Annual report
2018

Metropolitan

Contents

Members, executives and advisors

Chair
Paula Kahn

Non-executive Board members
Lesley-Anne Alexander
Stuart Beevor
Natalie Burrows (resigned 28 February 2018)
Clive Deadman
Janet Dean
Michael Dunn
Mike Green (retired 31 August 2017)
Jerry Piper

Executive Board members
Chief Executive
Brian Johnson (resigned 13 July 2017)
Geeta Nanda (appointed 16 October 2017)

Executive Director, Finance
Ian Johnson

Executive Directors
Executive Director, Housing Services
Jenny Danson (resigned 17 November 2017)
Ann Gibbons (appointed 13 November 2017 – under the new ET structure – ED Customer Services)

Executive Director, People
Anthony Perkins

Executive Director, Care and Support
Ann Gibbons (until new ET structure on 13 November 2017)

Interim Executive Director, Development
Kerry Kyriacou (appointed 18 September 2017 and resigned 20 April 2018)
Linda Robinson (resigned 29 September 2017)

Executive Director, Insight and Innovation
Daniel Jones (from 13 November 2017 ED Strategy & Planning)

Executive Director, Property
Mark Everard (appointed 11 December 2017, under new ET structure)

Secretary
Mary Keane (resigned 31 July 2017)

Deputy Company Secretary and acting Company Secretary for purposes of Companies House
Donald McKenzie

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

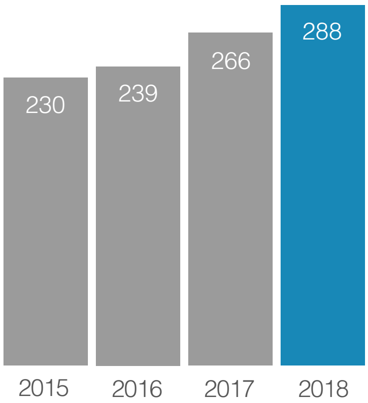
Auditors
BDO LLP, 2 City Place, Beehive Ring Road, Gatwick, West Sussex, RH6 0PA

Bankers
Lloyds Banking Group

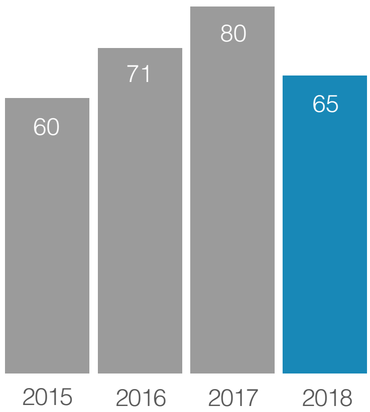
Results at a glance

Group figures

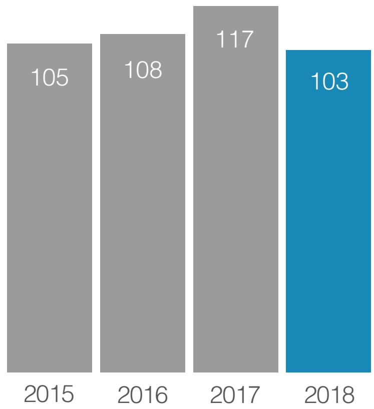
Turnover
£288m



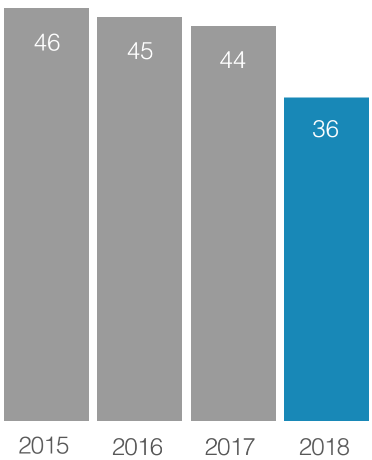
Surplus after tax
£65m



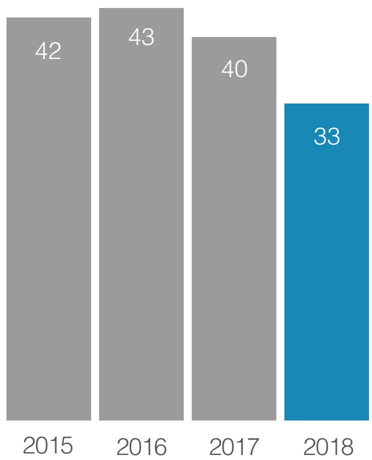
Operating surplus*
£103m



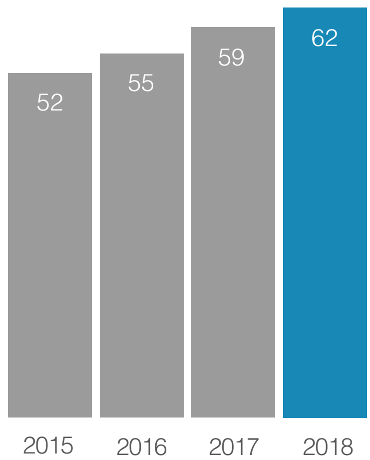
Operating margin*
36%



Lettings margin
33%



Gearing
62%



Notes
*Operating surplus and operating margin have been restated for 2015, 2016 and 2017 to include stair casing, right to buy/right to acquire and redemptions. Previously they were not included in operating surplus.

Performance at a glance

Highlights of 2018

623
New homes delivered

£29m
Investment in existing stock

5,870
Homes - Development pipeline

£4m
New annual business income in care and support

£229m
Invested in acquiring land and building new homes

V1
Financial viability rating

1,026
Number of customers supported into employment

Top 200
Stonewall Top 200 Employers ranking

83%
Proportion of repairs fixed first time

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





Chair and Chief Executive's introduction

We are beginning an exciting new chapter in the history of Metropolitan.

In October, we set a new ambition: better together. That means working together to get right what really matters to our customers, our communities and our colleagues – and fixing things when they are not right. In November, we took the first step towards this by reshaping our structure: bringing together everyone in daily contact with customers under a new Customer Services directorate; and everyone who maintains our properties, under a new Property directorate.

This year we also announced our intention to form a partnership with Thames Valley Housing (TVH). We believe that the joining of these two well-established housing associations, both with strong roots in their communities, will improve the service we provide to our customers and colleagues. Metropolitan and Thames Valley Housing have shared values and complementary geographies, housing tenures, areas of expertise, commercial models and customer service aspirations. The partnership will enable us to do more together, and to build greater financial strength and resilience against a challenging external backdrop.

Financial strength continues to underpin everything we do, helping us to invest in what matters most to our customers and colleagues. We ended the year with an operating surplus of £103m, having invested £29m in property improvements and £229m in acquiring land and building new homes. This year we completed 623 new homes and reached an important milestone at our flagship regeneration project at Clapham Park, where, working closely with the local community, we gained approval for our new development proposal to build more than 2,500 new homes and a wide range of community facilities. This vital step will allow us to progress to the next phase of redevelopment in the area. We also made excellent progress in our mission to help customers into work by supporting a total of 1,026 people into employment (against a target of 1,000).

This year, housing policy and investment in housing have continued to be at the top of the government's domestic agenda. We welcomed a firm commitment to invest in social and affordable housing, and the government's post-2020 rent settlement. There were also clearer positions on supported housing and social care, and we welcome the greater clarity they provide. Universal Credit impacts seriously on the income of some of our residents, and its continued roll out this year, underlines once again the importance of supporting customers with their finances and helping them into work.

The terrible events at Grenfell Tower in June 2017 brought fire safety into sharp focus. Alongside other organisations in the sector, we carried out an in-depth review of our buildings and procedures following the incident. We made a significant investment in the general safety of our stock, alongside several one-off investments in our high-rise buildings. We also began work as part of a strategic plan to improve communal spaces and undertake decorative repairs. Our customers will recognise us as a responsible landlord that takes the safety of its customers seriously, as we move swiftly to implement any changes recommended as a result of the independent inquiries into the event.

