

Operating surplus is stated after charging:	Group 2017 £'000	Group 2016 £'000	Trust 2017 £'000	Trust 2016 £'000
Depreciation:				
Tangible fixed assets - housing properties	15,311	14,363	13,767	12,755
Other fixed assets	1,335	589	1,241	589
Accelerated depreciation on component - tangible fixed assets	1,035	823	1,031	763
Impairment	619	141	619	141
Operating leases charges				
Offices	611	733	611	733
Other buildings non-office	1,543	1,349	1,543	1,349
Leases non-buildings	680	129	55	32
Auditor's remuneration (excluding VAT):				
Audit of these financial statements	145	175	145	166
In respect of other services	17	119	17	119

6. Surpluses on disposal of fixed assets and fixed asset investments

Surplus on disposal of fixed assets	Group 2017 £'000	Group 2016 £'000	Trust 2017 £'000	Trust 2016 £'000
Disposal proceeds	61,543	150,005	70,775	145,999
Cost of sales	(40,582)	(126,732)	(49,688)	(124,356)
Disposal proceeds fund	(570)	(459)	(570)	(459)
Recycled capital grant fund	(3,481)	-	(3,455)	-
Grant abatement	2	826	-	826
	16,912	**23,640**	**17,062**	**22,011**
Surplus on disposal of fixed asset investments				
HomeBuy redemption income	22,976	30,020	22,976	30,020
HomeBuy redemption expense	(14,255)	(20,522)	(14,255)	(20,522)
Total	**8,721**	**9,498**	**8,721**	**9,498**

7. Interest receivable and other income

	Group 2017 £'000	Group 2016 £'000	Trust 2017 £'000	Trust 2016 £'000
Interest received	664	1,922	632	1,439
Subsidiary companies	-	-	1,309	651
Regeneration partners	290	650	290	651
Dividend income	502	643	502	643
	1,456	**3,215**	**2,733**	**3,384**
Other income through I and E				
(Loss)/gain on fair value of hedged derivative instruments	(1,557)	188	(1,557)	188
Loss on basis swap - derivative instruments	-	(8)	-	(8)
	(1,557)	**180**	**(1,557)**	**180**

8. Interest and financing costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are recognised as a reduction in the proceeds of the associated capital instrument.

Where a development project is financed by the borrowings of the Group, finance costs are capitalised during the period of construction (see Note 12).

	Group 2017 £'000	Group 2016 £'000	Trust 2017 £'000	Trust 2016 £'000
Interest on loans repayable	52,762	56,441	47,779	50,139
Net interest on pension fund	1,885	254	1,885	254
Interest on finance leases	47	48	47	48
Interest on recycled capital grant fund and disposal proceeds fund (Note 21 and 22)	534	439	530	436
Less: interest capitalised	(6,769)	(4,906)	(5,483)	(4,111)
	48,459	**52,276**	**44,758**	**46,767**
Other financing costs through Other Comprehensive Income				
Loss on hedged derivative instrument	2,731	3,561	2,731	3,561

9. Employees

Short-term employee benefits are recognised as an expense in the period in which they are incurred. The Group allows a maximum of five days annual leave to be carried over into the next reporting period and an accrual is only raised if it is material to do so. This is the first year that employees have been able to carry forward annual leave. The charge in the year is £438k.

Average monthly full-time equivalent number of employees

	2017 Number	2016 Number
Senior Managers and Executives	6	6
Office staff	790	774
Scheme staff	454	478
In-house contractors	186	63
	1,436	**1,321**

Staff costs (for employees above)

	2017 £'000	Restated 2016 £'000
Wages and salaries	46,789	44,168
Social security costs	4,247	3,762
Pension costs	1,578	1,719
Staff costs	**52,614**	**49,649**

2015-16 staff costs were restated for the prior year as they were incorrect.

Number of staff paid over £60,000 in the year (including pension contributions)

	2017 Number	2016 Number
£60,000 - £70,000	23	15
£70,001 - £80,000	22	13
£80,001 - £90,000	10	12
£90,001 - £100,000	5	7
£100,001 - £110,000	7	6
£110,001 - £120,000	5	2
£120,001 - £130,000	5	1
£130,001 - £140,000	3	1
£140,001 - £150,000	1	-
£150,001 - £160,000	-	-
£160,001 - £170,000	2	3
£170,001 - £180,000	1	-
£180,001 - £190,000	-	-
£240,001 - £250,000	1	-
£260,001 - £270,000	1	2
	86	**62**

10. Executive directors and board members

Executive directors

The executive directors comprised seven posts as outlined on page 3 of the Report and Financial Statements. Metropolitan does not make any further contribution to an individual pension arrangement for the Chief Executive.

	2017 **Gross pay** **£**	2017 **Pension** **£**	2017 **Total** **£**	2016 **Total** **£**
The aggregate emoluments payable to directors	1,408,652	52,763	**1,461,415**	**1,123,142**
Chief Executive who was also the highest paid director	268,901	-	**268,901**	**257,892**

Board members and other committees

The table below shows salaries paid to non-executive board members, expenses incurred during the discharge of their duties and their attendance during the year:

Board member	2017 Attendance MHT Board	2017 Attendance of other committees and Boards	2017 Salary **£**	2017 Expenses **£**	2016 Salary **£**	2016 Expenses **£**
Christine Turner - Retired 22/09/16	4 (57%)	3 (75%)	5,494	1,285	11,500	1,954
Clive Deadman	9 (75%)	20 (91%)	11,500	4,102	11,500	5,750
Janet Dean	12 (100%)	6 (100%)	11,500	3,778	11,500	4,097
Jerry Piper	10 (83%)	8 (83%)	*12,500	111	10,500	66
Michael Dunn	11 (92%)	27 (88%)	11,500	2,629	11,500	3,775
Mike Green	12 (100%)	12 (100%)	11,500	1,174	11,500	1,168
Paula Kahn	12 (100%)	4 (100%)	22,500	748	22,500	1,185
Stuart Beevor	12 (100%)	17 (100%)	13,750	578	13,750	483
Waheed Saleem	-	-	-	-	4,916	543
Natalie Burrows - Appointed 03/10/16	5 (100%)	1 (100%)	4,750	113	-	-
Lesley-Anne Alexander - Appointed 03/10/16	5 (100%)	2 (100%)	5,250	241	-	-
			110,244	**14,759**	**109,166**	**19,021**

*Jerry Piper was awarded a £1k one-off additional payment in 2016-17, in recognition of his additional meeting commitments in the prior year.

11. Tax on surplus on ordinary activities

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

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

	Group 2017 **£'000**	Group 2016 **£'000**	Trust 2017 **£'000**	Trust 2016 **£'000**
UK corporation tax	8	52	-	52
Tax on surplus on ordinary activities	**8**	**52**	**-**	**52**

Reconciliation of current tax	Group 2017 **£'000**	Restated Group 2016 **£'000**	Trust 2017 **£'000**	Restated Trust 2016 **£'000**
Surplus on ordinary activities before tax	79,659	71,500	80,493	70,195
Surplus on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2016: 20%)	15,932	14,300	16,099	14,039
Surplus covered by charitable exemption	(15,924)	14,248	(16,099)	13,987
Current tax payable for the year	**8**	**52**	**-**	**52**

12. Fixed assets – housing properties

Housing properties

Housing properties constructed or acquired (including land) on the open market since the date of transition to FRS 102 are stated at cost less depreciation and impairment (where applicable).

The cost of housing land and property represents their purchase price and any directly attributable costs of acquisition which may include an appropriate amount for staff costs and other costs of managing development.

Directly attributable costs of acquisition includes capitalised interest calculated, on a proportional basis, using the interest on borrowing which has been drawn in order to finance the relevant construction or acquisition. Where housing properties are in the course of construction, interest cost is only capitalised where construction is ongoing and has not been interrupted or terminated.

Depreciation of housing property

Housing land and property is split between land, structure and other major components that are expected to require replacement over time. Freehold land is not depreciated as it is considered to have an indefinite useful economic life.

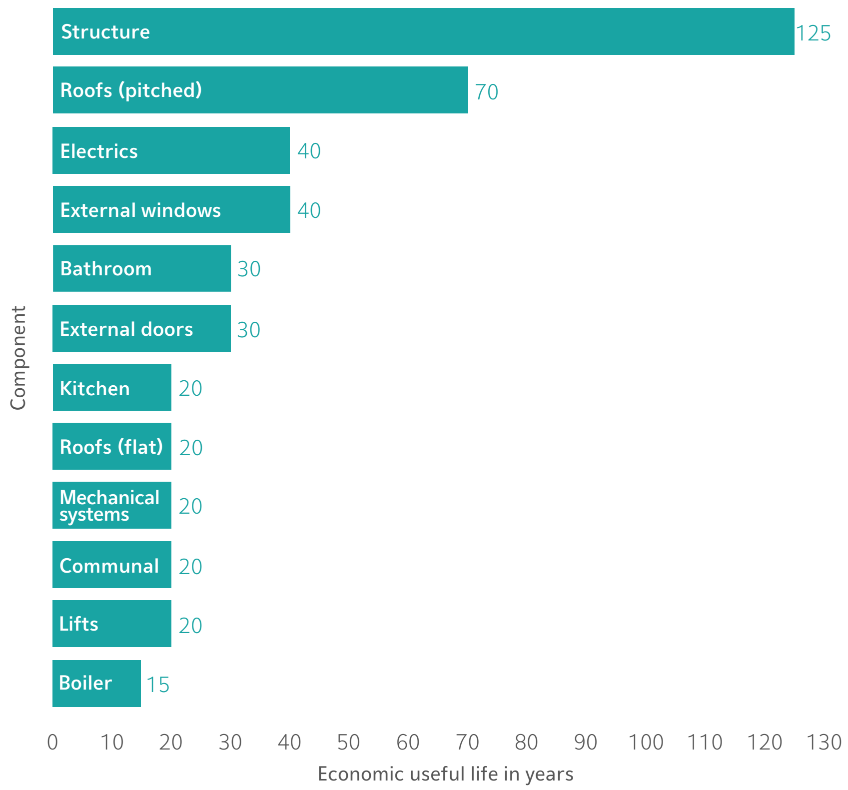
No depreciation is charged in the period of acquisition and depreciation is charged in the period of disposal.

The portion of shared ownership property retained or expected to be retained is not depreciated on account of the high residual value. Neither the depreciable amount nor the expected annual depreciation charge for such assets is considered material, individually or in aggregate.

Assets in the course of construction are not depreciated until they are completed and ready for use to ensure that they are depreciated only in periods in which economic benefits are expected to be consumed.

Housing properties are split between the structure and the major components which require periodic replacement. The costs of replacement or restoration of these components are capitalised and depreciated over the determined average useful economic life as follows:

Graph of useful economic lives



Leasehold properties are depreciated over the length of the lease except where the expected useful economic life of properties is shorter than the lease; then the lease and building elements are depreciated separately over their expected useful economic lives.

It is the Group's policy to maintain shared ownership accommodation, and is responsible for keeping its part of the shared ownership in a continuous state of sound repair. The Group considers that the lives of properties are so long and residual values based on current open market value are so high that any depreciation would be insignificant. Any impairment in the value of such properties is charged to the Statement of Comprehensive Income.

Any difference between the historic annual depreciation charge on revalued assets and the annual depreciation charge on a historic cost basis is transferred from the revaluation reserve for the asset concerned until that reserve is depleted.

Allocation of costs for mixed tenure and shared ownership developments

Costs are allocated to the appropriate tenure where it is possible to specify to which tenure the expense relates. Where it is not possible to relate costs to a specific tenure, costs are allocated on a floor area or unit basis depending on the appropriateness for each scheme.

Infrastructure assets

Infrastructure assets are infrastructure for public services, such as roads and bridges. Such expenditure is capitalised within property, plant and equipment and is depreciated over 30 years.

Donated land and other assets

Land and other assets donated by local authorities and other government sources are added to cost at the fair value of the land at the time of the donation. Where the land is not related to a specific development and is donated by a public body an amount equivalent to the increase in value between fair value and consideration paid is treated as a non-monetary grant and recognised in the Statement of Financial Position as a liability. Where the donation is from a non-public source the value of the donation is included as income.

Investment properties

Investment properties consist of commercial properties and other properties not held for social benefit or for use in the business. Investment properties are measured at cost on initial recognition and subsequently at fair value at the balance sheet date, with changes in fair value recognised in income and expenditure. On recognition of a new investment property, a professional valuation is obtained by appropriately qualified external valuers. The valuation is derived from current market rents and investment property yields for comparable properties, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided on investment properties. Fair value is determined annually through a desktop valuation.

The Group carried out an internal desktop valuation using Office of National Statistics data to determine the fair value of its investment properties at 31 March 2017. Indexation was applied to determine the fair value for investment property at market rents and a review of rental income also took place.

Government grant

Grants received in relation to assets that were recorded at deemed cost at the date of transition to FRS 102 have been accounted for using the performance model as required by Housing SORP 2014. In applying this model, such grant has been presented as if it were originally recognised as income within the Statement of Comprehensive Income in the year it was receivable and is therefore included within brought forward reserves.

Grant received since the transition date in relation to newly acquired or existing housing properties is accounted for using the accrual model set out in FRS 102 and the Housing SORP 2014. As required by Housing SORP 2014, grant is carried as deferred income in the balance sheet and released to the income and expenditure account on a systematic basis over the useful economic lives of the asset for which it was received. In accordance with Housing SORP 2014 the useful economic life of the housing property structure has been selected.

Where social housing grant (SHG) funded property is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets, any unamortised grant remaining within creditors is released and recognised as income within the income and expenditure account.

Grants relating to revenue are recognised in income and expenditure over the same period as the expenditure to which they relate once performance-related conditions have been met.

Grants due from government organisations or received in advance are included as current assets or liabilities.