Meanwhile, we remain committed to advocating on behalf of our customers to inform and influence the pace and shape of external change. We will continue to work constructively with both central and local government, including the newly formed Homes England body.

In February, we announced the Shadow Board for the new partnership along with the designate Executive Team, comprising members of the existing Executive teams of both Metropolitan and Thames Valley Housing. The designate team represents a diverse range of voices, united in their commitment to meeting customers' and colleagues' needs. Changes at Executive level ensured we have leaders in place with the right skills, knowledge and experience to lead us seamlessly into this exciting new phase.

Finally, we would like to thank our people, whose energy and enthusiasm for their work continues to impress us. There is still a lot to do, but our new structure and leadership will bring us closer to where we want to be: a housing association where customers say 'they get our service right', and where colleagues feel empowered to work collaboratively, and with empathy.

We are very much looking forward to working in this new partnership, which is guided by a shared vision that has people at its core, and four areas of focus: enhancing resident services, building new homes, transforming communities and creating a great place to work.

Paula Kahn
Chair
Signed 28 June 2018

Geeta Nanda OBE
Chief Executive
Signed 28 June 2018

Chief Executive's strategic operational review

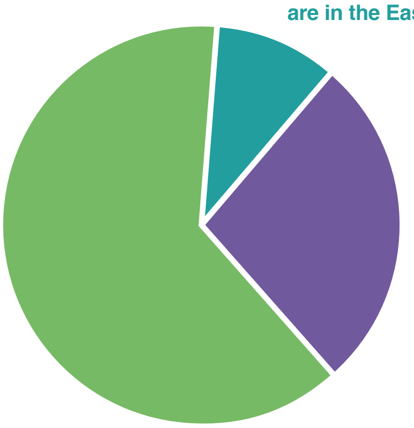
Who we are

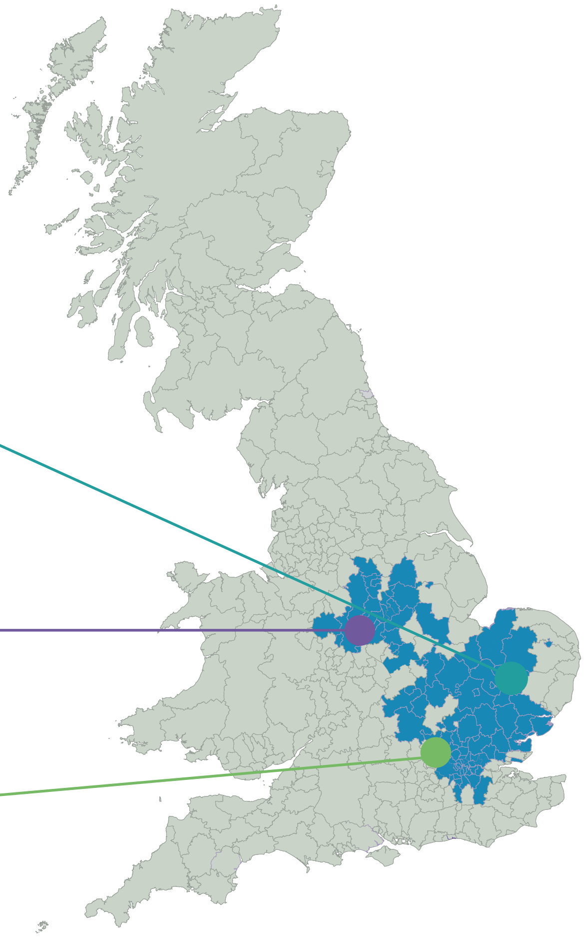
Metropolitan is one of the UK's leading providers of affordable housing and care and support services. We own and manage a large portfolio of more than 38,000 homes and serve nearly 71,000 customers across London, the East Midlands and the East of England.

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

Where we operate

We own and manage more than 38,000 homes





Our homes in London include:
6,972 in Lambeth
2,624 in Haringey
2,456 in Brent
2,231 in Sutton
1,897 in Enfield

Our homes in the East Midlands include:
4,699 in Rushcliffe
2,745 in Derby
2,256 in Nottingham

Our homes in the East of England include:
995 in Cambridge
981 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 and 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.

The Ortiz family live in Clapham Park, where we're building more homes and community facilities.

Creating thriving communities

Luke Cooke, Metropolitan resident and business entrepreneur

Clapham Park resident Luke Cooke won a Dragons' Den-style competition organised by Metropolitan, earning himself £2,000 to get his catering business off the ground.

With experience as a chef, Luke had already been cooking food to order from home for friends and family – but the investment has allowed him to buy the equipment he needs to scale up the business, and cater to the wider local area.

Luke was one of 12 entrepreneurs who took part in Metropolitan's 'Pitch Your Idea' project to support unemployed Metropolitan residents, or those not in education or training, to start their own businesses.

The project took residents with no previous business experience through a nine-week training programme, providing them with the essential skills needed to successfully develop their ideas.

At the end of the programme, the participants pitched their business ideas to a panel of experts.

Luke says:

"Pitching to the judges at the end was nerve-wracking – and winning it meant a lot. It was proof to me that my business idea was good and something that I can make a success of."

Owning their own home

Customers Michael and Stella Petitt buy a larger share of their own home through staircasing

Michael and Stella Petitt made 2017 a year to remember when they moved into a new, three-bedroom shared ownership house in Chellaston, Derby.

The couple, who had spent 35 years living in vicarages provided by the Church, had been assessing their options as they planned Michael's retirement. Michael said: "The location and property type were just what we were looking for. As a retired clergyman who had always lived in a Vicarage, it was pleasantly surprising that we could afford to buy. The process was quicker than expected and very straightforward."

A few months later, Michael and Stella decided to buy a larger share of their home through staircasing. "The process went very smoothly," explained Stella. "In the future we hope to increase our share to full ownership."

Stella says:

"We're very happy here, we'd never thought about Shared Ownership before but we'd recommend it without hesitation"

Creating a great place to work

Emily Parnill, Apprentice Plumber for our in-house repairs service, Metworks

While studying plumbing at college, Emily felt that she needed to put her skills into practice. “I needed to be learning on the job,” she explains. “I found the apprentice plumber position with Metworks online and the application process was very laid back and easy.”

Having successfully secured the position, Emily is now an apprentice plumber for Metworks, Metropolitan’s in-house repairs service. “Most of our time is spent on call outs to fix or replace things,” she says. “This could be anything from changing a tap head to fixing a leak or changing a bath. I like the job because it’s different most days and you’re always out and about going from job to job. I also like it because it’s quite practical and can be challenging, so you’re always having to think on your feet!”

Alongside the practical skills she has learnt, Emily now also has a more concrete plan for her future career. “Now I have a set goal of finishing my plumbing course, becoming qualified and then doing my gas training, which is a good step to take after plumbing. But the apprenticeship has helped me realise that there are many other routes I could go down too if I want.”

Emily says:

“I would recommend an apprenticeship with Metropolitan to anyone. Everyone’s been very supportive here. They’ve helped me decide what to do when I finish, whether or not I stay working here in the future.”

Making migration work for people & communities

Akbar Babukarkhail, refugee and Care and Support Team Manager

The Metropolitan care and support team manager was once a second-year medical student in Kabul. But his dreams of being a doctor were crushed when the Taliban took Afghanistan into its repressive stranglehold.

“Universities were closed; there was no more access to education,” explains Akbar, who fled his home in the middle of the night in 2000, left his family and sought asylum in the UK.