Impairment

The housing property portfolio for the Group is assessed for indicators of impairment at each balance sheet date. Where indicators are identified then a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. An option appraisal is carried out to determine the option which produces the highest net realisable value. Valuations on rental return or potential sale proceeds are obtained and used to inform the options. The Group looks at the net realisable value, under the options available, when considering the recoverable amount for the purposes of impairment assessment. The recoverable amount is taken to be the higher of the fair value less costs to sell, or value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets or cash generating units concerned or the present value of future cash flows to be derived from them appropriately adjusted to account for any restrictions on their use. No properties have been valued at VIU (Value in Use).

The Group defines cash generating units as schemes except where its schemes are not sufficiently large in size or where it is geographically sensible to group schemes into larger cash generating units. Where the recoverable amount of an asset or cash generating unit is lower than its carrying value an impairment is recorded through a charge to income and expenditure.

Impairment brought forward at 1 April 2016 totalled £25.7m. Impairment charged in the year ended 31 March 2017 totalled £0.6m following an impairment review of the land bank. £13.1m of impairment was written back on disposal bringing the balance at 31st March 2017 to £13.2m.

Capitalised interest

Additions to housing properties in the course of construction during the year included capitalised interest of £6,769k (2016: £4,906k). The weighted average cost of capital was 5.09% (2016: 5.0%). The aggregate amount capitalised is £95.5m (2016: £90.0m).

Properties held for security

Metropolitan had property with a net book value of £2,035m pledged as security at 31 March 2017 (£1,930m – 2016).

Freehold/leasehold

Metropolitan held long leasehold and freehold housing properties at the following net book value.

	Group 2017 £'000	Group 2016 £'000	Trust 2017 £'000	Trust 2016 £'000
Long leasehold	237,112	219,097	237,070	219,055
Freehold	2,602,089	2,510,124	2,601,933	2,330,961
	2,839,201	**2,729,221**	**2,839,003**	**2,550,016**

The Group does not have any short leasehold Property, Plant and Equipment at the balance sheet date.

Finance leases

The net carrying amount of assets held under finance leases included in plant and machinery is £638k (2016: £661k).

There is one significant finance lease which is related to an agreement with EnviroEnergy to supply and install heating and heating equipment as part of the Nottingham district heating scheme. At the end of the lease term the risk and responsibility of the heating equipment will be transferred to the Group. The remaining lease term is 15 years as at the 31 March 2017.

Group housing properties

Group	Housing properties under construction: Letting £'000	Housing properties under construction: Low cost home ownership £'000	Completed housing properties: Letting £'000	Completed housing properties: Low cost home ownership £'000	Community properties £'000	Housing properties total £'000	Investment properties £'000	Property asset total £'000
Cost/value								
At 1 April 2016	140,221	39,072	2,282,928	291,006	1,646	2,754,873	40,482	2,795,355
*Reclassification	2,262	(2,262)	3,964	(8,954)	-	(4,990)	4,990	-
Schemes completed in year	(75,363)	(40,502)	-	-	-	(115,865)	-	(115,865)
Transfer to current assets	(11,589)	-	-	-	-	(11,589)	-	(11,589)
Additions								
- Completed properties	-	-	75,363	40,502	-	115,865	-	115,865
- Properties under construction	77,916	55,218	-	-	-	133,134	-	133,134
- Replacement of components	-	-	28,595	-	-	28,595	55	28,650
Transfer within Group	-	-	5,623	-	-	5,623	1,611	7,234
Revaluations	-	-	-	-	-	-	686	686
Disposals	(25,036)	-	(8,496)	(15,787)	-	(49,319)	-	(49,319)
At 31 March 2017	**108,411**	**51,526**	**2,387,977**	**306,767**	**1,646**	**2,856,327**	**47,824**	**2,904,151**
Depreciation								
At 1 April 2016	-	-	40,371	-	40	40,411	-	40,411
Charge for year	-	-	15,304	-	7	15,311	-	15,311
Eliminated in respect of disposals	-	-	(4,018)	-	-	(4,018)	-	(4,018)
At 31 March 2017	**-**	**-**	**51,657**	**-**	**47**	**51,704**	**-**	**51,704**
Impairment								
At 1 April 2016	23,165	1,932	484	141	-	25,722	-	25,722
Impairment charged to income and expenditure	619	-	-	-	-	619	-	619
Released on disposals	(13,095)	-	-	-	-	(13,095)	-	(13,095)
At 31 March 2017	**10,689**	**1,932**	**484**	**141**	**-**	**13,246**	**-**	**13,246**
Net book value								
At 31 March 2017	**97,722**	**49,594**	**2,335,836**	**306,626**	**1,599**	**2,791,377**	**47,824**	**2,839,201**
At 31 March 2016	**117,056**	**37,140**	**2,242,073**	**290,865**	**1,606**	**2,688,739**	**40,482**	**2,729,221**

*Reclassification is the result of a detailed tenure review of properties under construction and completed housing properties.

Trust housing properties

Trust	Housing properties under construction Letting £'000	Housing properties under construction Low cost home ownership £'000	Completed housing properties Letting £'000	Completed housing properties Low cost home ownership £'000	Community £'000	Housing properties total £'000	Investment properties £'000	Property asset total £'000
Cost/value								
At 1 April 2016	112,335	39,072	2,143,121	274,409	-	2,568,937	38,574	2,607,511
*Reclassification	2,262	(2,262)	3,685	(8,675)	-	(4,990)	4,990	-
Schemes completed in year	(75,363)	(40,502)	-	-	-	(115,865)	-	(115,865)
Transfer from subsidiary	27,886	-	135,569	16,318	1,606	181,379	3,322	184,701
Additions								
- Completed properties	-	-	75,363	40,502	-	115,865	-	115,865
- Properties under construction	77,916	55,216	-	-	-	133,132	-	133,132
- Replacement of components	-	-	28,595	-	-	28,595	55	28,650
Revaluations	-	-	-	-	-	-	686	686
Disposals	(36,626)	-	(8,496)	(15,787)	-	(60,909)	-	(60,909)
At 31 March 2017	**108,410**	**51,524**	**2,377,837**	**306,767**	**1,606**	**2,846,144**	**47,627**	**2,893,771**
Depreciation								
At 1 April 2016	-	-	31,773	-	-	31,773	-	31,773
Charge for year	-	-	13,760	-	7	13,767	-	13,767
Eliminated in respect of disposals	-	-	(4,018)	-	-	(4,018)	-	(4,018)
At 31 March 2017	**-**	**-**	**41,515**	**-**	**7**	**41,522**	**-**	**41,522**
Impairment								
At 1 April 2016	23,165	1,932	484	141	-	25,722	-	25,722
Impairment charged to income and expenditure	619	-	-	-	-	619	-	619
Released on disposals	(13,095)	-	-	-	-	(13,095)	-	(13,095)
At 31 March 2017	**10,689**	**1,932**	**484**	**141**	**-**	**13,246**	**-**	**13,246**
Net book value								
At 31 March 2017	**97,721**	**49,592**	**2,335,838**	**306,626**	**1,599**	**2,791,376**	**47,627**	**2,839,003**
At 31 March 2016	**89,170**	**37,140**	**2,110,864**	**274,268**	**-**	**2,511,442**	**38,574**	**2,550,016**

*Reclassification is the result of a detailed tenure review of properties under construction and completed housing properties.

13. Other fixed assets

Depreciation is charged on a straight-line basis over the expected useful economic lives of the other fixed assets at the following annual rates:

Office furniture and equipment	20% - 33% on cost
Service equipment	5% on cost

No depreciation is charged in the period of acquisition and depreciation is charged in the period of disposal.

Group	Offices £'000	Furniture and equipment £'000	Computer £'000	Total £'000
Cost				
At 1 April 2016	11,981	2,086	10,169	24,236
Reanalysis	-(401)	989	75	663
Additions	483	256	1,193	1,932
Disposals	(180)	(105)	(34)	(319)
At 31 March 2017	**11,883**	**3,226**	**11,403**	**26,512**
Accumulated depreciation				
At 1 April 2016	3,534	1,830	7,428	12,792
Reanalysis	-(247)	835	75	663
Depreciation charge	180	133	1,022	1,335
Disposals	(160)	(105)	(33)	(298)
At 31 March 2017	**3,307**	**2,693**	**8,492**	**14,492**
Net book value				
At 31 March 2017	**8,576**	**533**	**2,911**	**12,020**
At 31 March 2016	8,447	256	2,741	11,444

Trust	Offices £'000	Furniture and equipment £'000	Computer £'000	Total £'000
Cost				
At 1 April 2016	11,981	2,086	9,887	23,954
Reanalysis	(401)	989	75	663
Additions	483	256	1,133	1,872
Disposals	(180)	(105)	(34)	(319)
At 31 March 2017	**11,883**	**3,226**	**11,061**	**26,170**
Accumulated depreciation				
At 1 April 2016	3,534	1,830	7,428	12,792
Reanalysis	(247)	835	75	663
Depreciation charge	180	133	928	1,241
Disposals	(160)	(105)	(33)	(298)
At 31 March 2017	**3,307**	**2,693**	**8,398**	**14,398**
Net book value				
At 31 March 2017	**8,576**	**533**	**2,663**	**11,772**
At 31 March 2016	8,447	256	2,459	11,162

Following a detailed review of other fixed assets a number of figures have been reanalysed. There is no impact on the net book value presented in either year.

14. HomeBuy loans

HomeBuy

Under the HomeBuy scheme and the Key Worker Living Initiative, the Group received social housing grant (SHG) representing a percentage of the open market purchase price of a property in order to advance interest-free loans to a homebuyer.

MyChoice HomeBuy

Under the MyChoice HomeBuy scheme, the Group has issued interest-bearing loans representing a percentage of the open market purchase price of the properties. Half of these loans are funded from the Group's own resources and the other half funded by SHG.

	Group £'000	Trust £'000
Opening balance at 1 April 2016	157,082	157,082
Redemption	(14,255)	(14,255)
Loans previously redeemed	(4,388)	(4,388)
Balance at 31 March 2017	**138,439**	**138,439**

15. Other investments

	Group 2017 £'000	Group 2016 £'000	Trust 2017 £'000	Trust 2016 £'000
Bond securities	2,280	3,947	2,280	3,947
Other investments	1,524	514	1,524	514
Bank deposits	22,992	77,576	22,992	72,575
Subsidiary investment	-	-	13	13
	26,796	**82,037**	**26,809**	**77,049**

16. Stock

Stock represents work in progress and completed properties, including housing properties developed for transfer to other registered providers; properties developed for outright sale; and shared ownership properties. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche.

Stock is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs.

Assessments are made of recoverability using the same criteria described in the housing properties impairment policy above.

	Group 2017 £'000	Group 2016 £'000	Trust 2017 £'000	Trust 2016 £'000
Work in progress, low cost home ownership	23,355	16,108	23,355	16,108
Completed properties, low cost home ownership	7,741	3,936	7,741	3,936
Work in progress, outright sales developments	63,494	2,344	-	-
Land held for sale	2,502	7,240	2,501	7,240
	97,092	**29,628**	**33,597**	**27,284**

The stock figure above includes capitalised interest of £2,496k (2016: £603k).

17. Debtors

	Group 2017 £'000	Group 2016 £'000	Trust 2017 £'000	Trust 2016 £'000
Due within one year				
Rental debtors	18,754	21,814	18,760	20,365
Less: bad debt impairment	(9,933)	(9,977)	(9,933)	(9,158)
Net rental debtors	**8,821**	**11,837**	**8,827**	**11,207**
Amounts owed by subsidiary undertakings	-	-	9,478	7,151
Prepayment in respect of major repairs to housing properties	8,279	13,493	8,279	4,385
SHG receivable	27	48	27	48
Prepayments and accrued income	3,426	3,764	3,338	3,557
VAT debtor	988	1,083	988	1,022
Other debtors	14,595	7,231	11,450	6,171
	36,136	**37,456**	**42,387**	**33,541**
Due after more than one year				
Intercompany loan	-	-	81,300	12,200
Long-term prepayment in respect of major repairs to housing properties	-	681	-	681
Other debtors	61	59	61	59
	61	**740**	**81,361**	**12,940**

18. Creditors: Amounts falling due within one year

	Group 2017 £'000	Restated Group 2016 £'000	Trust 2017 £'000	Restated Trust 2016 £'000
Debt (Note 23)	5,918	45,164	5,918	43,994
Trade creditors	5,617	6,281	5,262	5,717
Due to subsidiary undertakings	-	-	5,581	6,240
Amounts owed in respect of housing properties	15,377	6,744	14,044	6,117
Amounts owed to partners in regeneration schemes	3,342	819	3,342	828
Other taxation and social security	1,192	1,156	1,192	1,156
Other creditors	20,205	15,720	18,758	17,650
Obligations under finance leases (Note 29)	25	23	25	23
Provision for deferred tax	9	-	1	-
Accruals and deferred income	39,296	50,060	35,296	44,110
Recycled Capital Grant Fund (Note 21)	28,702	17,171	28,702	17,147
Disposals Proceeds Fund (Note 22)	912	235	912	235
Rent and service charge paid in advance	10,188	8,688	10,188	8,214
Deferred government grant (Note 20)	4,855	4,855	4,855	4,401
	135,638	**156,916**	**134,076**	**155,832**

19. Creditors: amounts falling due after one year

	Group 2017 £'000	Restated Group 2016 £'000	Trust 2017 £'000	Restated Trust 2016 £'000
Debt (Note 23)	892,865	902,821	892,865	787,321
Corporate bond (Note 23)	146,811	146,800	146,811	146,800
Derivative financial instruments	48,962	44,673	48,962	44,673
Obligations under finance leases	613	638	613	638
Amounts owed in respect of housing properties under development	7,446	2,874	7,128	2,562
Recycled Capital Grant Fund (Note 21)	73,614	79,207	73,614	78,411
Disposal Proceeds Fund (Note 22)	2,134	2,159	2,134	2,159
Deferred government grant (Note 20)	267,433	285,214	267,433	225,589
	1,439,878	**1,464,386**	**1,439,560**	**1,288,153**