The Home Office sent him to Sheffield as part of the new government programme to re-house asylum seekers across the country. He began working as an interpreter for local support agencies, before he was recruited as an asylum seeker support worker by Safe Haven Yorkshire – an organisation that was taken over by Metropolitan.

He was promoted to project worker and then service manager. He now manages Metropolitan’s supported accommodation service for failed asylum seekers with serious mental health issues. He is grateful to Metropolitan for giving him the training and support to grow.

Akbar says:

“Metropolitan nourished me and gave me the opportunity to do a rewarding job. It means a lot to feel valued by your employer.”

Making things better for our customers

Our customers tell us they want us to be a housing association that works for them. They want to live in a property that's well maintained, find us easy to access and work with, and feel listened to and supported. With this in mind, this year we reorganised the structure of the organisation to provide a better service to our customers, bringing together housing and care and support into one Customer Services directorate.

The new structure has allowed us to realign colleagues' roles to include clearer accountabilities and revised delegations, and giving them better tools and training to do the job. This will create clearer, more accountable relationship management, better handling of issues and complaints, which will in turn improve the service our customers receive.

The revised structure will also allow us to get a better understanding of the communities in which we work, and the risks and opportunities for people living in them, allowing us to provide more targeted support and to clearly demonstrate the positive social and financial benefits of our work.

Financial strength underpins everything we do. 2017/18 saw a continuation of the government's 1% rent deflation policy but our core housing business remained very profitable with a lettings margin of 33% (2017: 40%). This decline year on year was a result of a £13m additional investment in the year in the condition and safety of our stock, as well as IT upgrade costs and the mobilisation of our in-house contractor in London. We remain committed to delivering value for money, quality services. As part of our commitment to this we have commenced a project to re-procure all of our third party Property service contracts.

Very profitable **33%** lettings margin

We continued to improve performance and delivery in our housing business through faster re-letting of vacant properties (reduced from 29 days in March 2017 to 27 days in March 2018) and reduced rent loss from £2.7m to £1.8m. At the same time we reduced the amount owed to us in tenant arrears by £187k. We achieved this through targeted support for customers currently, or at risk of, falling into arrears and by working with customers to mitigate the impact of the introduction of Universal Credit.

Reduced tenant arrears by **£187k**

As a people-focussed organisation, improving our overall customer satisfaction rating is a top priority, and this year our rating increased to 59% (2017: 57%).

We realise that the performance of our customer service contact centre – as the first port of call for all enquiries – has a critical role in our plans for improving satisfaction with customer service, and this year we continued to improve the efficiency of this service and concentrate on issue resolution.

Helping customers find work or further training to enhance their employment prospects remains a top priority for us. This year we made excellent progress in this area, expanding our Employment Team, supporting 1,026 customers into work (exceeding our own target of 1,000) and 327 into accredited training. A highlight of the year was receiving funding from JP Morgan to deliver an exciting new programme of training and employment for customers in east London. We also continued to invest in our communities, with a focus on developing safer communities and on tackling anti-social behaviour.

Supported **1,026** customers into work

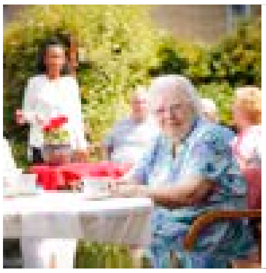
Lotus Close, South London, where we provide accommodation and support to older people.

Our focus on providing quality customer service also extends to our care and support business. We have adapted to an environment of continued pressure on local authority funding and policy change by continually reviewing our contracts and services with a view to reconfiguring and adjusting our business plan as necessary. Overall this year, we secured annualised new business of around £4m in our specialist areas: older people, mental health and transitional services which provide intensive support to marginalised or vulnerable individuals or groups. As well as winning two new contracts we were successful in securing extensions to a further seven. We have exited from or remodelled a number of services which were not financially viable or did not meet our strategic requirements around risk or delivery of greater personal independence for our customers.

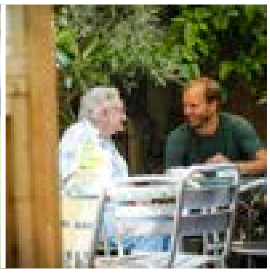
Our safeguarding team continued to develop a more consistent and rigorous approach across the whole organisation. At the end of the year, 10 out of our 12 Care Quality Commission (CQC) registered services were rated as 'good' in its inspection reports. Two other services had a 'required improvement' rating – both of which are actively working to an improvement plan.

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 completed a strategy for the fund, and continued to invest in organisations that resolve destitution and benefit the communities in which we work. Our new centre in Derby, Restart Point, opened this year to provide short-term accommodation for those needing help while in the immigration process.







Maintaining our properties

As part of our commitment to focus on what matters most to our customers, this year we formed a new Property directorate, bringing together all aspects of property maintenance under one Executive Director. This includes planned and cyclical works, mechanical programmes and property compliance, as well as routine and void maintenance. The new structure puts us in a better position to maintain and improve the very assets that underpin our business and to increase overall customer satisfaction with the service we provide. Investment in our planned maintenance programme to improve our customers' homes continued at pace with the replacement of 1,058 kitchens (2017: 1,321), 510 bathrooms (2017: 650) and 2,180 boilers (2017: 1,378). In total we spent £84m on property maintenance (2017: £73m), of which £29m (2017: £29m) was capitalised as property improvements.

In total we spent **£84m** on property maintenance

As a responsible landlord, we take the safety of our residents very seriously. Following the Grenfell tragedy in June 2017, alongside other organisations in the sector, we carried out an in-depth review of our buildings and procedures. To reassure our customers, we made a significant investment in making our stock both safer and better to live in. This included the implementation of a more extensive risk assessment policy, increasing the frequency and the scope of our fire risk assessments.

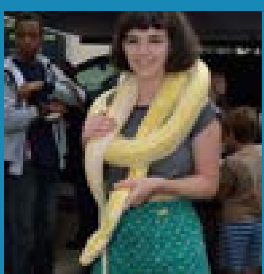
After an extensive review of our entire high-rise estate, we identified that we own one tower with laminate cladding that, although not the aluminium composite material used on Grenfell Tower, has failed combustibility tests. After thorough customer consultation and planning (as well as taking immediate contingent safety measures), we will progress the removal of the cladding, and will make other structural improvements early in 2018/19.

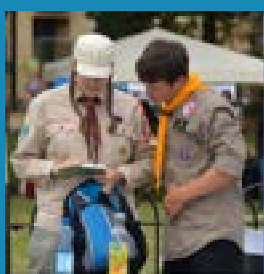
We also made several one-off investments in our high-rise buildings and began work as part of a strategic plan to improve communal spaces and undertake decorative repairs. We will continue to keep abreast of any changes to building standards and regulations as a result of the incident and will implement these as soon as possible.

Customers tell us that our repairs service is their top priority. During the year we continued to take steps to improve our performance in this area to create a service that is efficient, flexible and customer-focussed. Our in-house contractor, Metworks, launched a responsive repairs service for our London customers in April, and a voids service rolled out in June. Metworks is already successfully embedded in the East Midlands and, as part of our long-term strategy, we will look for opportunities to grow Metworks' delivery across all regions. In our first year of operations across the wider estate, we recorded a first-time fix rate of 83% across both regions, and recorded a 99% customer satisfaction score in surveys conducted by operatives on completion of repairs work. This compared with an average first-time fix rate of 83% across all our areas of operation.

Metworks customer satisfaction score **99%**

We also started work on a number of other projects that will improve the service we provide to our customers.
This includes a new strategic asset management strategy, alongside a major procurement exercise that will ensure we are a strong and supporting client to our supply chain partners and that we receive value for money from our significant investments. We will also incorporate increased levels of commercial, compliance and asset investment expertise as well as new processes and structures. This will enable us to deliver an enhanced customer experience by making contact with our organisation and access to our services even easier. Our structure will be reshaped to allow an increasingly local focus to our frontline housing and property services.