20. Deferred government grant (DGG)

	Group 2017 £'000	Restated Group 2016 £'000	Trust 2017 £'000	Restated Trust 2016 £'000
At 1 April	290,069	355,791	229,990	295,786
Movement in RCGF	3,308	2,331	3,308	1,967
Movement in DPF	570	(511)	570	(511)
Net SHG	(4,877)	11,853	(2,969)	11,590
Grant released on stock swap	(1,793)	(59,240)	(1,793)	(59,240)
Amortisation	(4,855)	(4,341)	(4,401)	(3,788)
Transfer from subsidiary undertakings	-	-	57,717	-
HomeBuy utilitised	(10,134)	(15,814)	(10,134)	(15,814)
At 31 March	**272,288**	**290,069**	**272,288**	**229,990**

21. Recycled capital grant fund (RCGF)

	Group 2017 £'000	Group 2016 £'000	Trust 2017 £'000	Trust 2016 £'000
As at 1 April	96,378	94,047	95,558	93,591
Utilised on new build	(6,917)	(16,387)	(6,917)	(16,386)
Grants recycled upon relevant events:				
HomeBuy	10,134	15,815	10,134	15,815
Recycled from DCG	3,038	8,056	3,064	7,693
Recycled from reserves	3,481	-	3,455	-
Repaid to GLA	(4,318)	(5,576)	(4,318)	(5,576)
Interest accrued	520	424	520	421
Transfer within Group	-	-	820	-
	102,316	**96,378**	**102,316**	**95,558**
RCGF creditor falling due in one year	28,702	17,171	28,702	17,147
RCGF creditor falling due after one year	73,614	79,207	73,614	78,411
	102,316	**96,378**	**102,316**	**95,558**

We recognise and recycle the use of Recycled Capital Grant in accordance with guidance from Homes and Communities Agency and Greater London Authority.

22. Disposal proceeds fund (DPF)

	Group 2017 £'000	Group 2016 £'000	Trust 2017 £'000	Trust 2016 £'000
Opening balance at 1 April	2,394	2,905	2,394	2,905
Utilised	-	(1,260)	-	(1,260)
Adjustments	68	275	72	275
Net sales proceeds	570	459	570	459
Interest accrued	14	15	10	15
Balance at 31 March	**3,046**	**2,394**	**3,046**	**2,394**
DPF creditor falling due in one year	912	235	912	235
DPF creditor falling due after one year	2,134	2,159	2,134	2,159
	3,046	**2,394**	**3,046**	**2,394**

We recognise and recycle the use of Disposal Proceeds Fund in accordance with guidance from Homes and Communities Agency and Greater London Authority.

23. Debt analysis

Loans	Group 2017 £'000	Group 2016 £'000	Trust 2017 £'000	Trust 2016 £'000
Within one year	5,918	45,164	5,918	43,994
Between one and two years	17,807	24,243	17,807	21,913
Between two and five years	31,872	39,351	31,872	32,350
In more than five years	989,997	986,027	989,997	879,857
	1,045,594	**1,094,785**	**1,045,594**	**978,115**

Security
Loans are secured by fixed charges on individual properties.

Terms of repayment and interest rates
The debt is repayable in accordance with lender agreed profiles at fixed rates of interest ranging from 2% to 12% (2016: 2% to 12%)

The Group had undrawn loan facilities of £326m (2016: £332m).

Obligations under finance leases are disclosed in Note 29.

24. Pensions

The Group participates in two funded schemes: the Social Housing Pension Scheme (SHPS) and The Nottinghamshire County Council Local Government Pension Scheme (Notts LGPS).

The Pensions Trust Social Housing Pension Scheme (SHPS)

For SHPS, Metropolitan closed the multi-employer defined benefit pension scheme on 31 March 2015, and only operates a multi-employer defined contribution scheme from 1 April 2015. The scheme actuary has advised it is not possible to identify the share of underlying assets and liabilities belonging to the Group. The Group applies defined contribution accounting for the SHPS pension scheme by means of the Multi-employer Exemption.

The accounting information is based on the present value as at 28 February 2017 provided by the Pension Trust. Management judgement is that any difference in the balance sheet data is not material.

The Nottinghamshire County Council Pension Fund (Notts LGPS)

The Notts LGPS is also a multi-employer defined benefit pension scheme, and is accounted for using Defined Benefits Accounting. Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit is presented separately from other net assets on the Statement of Financial Position.

Under Defined Benefits Accounting, the current service cost and costs from settlements and curtailments are charged against operating surplus. Past service costs are recognised in the current reporting period. Interest is calculated on the net defined benefit liability. Remeasurements are reported in other comprehensive income.

Management's estimates relating to the defined benefit schemes are based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salaries; variation in these assumptions may significantly impact the defined benefit obligation and annual expense as shown in this note. These assumptions and calculations are prepared by an independent actuary.

24a. The Pensions Trust Social Housing Pension Scheme (SHPS)

The company 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 company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 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 company is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out 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:

Deficit contributions

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 & 3 deficit contributions.

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement, the company 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.

Assumptions

% per annum	31 March 2017	31 March 2016	31 March 2015
Rate of discount	1.3	2.3	1.9

Present value of pension liability

£'000	31 March 2017	31 March 2016	31 March 2015
Present value of pension liability	30,519	32,703	26,110

Reconciliation of opening and closing pension liability

	£'000
Pension liability as at 1 April 2016	32,703
Unwinding of the discount factor (interest expense)	712
Deficit contribution paid	(3,997)
Remeasurements - impact of any change in assumptions	1,292
Remeasurements - amendments to the contribution schedule	(191)
Pension liability as at 31 March 2017	**30,519**

Income and expenditure impact

	31 March 2017 £'000
Interest expense	712
Remeasurements – impact of any change in assumptions	1,292

Deficit contribution schedule

Year ending	(£'000) March 2017	(£'000) March 2016	(£'000) March 2015
Year 1	4,142	3,915	3,009
Year 2	4,306	4,142	3,135
Year 3	4,476	4,306	3,267
Year 4	3,990	4,476	3,405
Year 5	3,203	3,990	3,549
Year 6	3,317	3,203	2,905
Year 7	2,902	3,317	2,212
Year 8	2,239	2,902	2,298
Year 9	2,306	2,239	1,746
Year 10	1,383	2,306	1,152
Year 11	-	1,383	1,187
Year 12	-	-	611

The company must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the income and expenditure account i.e. the unwinding of the discount rate as finance cost in the period in which it arises. It is these contributions that have been used to derive the company's balance sheet liability.

24b. The Nottinghamshire County Council Pension Fund (Notts LGPS)

The Nottinghamshire County Council Pension Fund, which is administered by Nottinghamshire County Council, is a defined benefits scheme based on final pensionable salary, contributions being charged to the income and expenditure account over employees' working lives with the Trust. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation of the whole fund was at 31 March 2013.

Assumptions

	2017	2016	2015
Inflation assumption (RPI)	3.6%	3.2%	3.2%
Inflation assumption (CPI)	2.7%	2.3%	2.4%
Rate of increase of salaries	4.2%	4.1%	4.2%
Rate of increase in pensions in payment	2.7%	2.3%	2.4%
Discount rate	2.7%	3.6%	3.3%

Net pension liability

	31 March 2017 £'000	31 March 2016 £'000
Present value of defined benefit (DB) obligation	(11,195)	(8,651)
Fair value of fund assets (bid value)	7,302	6,235
Net liability in balance sheet	**(3,893)**	**(2,416)**

Impact on income and expenditure

	2017 £'000	2016 £'000
Service cost	72	101
Net interest on the defined liability	86	85
Administration expenses	2	-
Total	**160**	**186**

Remeasurement in other comprehensive income

	2017 £'000	2016 £'000
Return on fund assets in excess of interest	1,182	(261)
Other actuarial gains/(losses) on assets	(63)	-
Change in financial assumptions	(2,131)	581
Change in demographic assumptions	(60)	-
Experience gain/(loss) on DB obligation	(285)	-
Remeasurement of net assets/(defined liability)	**(1,357)**	**320**

Reconciliation of opening and closing assets

	31 March 2017 £'000	31 March 2016 £'000
Opening fair value of scheme assets	6,235	6,481
Interest on assets	220	211
Return on assets less interest	1,182	(261)
Administration expenses	(2)	-
Actuarial gain/(loss)	(63)	-
Contribution by employer including unfunded benefits	39	50
Contributions by scheme participants	17	21
Estimated total benefits paid (net of transfer in)	(327)	(267)
Fair value of scheme assets at end of period	**7,301**	**6,235**

Reconciliation of opening and closing obligations

	31 March 2017 £'000	31 March 2016 £'000
Opening defined benefit obligation	8,651	9,081
Service cost	72	101
Interest cost	306	296
Change in financial assumptions	2,131	(581)
Change in demographic assumptions	60	-
Experience loss/(gain) on DB obligation	285	-
Estimated funded benefits paid (net of transfers in)	(327)	(267)
Contributions by scheme participants	17	21
Closing defined benefit obligation	**11,195**	**8,651**

Projected pension expenses for year to 31 March 2018

	2018 £'000	2017 £'000
Service cost	115	92
Net interest on the defined liability (asset)	104	86
Administration expense	3	-
Total loss (profit)	**222**	**178**
Employer contributions	79	49

Sensitivity analysis

	2017	2017	2017	2016	2016	2016
Adjustment to discount rate	+0.10%	0.00%	-0.10%	-	-	-
Present value of defined benefit obligation £'000	11,002	11,195	11,392	8,500	8,651	8,804
Projected service cost £'000	112	115	118	90	92	94
Adjustment to long-term salary increase	0.00%	0.00%	-0.10%	-	-	-
Present value of defined benefit obligation	11,210	11,195	11,180	8,665	8,651	8,637
Projected service cost	115	115	115	92	92	92
Adjustment to pension increases and deferred revaluation	+0.10%	0.00%	-	-	-	-
Present value of defined benefit obligation	11,377	11,195	11,016	8,793	8,651	8,512
Projected service cost	118	115	112	94	92	90
	+1 year	**None**	**-1 year**	**+1 year**	**None**	**-1 year**
Adjustment to mortality age rating assumption	11,629	11,195	10,778	8,925	8,651	8,386
Present value of defined benefit obligation £'000	119	115	111	94	92	90

25. Provision for liabilities

Where the effect of the time value of money is material the amount expected to be required to settle the obligation is recognised at the present value using a discount rate. The unwinding of the discount is recognised as finance cost in income and expenditure in the period it arises.

The Group has recognised provisions for liabilities of uncertain timing or amounts including those for major repairs on stock transfers and leaseholders, overage for gap funding, and restructuring. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date.

The major repairs provision relates to the transfer of the Ashmole Estate from the London Borough of Lambeth (Trust) to Metropolitan Housing Trust. The provision is periodically reviewed and reassessed at the balance sheet date to reflect its fair value of the works to be completed.

The overage provision relates to the potential clawback of gap funding on the Lymington Fields scheme. This funding was provided by the Homes and Communities Agency as part of the London Wide Initiative, and the clawback provision within the funding agreement runs for 10 years until December 2019. The provision is held within the accounts of Metropolitan Living Limited.

Group	Major repairs - stock transfer £'000	Major repairs - leaseholder £'000	Restructure provisions £'000	Overage provision £'000	Total £'000
Opening balance at 1 April 2016	14,174	502	187	138	15,001
Additions	-	(502)	1,380	-	878
Amounts used	(5,895)	-	(182)	-	(6,077)
Balance at 31 March 2017	**8,279**	**-**	**1,385**	**138**	**9,802**

Trust	Major repairs - stock transfer £'000	Major repairs - leaseholder £'000	Restructure provisions £'000	Total £'000
Opening balance at 1 April 2016	5,066	502	187	5,755
Additions	-	(502)	1,379	877
Amounts used	(5,066)	-	(182)	(5,248)
Transfer of engagements	8,279	-	-	8,279
Balance at 31 March 2017	**8,279**	**-**	**1,384**	**9,663**

26. Share capital

	2017 number	2016 number
Opening balance	30	31
Shares cancelled	(2)	(1)
Closing balance	**28**	**30**

The nominal value of a share is £1.

27. Capital commitments

Group	PPE £'000	Investment property £'000	Inventory £'000	2017 £'000	2016 £'000
Capital expenditure that has been contracted for	328,136	5,255	171,313	**504,704**	**132,145**
Capital expenditure that has been authorised by the Board but has not yet been contracted for	100,307	-	109,113	**209,420**	**221,401**

Trust	PPE £'000	Investment property £'000	Inventory £'000	2017 £'000	2016 £'000
Capital expenditure that has been contracted for	328,136	5,255	75,830	**409,221**	**118,287**
Capital expenditure that has been authorised by the Board but has not yet been contracted for	100,307	-	109,113	**209,420**	**125,948**

The amount contracted for at 31 March 2017 will be funded from cash reserves, private finance loans, Social Housing Grant and the proceeds of sales. The Board expects the expenditure it has authorised to be fully financed in this way. Under regulations approved by the Board, appropriate officers and employees may authorise expenditure to certain levels, and such authorised expenditure is included above.

28. Contingent assets/liabilities

The Group receives grant from the Homes and Communities Agency and from the Greater London Authority, which is used to fund the acquisition and development of housing properties and their components. The Group has a future obligation to recycle such grant once the properties are disposed of. At 31 March 2017, the value of grant received in respect of these properties that had not been disposed of was £1,034m (2016: £996m).