Building more homes

At a time of chronic housing shortage, building new affordable homes is one of the most important ways in which we can help to improve our customers' lives. This year, we delivered 623 new homes (2017: 832) of which 169 were for rent (105 affordable rent and 64 social rent), 351 were for shared ownership, and 103 were for private sale. Of the 623 homes we delivered this year, 130 were in the East Midlands, 120 were in the East of England and 373 were in London.

Of those 623 homes, 520 formed part of our Greater London Authority (GLA) and Homes England 2015-18 and 2016-21 programmes – through which we expect to receive at least £41m via recycled capital grant funding of £29m and grant funding of £12m, which in turn will help to deliver a total of 1,673 homes by 2021.

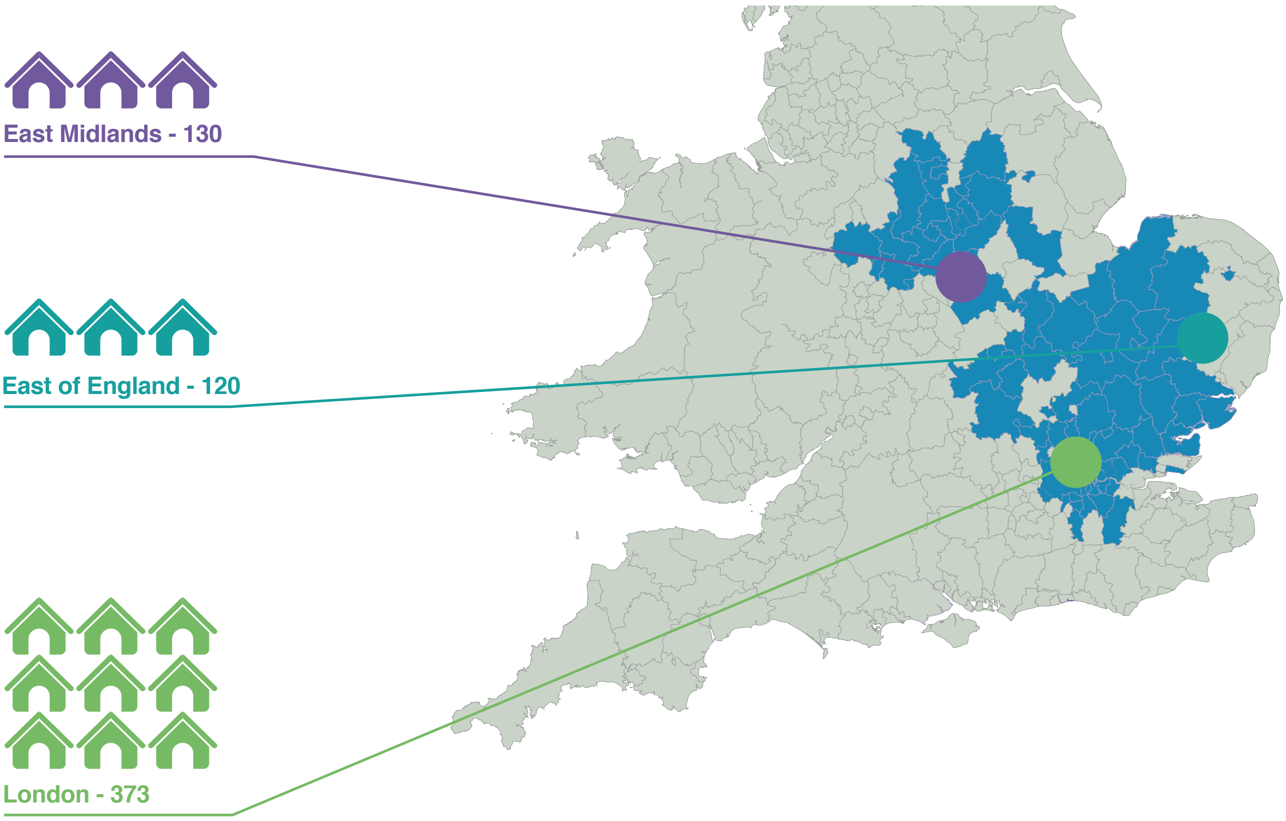
In 2017/18 we invested £229m overall in acquiring land and building new homes (2017: £190m). Looking to the future, we have an ambitious five-year delivery pipeline of 3,662 units, with 950 of these on track to be delivered in 2018/19.

It is important that we invest not only in building new homes, but also in the infrastructure of the communities where we operate – working closely with local residents and stakeholders on physical, economic and social regeneration to benefit generations to come. We are also working with customers to build homes which better suit their needs, from ergonomics to energy efficiency and value for money.

After holding regular consultation events for residents and other members of the community in Lambeth, this year we reached a significant milestone in our flagship regeneration project at Clapham Park, where in March 2018, Lambeth Council gave the go-ahead to our new planning application.

This important achievement means we can now move forward to the final stage of the planning consent process and to deliver our key commitments to local residents, including the delivery of new and refurbished homes, green public spaces, safe streets, shops and community facilities. 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, not only today but also well into the future. During the year we also completed 20 three and five-bedroomed townhouses and 21 flats for rent in Clapham Park. Construction continues on Kings Avenue where we are delivering 201 new homes (including 37 affordable homes) and a nursery.

We delivered 623 homes this year:



Building more homes

Elsewhere in London, we also made significant progress at our major joint venture regeneration project in West Hendon, Barnet, where a total of 182 new homes are expected to be delivered next year. Work also continued on the next phase, which will deliver 910 new homes by 2022. Also during the year, we entered into a new five-year joint venture partnership with Galliford Try, to develop 171 homes (of which 51 will be affordable) in the Rushcliffe borough of Nottinghamshire.

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 374 sales (2017: 272) – comprising 313 homes for shared ownership and 61 homes for private sale (excluding joint venture homes).

Looking to the future, we will continue to pursue development opportunities in our established geographical areas of Greater London, the East Midlands and the East of England, focussing on the M1/M11 corridor. We continue to buy prospective developments based on their planning approved tenure mix, developing as many affordable homes as possible within our financial viability criteria.

Transforming our organisation

This year we realigned our structure to enable us to focus more clearly on our principal aim – to make things better together for our people.

As part of this, In December 2017, we formed a Strategy and Planning directorate through the combination of the Insight and Innovation directorate and the Transformation team. This new directorate will support the business by putting in place an overall strategy and single plan for the organisation, focussing on what cross-organisational projects need to be delivered, how this will happen, and the resources needed to manage them. This will ensure we are working together effectively across directorates to deliver what matters most.

In the past year, the Strategy and Planning directorate has worked on a number of projects, including the design of a new approach to collecting customer satisfaction data, aligned to the issues that matter most to our customers. Other projects during the year include improvements made to the way we communicate with customers in arrears, and the launch of a new initiative to improve the quality of our customer and asset data.

Creating an organisation people want to work for

During the year we had an average of 1,545 full-time equivalent staff (2017: 1,436). This net increase was influenced by the growth of our in-house repairs team Metworks, and care and support staff joining us under TUPE as a result of new business wins. We remain true to the principle of being as ambitious for our people as we are for our customers, and this year saw a number of positive changes relating to how our staff are recruited, developed and rewarded.

We continued to ensure robustness in our executive and senior teams. This year, we strengthened our senior management team, both by internal promotion and by hiring a number of new leaders from a range of sectors; all providing us with new insights, innovation and best practice within our new organisational structure.

We continued to expand our leadership development programme to underpin the professional development of senior managers from across the business and further reinforce management capability and succession strength. The programme take-up increased significantly this year with 61 managers enrolled on the programme in March 2018 (2017: 25).





Transforming our organisation

Despite the amount of internal change that has taken place throughout the year, we were pleased to have maintained our overall colleague engagement score at 67%. We will continue to build on our current performance and raise overall engagement levels, in line with our ambition to make things better for our people.

Our overall colleague engagement score 67%

We want to develop a collaborative and open culture. To help us achieve this, in February we introduced an internal social media platform, Workplace. The system increases the range and speed of communication and collaboration across all levels and locations of the organisation.

Our apprenticeship programme continued to grow, with seven new apprentices joining us in the year (four in the Finance team and three in Metworks), and more apprenticeships planned for the 2018/19 financial year. We also continued to develop our in-house programme, Metrocademy, which offers career progression and development opportunities for our people, based on acquiring key skills and qualifications.

Our new in-house recruitment function bedded in well, working closely with the business, shortening times to hire and at reduced cost. Our Hay job evaluation ended this year, which objectively evaluated each role in the organisation to ensure fairness and increased rigour in our pay and organisational structures. This will result in pay increases for the vast majority of colleagues, and also means we are paying salaries which are competitive within the wider market too. We also introduced a new performance management system, closely aligned to our key business themes and values.

We are proud to be a diverse organisation and see this as a real strength. We are a Stonewall Top 200 employer and our Equality, Diversity and Inclusion plan sets measurable and ambitious targets for improving inclusion over the coming years.

Health and Safety

In the aftermath of the Grenfell Tower fire, we carried out a comprehensive review of our fire safety procedures, contractor management and risk assessments. We rolled out a major training programme for colleagues across the business to embed understanding and ensure continued compliance with our newly revised fire safety procedure.

We also reviewed our processes for statutory health and safety obligations for water safety management, gas and electricity safety checks, and asbestos management to maintain consistent performance and identify opportunities for continuous improvement.

We continued to empower colleagues to take more responsibility for managing health and safety through tailored training programmes, including the Institution of Occupational Safety and Health's (IOSH) 'Managing Safely' and 'Managing Safely in Construction' e-learning courses. We also delivered a dedicated health and safety update to the Executive Team. As well as a mandatory Health and Safety training programme for all employees, we performed internal and external audits and reviews across the whole of our Health and Safety risk portfolio.

Our 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 that was launched in September has significantly improved the reporting and tracking of safeguarding incidents.

By working with our new Occupational Health service provider we have been able to improve the way we manage occupational health referrals so that we are able to help colleagues back to work more quickly following ill health.

Business infrastructure

We continued to make good progress in improving the quality of our IT service and infrastructure. During the year we completed the implementation of a new operating model and IT team structure. The new model allows us to take a broader, more customer-focussed approach, and to work in close partnership with other areas of the business. This year we also continued to invest in and develop our core applications, as well as mobile working options for colleagues to improve our efficiency, flexibility and value for money. Work continued on a £5m project to upgrade our IT hardware and improve the user experience. The next 12 months will see us install customer Wi-Fi in our Care and Support schemes.

£5m project to upgrade our IT hardware

Executive Director of Finance's review

Finance review

There were three key highlights in the year:

- £229m spent on new properties with 623 new homes completed in the year
- Credit rating at A+ (negative outlook)
- Cash from operating activities up 2% to £49m (2017: £48m)

Overview

Group turnover was £288m (2017: £266m), up 8% on the prior year. The main contribution to this increase came from turnover from outright sales and first tranche sales of £59m (2017: £38m).

Operating surplus was £103m

Operating surplus was £103m (2017: £117m) largely due to higher property costs reflecting increased expenditure on the condition and safety of our property estate. We recognise that property standards are a key driver of customer satisfaction; this year we sought to raise the standard of our properties to make them safer and more attractive to live in.

We continue to generate cash from operating activities. Revenue from outright and first tranche property sales was £59m (2017: £38m). As a result of the recent lower levels of house price inflation, as well as our strategic plan to buy land with consents that we can bring to market quickly, our sales margin performance diminished slightly year on year, in line with our expectations. Outright sales margin was 11% (2017: 11%) and first tranche sales margin was 23% (2017: 33%).

We experienced lower volumes from our shared equity operations, including shared ownership equity sales ('staircasing') and mortgage loan buy-backs ('redemptions') as well as right-to-buy sales. Revenue from these activities totalled £48m (2017: £54m) at an average margin of 38% (2017: 38%). Net interest cost and related finance charges were down 7% at £44m (2017: £47m). Total surplus was down 18% at £65m (2017: £80m). 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 was good with free cash flow of £18m in the year (2017: £44m). Capital expenditure on development projects was £229m (2017: £190m).

Covenant gearing ended the year at 62% (2017: 59%) and interest cover was 2.8 times (2017: 3.0 times).

	2017/2018			2016/2017		
	Turnover £m	Operating surplus £m	Margin %	Turnover £m	Operating surplus £m	Margin %
Lettings	166.4	55.2	33	158.2	65.6	41
Care and Support	53.4	13.3	25	58.9	15.6	26
First tranche sales	42.2	9.6	23	34.8	11	32
Outright sales	16.5	1.8	11	2.8	0.3	11
Other	9.6	4.5	47	11.0	3.8	34
Other income	-	18.5	-	-	20.8	-
Total	**288.1**	**102.9**	**36**	**265.7**	**117.1**	**44**

Segment margin analysis

Lettings surplus was £54m (2017: £66m). This was the second year of the government's 1% rent deflation policy which reduces our rental income by around £1.5m per year. As with last year, increased unit numbers, and a continued focus on arrears, voids management and service charge recovery, meant that this impact was more than mitigated. Included in this performance is Metworks, our in-house contractor which went live in London at the beginning of the year.

Care and Support margin was £13m (2017: £16m) down 15%. The contribution to central overheads from our Care and Support service contracts business was 15% (2017: 16%), in line with our tender expectations.

Executive Director of Finance's review

Surplus from asset disposals

The Group continues to earn strong margins from its shared ownership portfolio, generating a surplus of £10m (2017: £11m) from staircasing transactions at an average margin of 41% (2017: 41%). In addition, we delivered a surplus of £7m (2017: £9m) from mortgage loan redemptions and a net £3m surplus (2017: £6m) from land asset disposals and Right to Buy sales.

Finance costs

Net interest costs for the year ended 31 March 2018 were £44m (2017: £47m). External interest receivable amounted to £1.1m (2017: £1.5m) and total interest payable was £44.6m (2017: £48.5m). Non-cash fair value adjustments totalled £3.4m (2017: £(0.9)m).

Cash generation and utilisation

The Group continues to deliver a good operating cash performance. Free cash in the year was £18m (2017: £44m). Development spend in the year was £229m (2017: £190m). We spent £29m (2017: £29m) across our existing estate on home improvements.

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

Balance sheet

The net book value of housing assets was £2,927m (2017: £2,791m), with £19m (2017: £17m) of depreciation charged in the year. This figure includes assets under construction at 31 March 2018 of £174m (2017: £147m). Current assets, including development work in progress (WIP), were £259m (2017: £237m) reflecting the growth in our development portfolio. Short and long-term creditors are £1,673m (2017: £1,575m), including £1,138m of borrowings (2017: £1,046m) and £104m (2017: £102m) of housing grant repayable. Total provisions amounted to £1m (2017: £10m), as we continue to wind down provision in respect of our historical VAT arrangements.

Funding and treasury

At 31 March 2018, Metropolitan had net debt of £1,086m (2017: £969m). We define net debt as amounts owed to lenders less funds available to repay lenders. 83% (2017: 95%) of the loan book was fixed at rates of interest ranging from 1.55% to 12%, with the remainder at floating rates of interest. We had £189m (2017: £189m) of derivative contracts forming part of our fixed rate hedging. Our overall cost of debt was 4.6% per annum (2017: 4.9%).