As the timing of any future disposal is uncertain, no provision has been recognised in the financial statements.

29. Leasing commitments

The future minimum lease payments are set out below.

The Group's future minimum finance lease payments are as follows:

	Group 2017 £'000	*Group 2016 £'000	Trust 2017 £'000	*Trust 2016 £'000
Within one year	25	23	25	23
Between one and two years	55	25	55	25
Between two and five years	98	85	98	85
In more than five years	460	528	460	528
	638	**661**	**638**	**661**

* 2015-16 lease commitments were restated for the prior year as they were incorrect

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Group. All other leases are classified as operating leases.

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on the accruals basis.

Where assets are financed by leasing agreements that give rights approximating to ownership they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments (or if lower the fair value of leased asset) and is depreciated in accordance with the Group's normal policy for that class of assets. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability.

The Group's future minimum operating lease payments are as follows:

	2017 Land and buildings £'000	Other £'000	2016 Land and buildings £'000	Other £'000
Less than one year	769	33	623	52
Between one to five years	2,443	362	2,152	323
More than five years	1,455	20	1,586	-
	4,667	**415**	**4,361**	**375**

The Group's future minimum operating lease payments are as follows:

	2017 LCHO £'000	Commercial £'000	2016 LCHO £'000	Commercial £'000
Less than one year	22,254	882	23,367	897
Between one to five years	78,913	2,674	82,858	2,965
More than five years	228,166	4,429	239,575	5,019
	329,333	**7,985**	**345,800**	**8,881**

30. Related parties

The declaration of interest of board members and key management personnel identified a number of related parties. During the year Metropolitan conducted no transactions with such related parties.

MHT provides central management services to its subsidiaries. Charges are allocated as follows:

Department	Allocation basis
Facilities	Headcount
Health and safety	Headcount
Finance	Turnover
Information technology	Number of computers
Human resources	Headcount
Procurement	Turnover
Communications	Turnover
Board	Turnover
Executive Team	Turnover

The quantum of the 2017 charges applied for these services to private subsidiaries is as follows:

	2017 £'000	2016 £'000
EMPS (Metworks)	213	19

During the year ending 31 March 2017, BMM LLP made profit distribution to MLL in cash totalling £3,250k.

MHT has joint regeneration partnerships with the following partners, and the relevant share of ownership is included in the statements:

Joint regeneration partnership	Partners	MHP share %
Canalside	One Housing Group	50.00%
St Martin's	Amicus Horizon Ltd Notting Hill Housing Trust	40.34%

MHT provides central management service to its regeneration partnerships, on the same allocation basis as it provides to subsidiaries. The amount of charges to each partnership is as follows:

	2017 £'000	2016 £'000
Roundshaw	-	53
Canalside	256	184
St Martins	323	228
Total	**579**	**465**

MLL has a Limited Liability Partnership with house builder Westleigh Development Ltd in Westleigh Cherrybank LLP (WCB) to develop the Monks Road scheme near Lincoln. There have been low levels of activities in recent years. In December 2016, it was approved and agreed between partners to dissolve the partnership by disposing of assets.

The undeveloped land was sold by 31st March 2017 and £565,600 was received by the group as our 50% share of the sales proceeds. There are four residential properties to be disposed of in the new financial year, and the balance of investment in WCB as at 31 March 2017 is disclosed in Note 32.

Rent received from tenant and leaseholder board members across the Group during the year was £39,469 (2016: £20,349). Rent arrears of the Group's tenant and leaseholder board members as at 31 March 2017 was nil (2016: less than £1,000). The rent arrear balance is subject to the same bad debt provision and debt recovery process as all the other rent arrears.

Aggregate emoluments paid to key management personnel of the Group are disclosed in Note 10.

During the year, £4.0m was paid as contributions towards the pension deficits of the SHPS and LGPS Pension Schemes; further details of these schemes are included in Note 24.

31. Financial instruments

Debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses. Trade debtors are recognised with the revenue, other debtors are recognised when they become receivable. Creditors are recognised when payment becomes probable.

Loans, investments and short-term deposits

All loans, investments and short-term deposits held by the Group, with the exception of the cancellable embedded option arrangements detailed below, meet the criteria for basic financial instruments as set out in FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historic cost); FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the Group has calculated that the difference between the historic cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historic cost. Loans and investments that are payable or receivable within one year are not discounted.

Lender's option borrower's option loan (LOBO) and cancellable embedded options (CEO)

These financial instruments contain embedded derivative optionality. Until this year, in the case of our LOBO these derivatives were held by both our lender and by us. The Bank that provided us with the LOBO loan issued us with a unilateral notice advising they have cancelled the lender options in the loan. The removal of this optionality renders the LOBO loan a basic financial instrument.

Embedded derivative optionalities makes these instruments more complex and they cannot be defined as "basic" under FRS 102. As a result their measurement is determined by Section 12 of FRS 102. In determining the appropriate accounting treatment for these instruments we have assumed that the Regulations referred to in 12.8c, which are the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, are applicable to Metropolitan Housing Trust. Reference to these Regulations determines that the instruments should be measured at amortised cost. As stated previously the Group's accounting policy for financial instruments measured at amortised cost is that they are stated on the balance sheet at historic cost because the difference between historic cost and amortised cost is deemed to be immaterial.

The application of these Regulations is a subjective viewpoint and the Group is aware that this conclusion may be changed by future amendments to FRS 102.

An embedded interest rate derivative is considered clearly and closely related to the host contract (and does not need to be accounted for separately) unless certain conditions are present. The Group has analysed the terms of all its LOBO and CEO arrangements and has determined that these conditions are not present. As a result of this analysis these derivatives are not measured separately but as part of the host loans at historic cost.

Cash and cash equivalents

Cash and cash equivalents in the Group's Consolidated Statement of Financial Position consists of cash at bank, in hand, deposits and short-term investments with an original maturity of three months or less.

The Group has also identified some investments, which meet the definition of cash and cash equivalents but are restricted in their use; these investments have been classified as restricted cash equivalents.

Derivative instruments and hedge accounting

The Group holds floating rate loans which expose the Group to interest rate risk; to mitigate against this risk the Group uses interest rate swaps. These instruments are measured at fair value at each reporting date. They are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group has designated each of the swaps against either existing drawn floating rate debt or against highly probable future floating rate debt. To the extent the hedge is effective, movements in fair value adjustments, other than adjustments for own or counterparty credit risk, are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any movements in fair value relating to ineffectiveness and adjustments for our own or counterparty credit risk are recognised in income and expenditure.

Concessionary loans

Concessionary loans are those loans made or received by the Group that are made:

- to further its public benefit objectives
- at a rate of interest which is below the prevailing market rate of interest
- not to be repayable on demand.

Loans made under HomeBuy are concessionary loans. These loans are measured at the amount advanced at the inception of the loan less amounts received and any provisions for impairment. Any associated grant is recognised as deferred income until the loan is redeemed.