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. In 2017, for the second year running and despite 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 2018 the Group had committed undrawn facilities of £222m (2017: £327m) – which are fully secured and available at 48 hours' notice – in addition to cash and short-term investments balances, totalling £285m (2017: £418m). Cash is invested at average returns of 0.4% (2017: 0.3%). 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 Homes England 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.

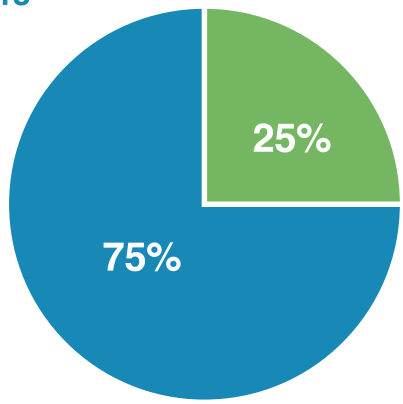
Executive Director of Finance's review

Loans and credit structure: maturity risk

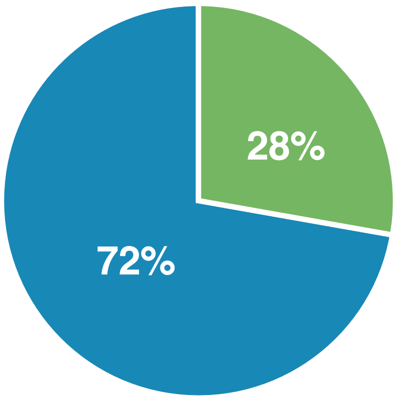
The Group is funded from a number of sources including long-term loans, bonds, retained earnings and various forms of grant primarily provided by government agencies. All funding is denominated in sterling: the Group has no foreign exchange exposures.

The funding sources are split as follows:

2017/18



2016/17



Key
Banks and Building Societies
Capital markets

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 £108m (2017: £56m) of loans maturing in the next five years which represents 9% (2017: 5%) 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 2018 83% (2017: 95%) 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 31 to these accounts, Metropolitan has £189m (2017: £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.

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 is woven through the organisation and a core element of our culture. We believe in delivering social value through commercial strength, one of our fundamental values.

Board engagement, governance and performance monitoring

Throughout the organisation, co-ordinated processes support 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 and competitive procurement: 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. This approach is supplemented by a procurement policy that helps to ensure that what we buy is fit for purpose and competitively priced.

Performance tracking: At Board, executive and functional levels, 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. During the year, our functional structure has been redesigned to maximise efficiency and value for the customer. Our former care and support and housing functions have been realigned into a Property directorate with responsibility for ensuring our customers' homes are safe, fit for purpose and efficiently maintained, and a Customer Services directorate which is responsible for the interface with our customers, including delivery of care and support services.

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 our reward and recognition policies seek to ensure we drive the right delivery.

Internal targets

Throughout the year, three key targets were given prominence at Board and executive level to monitor our performance in meeting our objectives of providing homes and delivering social value while achieving Value for Money, as follows:

	2016/17 Performance	2017/18 Target	2017/18 Performance	2018/19 Target
Operating Margin (before Asset Sales)	36.2%	30.9%	29.2%	27.5%
Independence Steps	17,114	20,000	15,079	15,512
New Homes	832	758	623	710

Value for money

- Operating performance as a whole is discussed more fully elsewhere in this report, but was adversely impacted by the market for new homes and the desire to improve our customers' experience of living in our homes.
- Independence steps are Metropolitan's measurement of instances where we have positively impacted our customers' journeys towards independence in various aspects of their lives, such as finding employment, achieving training accreditation, buying a share of their own home, or completing support plans that increase personal independence. Although overall steps were down against prior year and our ambitious target, delivery of the most significant 'high value' independence steps increased by 22% from 2,252 in 2016/17 to 2,749 in 2017/18. We continue to review the way we measure and report the results of the work we do to support customers and communities, in order to best reflect the social value delivered.
- New Homes delivered fell below target primarily due to the loss of a scheme which failed to complete and some handover delays.

Underlying value for money performance is discussed in more detail in the Strategic and Operational review, including key performance indicators at a more detailed level, such as voids and arrears.

Performance against the Regulator of Social Housing's (RSH) key metrics for Value for Money is included in the table at the end of this section of the report.

Social value

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. Social value is also achieved by our delivery of new homes for rental and Low Cost Home Ownership (LCHO).

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.

We described in previous reports a unique framework for the business for understanding Return on Assets across our general needs housing portfolio. This framework compares return on assets to the social value generated by those assets, working on the principle that, given the varying levels of discount to market rent in different locations, a higher return on assets should be expected in areas where the value of the discount to the customer is lower, and vice versa.

The result is that every new development project considered for approval over the year has required an analysis of the forecast return on assets for the subsidised rent element, versus the return expected within our framework, given the level of customer discount offered.

This step specifically ensures that those elements which utilise subsidy (whether internally or externally generated) strike an appropriate balance between financial sustainability and value for our customers.

We are also in the process of redeveloping our portfolio management strategy to ensure we are focused on achieving the best overall value from our properties. Although major transaction decisions are on hold while we continue partnership discussions, the balance between social and financial return will form a key part of these decisions.

Value for Money highlights in our operations

Repairs and maintenance – delivering better quality services

- Our in-house contractor, Metworks, has been rolling out in East Midlands, followed by London, over the last two years with the objectives of improving stock quality and service, and reducing customer complaints. As at the end of March 2018, approximately 80% of repairs in progress were 'on target' as opposed to 70% in April 2017.
- The void teams have been focusing on the end-to-end (key-to-key) process and targeting appropriate refurbishment solutions to maximise re-letting of the property. Overall monthly voids in rented properties averaged 1.36% for the year, a reduction from 1.51% the previous year, with the year-end number at 1.19%.
- Other important benefits brought by the continued success of Metworks include:
    - This first cohort of apprentices joining the business, with a positive impact on customer employment, employee engagement and staff turnover;

- Delivering Social Value through involvement with several Corporate Social Responsibility (CSR) projects. These include the ground floor covering renewal at the fantastic Emmanuel House community project in Nottingham and (planned for the summer of 2018) improvements at Waverley School in Enfield, which serves the needs of 117 pupils with severe and profound learning difficulties.

Procurement – reducing the costs of the goods and services we buy

Procurement has undergone significant development during the financial year with a number of improvements in key areas:

- Policies and procedures have been reviewed to ensure procurement activities are aligned to the business strategy. Commercial activities are compliant with legislation and policy. Delegation of authority is reviewed annually.
- Through training and specialism, procurement staff are beginning to differentiate themselves through their technical knowledge of the supply markets and how to optimise value for money from these markets.
- We have also implemented an updated electronic contract management and category management system in addition to the existing eTendering software to systemise a consistent approach and to provide visibility.
- The enhancements in the building blocks above are only worthwhile if they result in tangible value for money improvements and this year we have delivered £2.7m in procurement savings. Highlights of these improvements include:
  - Property savings including £216k on components. We now undertake a pre-works validation of every planned works activity to ensure that the works need to be completed and components replaced. This new approach has seen a 15% reduction in works that need to be completed, allowing us to redirect the budget to other priority areas.
  - Utilities savings of £940k through improved gas and electricity pricing;
  - IT / telecoms savings of £650k on the procurement of IT hardware;
  - Corporate services savings of circa £100k across a number of projects.
- The areas of focus for the next 12 months include major procurements for property activities impacting on £100m of expenditure (for construction partners for our Clapham Park regeneration) and closer working with colleagues and stakeholders to improve the level of social value delivered from our supply base.

Arrears and tenancy sustainment – maximising our income

- The positive trend seen over recent years has continued, with improvements in collection rates bringing significant reductions in the income owed by customers:
  - From a high point of arrears of £11.1m (7.44%), arrears reduced to £8.1m (5.24%) in 2014/15, £7.4m (4.66%) in 2015/16, £6.1m (3.95%) in 2016/17, and £5.9m (3.94%) in 2017/18.
- Importantly, the drop in arrears was also accompanied by a reduction in arrears evictions of 31%, showing the efforts taken by our team to work with customers have improved financial sustainability and independence.
- Leasehold arrears fell from £285k (2016/17) to £231k this year (2017/18), a reduction in year of 19%.
- There were 3,546 referrals received by the Money Advice team and 2,555 customers were seen by advisers. Additional income secured for customers reached £464k and rent arrears reduced by £652k for customers referred.
- The Tenancy Sustainment Team (METTS) saw 354 customers last year. Additional income of £197k was secured for customers, with rent arrears reduced by £135k for customers supported by the team.
- Our target for arrears in 2018/19 is 3.95% – in other words, we aim to hold arrears steady despite the roll-out of Universal Credit.
- At year end 2017/18, we had 1,184 customers claiming Universal Credit, an increase of 503 in the year. Total arrears of Universal Credit claimants at year end were £955k.
- The average arrears per claimant have remained fairly static at £1,170.

Value for money

- We estimate we will have 1,900 Universal Credit claimants by year end 2018/19, following two years of the Universal Credit full service roll-out (based on stock sizes in the areas being rolled out). This means an estimate of £2.22m arrears for customers in receipt of Universal Credit by year end 2018/19. An active programme is underway to support customers in the transition to Universal Credit, in order to mitigate the impact.
- The Behavioural Insights Project commenced with two income interventions starting in May 2018. The experiment will use behavioural informed letters to change how the Income Team communicates with customers to support positive responses, reduce arrears and prepare customers for Universal Credit. These interventions offer highly cost-effective ways to help reduce arrears.

Tackling tenancy fraud – delivering value to the taxpayer

- Using Housing Partners software, we have been able to target tenants living in our properties whose details do not match with ours. In the last financial year 32 properties where tenancy fraud was found were returned to house those in need. The target for 2018/19 is to recover 36 properties, meaning that over two years, 68 properties will be returned to their proper use.

Neighbourhood Investment – delivering social value to our customers

- During the year we invested a total of £2.1m in Neighbourhood Investment work, working on over 400 projects and creating 45 different health and well-being programmes.
- Working with approximately 5,000 customers, we have supported 1,300 into training (with over 300 achieving accredited qualifications) and 1,026 into employment.
- We also launched a two-year programme with J. P. Morgan supporting customers from East London into work, supporting 200 customers into work and 460 into increased independence. J. P. Morgan have supported the programme to the value of £530k over the two years, representing the first time a large financial institution has worked with a housing association in this way.

Based on RSH revised definitions published April 2018		2016	2017	2017 G15 average	2018
1.	Reinvestment %		5.8%	n/a	6.4%
2a.	New supply delivered % (Social housing units)		2.1%	1.7%	1.6%
2b.	New supply delivered % (non-social housing units)		1.1%	n/a	0.3%
3.	Gearing	41%	33.7%	47.0%	35.9%
4.	EBITDA MRI Interest cover	136%	185.9%	217.0%	129.6%
5.	Headline social housing cost per unit	4,421	4,416	4,398	4,923
6a.	Operating margin (SHL only)	38%	40.2%	37.0%	33.2%
6b.	Operating margin (overall)	35%	36.2%	33.0%	29.3%
7.	ROCE	3.6%	4.0%	3.9%	3.3%

Over the last two years we have outperformed our sector peer group (the G15 group of Housing Associations) in terms of the units delivered and our overall operating margins. Our EBITDA cover headline social housing cost per unit remain comparable with the G15 average despite a significant one-off investment in 2018 to bring our properties up to a better condition and safety standard.

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.

The other group subsidiaries are Metropolitan Living Limited, EM Property Services Limited (our in-house repairs contractor, trading as Metworks), Metropolitan Funding plc (our funding vehicle), Longsdale Limited (property holding) and Spiritagen Limited (dormant). 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 RSH's Governance and Financial Viability Standard. Following an in-depth assessment in 2016, Metropolitan 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 14 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 eight 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 Customer Services Committee (CSC) 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.

Statement on corporate governance

The committee combines 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.

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. 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.

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 2015/16; 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.

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 2017/18.

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 assesses the risks 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 below, after mitigation is taken into account, is considered to be at, or heading towards, an acceptable level.

Board statement on internal control and risk assurance

Key corporate risks

Risk	Impact	Mitigation
Customer risks		
Changes in public policy and legislation	Financial loss: Government reforms to benefits and rent control measures adversely affect Metropolitan's income streams and/ or increase customer hardship and rent arrears.	We are active in influencing government housing and welfare policy independently, as well as through the G15 and the NHF.We actively identify customers at risk of financial distress and arrears.
Poor responsive repairs service	Poor customer satisfaction/high volume of complaints, resulting in regulatory intervention.	We have reorganised our business to focus on the key areas of service and property condition and safety. We monitor customer satisfaction with our service. Most of our responsive repairs are performed by our in-house contractor, Metworks. We monitor the performance of our repairs contractors against KPI targets.
Poor stock condition data	Sub-optimal service provision and poor resource allocation resulting in regulatory/ ombudsman intervention.	We have invested in our property management application and our property management team. All condition data is now recorded in one system and a long-term plan for improvements and component replacement is being developed.
Poorly procured and managed supply chain	Financial loss arising from sub-optimal procurement and management of contractors.	Procurement policies and a qualified procurement team ensure compliance with regulations, internal controls and best practice. In order to improve contractor performance we are performing a wholesale review of our contractor performance standards and service level agreements.
Death or injury arising from unsafe properties	Death or injury to customers, contractors or colleagues, financial loss/penalties arising and regulatory intervention.	We maintain appropriate insurances and ensure that appropriate safety reviews and surveys are undertaken independently. The executive team (including the Fire Safety and Health and Safety Committees) and the Board regularly consider health and safety performance reports and take appropriate action. We have an appropriately skilled and experienced compliance team, supported by a Health and Safety team that conducts regular site audits and specific risk reviews. Organisation-wide mandatory training maintains colleague awareness
Death or injury/ abuse arising from a safeguarding incident	Death or injury to customers, financial loss/ penalties arising and regulatory intervention.	We maintain appropriate insurances and ensure that appropriate safeguarding reviews and surveys are undertaken independently as well as internally. The executive team and the Board (including the Safeguarding Committee) regularly consider safeguarding performance reports and take appropriate action. We have an appropriately skilled and experienced safeguarding team, that conducts regular site audits and specific risk reviews. Periodically registered Care & Support schemes are reviewed by the CQC.