Cash flow hedge (derivative financial instruments)

MHT uses interest rate swaps to reduce exposure to interest rate risk on its debt portfolio. These hedges comprise of swaps with a notional value of £189m at 31 March 2017 (2016: £189m) with interest rates ranging between 2.16% and 5.7% (2016: 2.16% and 5.7%) and maturities between 2 and 31 years (2016: 2 and 32 years).

The swaps represent a liability owing to the counterparty if they were to be closed out at their fair value. The fair value of this liability as at 31 March 2017 was £49.0m (2016: £44.7m). This liability is secured with property charged to the counterparty or with cash deposits. As at 31 March 2017 the Group had £12.25m (2016: £11.7m) in cash lodged to cover this liability with the remaining balance being covered by credit limits or property pledged.

Any future change in the LIBOR and RPI forward swap curves will result in a change to the fair value of our derivative financial instruments. An adverse movement in the forward swap curves will result in an increase to the current level of liability. An adverse move would also lead to further cash or property being required to be pledged with the derivative counterparties.

The fair values of all of Metropolitan's standalone swaps are shown on the balance sheet at their mid-market Mark to Market ("MTM") value (the "mid-market" value is considered to be a close proxy for the "bid" or "offer" value, as appropriate, which are necessarily more subjective). All curves and market data used in the valuations are sourced from Bloomberg and applied in determining the fair value for each class of derivative instrument as follows:

- Interest rate swaps have been valued using the 3 Month LIBOR or 6 Month LIBOR swap curve, adjusted for LIBOR basis spreads where appropriate. Discounting is on a 6 Month LIBOR swap curve basis
- Basis swaps have been valued using the appropriate basis swap spread curve. Discounting is on a 6 Month LIBOR swap curve basis
- LPI swaps have been valued using the RPI swap curve and LPI option prices, and the 3 Month LIBOR swap curve. Discounting is on a 6 Month LIBOR swap curve basis

Restricted cash and cash equivalents

As at 31 March 2017, £24.9m (2016: £21.3m) of cash is classified as restricted cash and cash equivalents due to legal restrictions.

Financial instruments

	Group 2017 £'000	Restated Group 2016 £'000	Trust 2017 £'000	Restated Trust 2016 £'000
Financial assets measured at historic cost:				
Trade receivable	8,821	11,837	8,827	11,207
Other receivables	27,376	25,565	114,921	34,927
Investments	26,796	82,037	26,809	77,049
Cash and cash equivalents	104,190	182,283	103,099	171,252
	167,183	301,722	253,656	294,435
Financial assets that are equity instruments measured at cost less impairment:				
Concessionary loans receivable	138,439	157,082	138,439	157,082
	305,622	**458,804**	**392,095**	**451,517**
Financial liabilities measured at fair value through profit and loss:				
Derivative financial instruments	48,962	44,673	48,962	44,673
Financial liabilities measured at historic cost:				
Loans	1,045,594	1,094,785	1,045,594	978,115
Trade creditors	5,617	6,281	5,262	5,717
Other creditors	474,705	474,901	473,180	414,819
Financial leases	638	661	638	661
	1,575,516	**1,621,301**	**1,573,636**	**1,443,985**

32. Joint ventures and subsidiaries

The ultimate parent undertaking within the Metropolitan Group is Metropolitan Housing Trust Limited. The following managed undertakings are subsidiaries by virtue of either ownership of their share capital or the ability of the Trust to control the composition of their Board.

Name of undertaking	Shares held	Registered in	Principal activity
Metropolitan Living Limited	100%	England	Property development
Metropolitan Funding Plc	100%	England	Financing vehicle
Clapham Park Homes Limited	Limited by guarantee	England	Transferred its engagement to MHT on 26th January 2017.
Clapham Park Development Limited	100%	England	Dormant
Metropolitan Home Ownership Limited	100%	England	Dormant
EM Property Service Limited	100%	England	Property maintenance
Longsdale Limited	Limited by guarantee	England	Property holding
Spiritagen Limited	100%	England	Dormant

Metropolitan Living Limited participates in two active joint ventures to carry out development projects.

Joint ventures	Partner	Interest	Voting rights
Barratt Metropolitan LLP ('BMM')	Barratt	25%	50%
Westleigh Cherrybank LLP ('WCB')	Westleigh	50%	50%

	BMM 2017 £'000	WCB 2017 £'000	Total 2017 £'000	BMM 2016 £'000	WCB 2016 £'000	Total 2016 £'000
Investment at 1 April	7,341	821	8,162	5,104	812	5,916
Additions/(disposals)	(165)	(542)	(707)	2,176	-	2,176
Share of profits	3,784	-	3,784	3,386	9	3,395
Dividends	(3,250)	-	(3,250)	(3,325)	-	(3,325)
As at 31 March	**7,710**	**279**	**7,989**	**7,341**	**821**	**8,162**

33. Prior year adjustments

A review of our accounting policies was carried out during 2016/17 and this has resulted in government grant on shared ownership properties being amortised over a useful economic life of 25 years. This grant had not previously been amortised.

This change has been accounted for as a prior year adjustment to our figures.

The tables below show the restatement resulting from the change.

	Group	Trust
Statement of Financial Position	**£'000**	**£'000**
Reserves at 31 March 2015	1,458,580	1,448,818
Adjust for amortised grant	39,844	39,748
Restated reserves at 31 March 2015	**1,498,424**	**1,488,566**

Statement of Comprehensive Income	**£'000**	**£'000**
Operating surplus 2015/16	80,669	78,800
Adjust for amortised grant	3,549	3,459
Restated operating surplus 2015/16	**84,218**	**82,259**

34. Post balance sheet events

There are no post balance sheet events to note.

35. Capital and reserves

The revaluation reserve has been reduced by £4.1m during the year (2016: total gain of £0.6m). There has been a revaluation gain on investment of £1.9m and a revaluation reduction of £6m due to property disposals.

Movements in Cash Flow Hedge Reserve and Pension Reserve are explained in Note 31 and Note 24.

The restricted reserve is created for the donated fund of the Migration Foundation. The donor specified the use of the fund. The surplus fund is currently invested, and fair value of the investment is accounted for in the restricted reserve.

36. Government grants

Government grants included in the Statement of Financial Position:

	Group 2017 £'000	Restated Group 2016 £'000	Trust 2017 £'000	Restated Trust 2016 £'000
Other fixed assets				
Creditors due within one year:				
Recycled Capital Grant Fund	(28,702)	(17,171)	(28,702)	(17,147)
Disposal Proceeds Fund	(912)	(235)	(912)	(235)
Creditors due after one year:				
Recycled Capital Grant Fund	(73,614)	(79,207)	(73,164)	(78,411)
Disposal Proceeds Fund	(2,134)	(2,159)	(2,134)	(2,159)
Deferred government grant	(267,433)	(290,070)	(267,433)	(229,990)
Reserves:				
Income and expenditure reserve	(1,033,698)	(1,039,091)	(1,033,698)	(1,039,091)
	(1,406,493)	**(1,427,933)**	**(1,406,043)**	**(1,367,033)**

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