Board statement on internal control and risk assurance

Risk	Impact	Mitigation
Development risks		
Clapham Park delivery	Financial loss and reputation damage by failure to deliver Clapham Park project on time.	Dedicated project resources including a project director. The Executive Team and Board regularly consider reports on the progress of the project and take appropriate actions to address issues and risks. The project plan is supported by external project management resources, a detailed cost plan and development programme.
Sales market downturn	Financial loss and financial stress arising from sales values falling below budgeted levels.	We operate within group golden rules that ensure we can respond in time to a market downturn. These scenarios are stress tested at least twice a year to ensure that our mitigation plans remain sufficient. We work with strategic partners to mitigate and share the sales risk inherent in for sale housing schemes. We do not invest in speculative or strategic land. The executive team and Board regularly review market update reports, track the performance of selling sites and monitor a series of trigger indicators which ensure that mitigating actions are timely.
Failure to deliver development schemes at approved cost	Financial loss arising from development schemes being delivered at higher costs than anticipated.	We use sector standard build contracts and require performance bonds from contractors. Costs estimations are reviewed by external experts and the programme delivery is regularly reviewed by management and the Board and rectifying actions taken. The Development team is appropriately resourced to exercise adequate control processes.
People/business risks		
Data protection/ privacy failure	Financial penalties, regulatory intervention and reputational damage arising from data breach.	Internal team supported by expert, qualified external advisors. Information asset register records the organisation's data assets and allocates owners responsible for proper management of that data. Data, storage and retention policies set clear standards to data management. Organisation-wide mandatory training maintains colleague awareness. A comprehensive plan in place to ensure compliance with the General Data Protection Regulation (GDPR) (EU) 2016/679 and Data Protection Act 2018.
Partnership with TVH	Financial loss and regulatory intervention arising from a poorly managed or failed transaction.	Shadow board and Shadow executive team receive regular reports and updates. The project has dedicated project office resources and management, who have established a project plan with key milestones and a budget. The Board has appointed expert legal and treasury advisors to assist. A comprehensive due diligence review is being undertaken.

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





Board statement on internal control and risk assurance

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 2018. 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.

Board statement on internal control and risk assurance

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

28 June 2018

Independent auditor's report to the Members of Metropolitan Housing Trust Limited

Opinion

We have audited the financial statements of Metropolitan Housing Trust Limited ("the Trust") and its subsidiaries ("the Group") for the year ended 31 March 2018, 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 equity, the consolidated Statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- Give a true and fair view of the state of the Group's and of the Trust's affairs as at 31 March 2018 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 properly prepared in accordance 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.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Net realisable value of housing properties developed for sale

A number of housing properties developed for sale were either under construction at the year end or completed and available for sale. For all housing properties developed for sale, management has performed a review of their net realisable value, making use of external valuations.

Due to the level of judgement involved in estimating recoverable amounts, whether through sale or use, and costs to complete partially built properties, we consider the recoverable amount of properties under development to be a significant risk and therefore a key audit matter.

Our response to the risks identified:

We have obtained management's assessment of the recoverable amount of housing properties under development. This assessment sets out expected sales proceeds and expected costs to complete the properties, both of which involve judgement.

For a sample of the expected proceeds from the sale of such properties we have agreed the amounts involved to third party valuations. We have identified the third party valuer and checked that their expertise and work was suitable for our purposes.

For a sample of properties under development, we obtained details of the expected costs to complete from the scheme budget for that development and agreed the budgeted contract cost of the development to the actual contract. We compared the incurred expenditure to the budgeted amount to ensure that the budget reflects actual costs.

The sample was chosen from the population of items that included (but was not limited to) developments for which impairment had already been identified by management.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined materiality for the financial statements as a whole to be £54,615,000 (2017: £52,190,000) which represents 1.6% of total assets (2017: 1.6% of total assets).

We also apply a specific materiality level for all items comprising operating profit (including related disclosures) as that term is defined for the purposes of the entity's lending covenants. This therefore involves adjusting operating profit for depreciation, amortisation, impairment, gift aid receipts and the net profit/loss on non-outright sale properties. The specific materiality level that we applied was £9,474,000 (2017: £4,530,000), which is 8% of adjusted operating profit. (2017: 4%).

We used gross assets and adjusted operating profit as our chosen benchmarks to determine materiality and for specific materiality as these are considered to be the areas of the financial statements of greatest interest to the principal users of the financial statements and the areas which will have greatest impact on investor and lender decisions.

Materiality for the parent company was set at £49,153,000 (2017: £52,190,000) with a specific materiality set at £8,527,000 (2017: £4,262,000)

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 70% (2017: 70%) of materiality or specific materiality depending on the financial statement area being audited. In setting the level of performance materiality. We considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.

We agreed with the Audit Committee that misstatements in excess of £2,200,000 for areas considered using financial statement materiality and £350,000 for areas considered using specific materiality (2017: £2,090,000 / £181,000), which were identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

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

An overview of the scope of our audit

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we assessed the audit significance of each reporting component in the Group by reference to both its financial significance and other indicators of audit risk, such as the complexity of operations and the degree of estimation and judgement in the financial results.

Classification of components

A full scope statutory audit was carried out for each subsidiary that we considered to be a significant component of the group.

Audit work on all components was performed by BDO UK both for the purposes of reporting on the individual financial statements and for group/consolidation purposes. Individual component audits were carried out using component materiality levels and for the one significant component the materiality level used was 4% of overall financial statement materiality.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information including the Results and performance at a glance, Chair's and Chief executive's introduction, Chief Executive's Strategic operational review, Executive Director of Finance's review, Value for money, Statement on corporate governance and Board statement on internal control and risk assurance and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in this regard.

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 by the Co-operative or Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 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 parent Trust; or

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

- A satisfactory system of control has not been maintained over transactions; or
- The parent 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.

Responsibilities of the board

As explained more fully in the board members responsibilities statement set out on page 34, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Other matters

Following the recommendation of the audit committee, we were appointed by the board on 12 July 2010 to audit the financial statements for the year ending 31 March 2011 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ending 31 March 2011 to 31 March 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

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

Use of our report

This report is made solely to the members of the Trust, as a body, in accordance with the Housing and Regeneration Act 2008 and 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Elizabeth Kulczycki, Senior Statutory Auditor
For and on behalf of BDO LLP, Statutory Auditor
Gatwick
United Kingdom

Date

2nd July 2018

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 2018

	Note	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
Turnover	2	288,131	265,689	272,804	258,049
Cost of sales	2	(46,450)	(25,912)	(32,048)	(23,403)
Operating costs	2	(157,357)	(143,517)	(156,143)	(138,896)
Surplus on disposal of fixed assets	2/6	18,525	20,766	18,448	19,587
Total operating surplus		**102,849**	**117,026**	**103,061**	**115,337**
Surplus on asset disposals	6	1,415	4,867	1,755	6,196
Revaluation of investments	35	133	1,856	133	1,856
Share of operating surplus in joint ventures	32	1,144	3,784	-	-
Interest receivable	7	1,056	1,456	3,916	2,733
Interest and finance costs	8	(44,625)	(48,459)	(47,463)	(44,758)
Movement in fair value of financial instruments	7	2,712	(1,557)	2,712	(1,557)
Movement in fair value of investment property	12	678	686	678	686
Surplus before tax		**65,362**	**79,659**	**64,792**	**80,493**
Taxation	11	6	(8)	-	-
Surplus for the year		**65,368**	**79,651**	**64,792**	**80,493**
Actuarial gain/(loss) on defined benefit pension scheme	24	369	(1,357)	369	(1,357)
Change in fair value of hedged financial instruments	8	2,250	(2,731)	2,250	(2,731)
Total comprehensive income and expenditure for the year		**67,987**	**75,563**	**67,411**	**76,405**

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 2018

Fixed assets

	Note	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
Tangible fixed assets					
Housing properties	12	2,927,032	2,791,377	2,927,032	2,791,376
Investment properties	12	51,077	47,824	50,924	47,627
Other tangible fixed assets	13	11,539	12,020	11,309	11,772
Total tangible fixed assets		**2,989,648**	**2,851,221**	**2,989,265**	**2,850,775**
Investments					
HomeBuy loans	14	126,873	138,439	126,873	138,439
Other investments	15	18,572	26,796	18,622	26,809
Investments in joint ventures	32	18,958	7,989	-	-
Total fixed assets and investments		**3,154,051**	**3,024,445**	**3,134,760**	**3,016,023**
Current assets					
Stock	16	143,560	97,092	49,972	33,597
Debtors	17				
receivable within one year		23,372	36,136	22,892	42,387
receivable after one year		3,867	61	133,267	81,361
Cash at bank and in hand		88,601	104,190	84,335	103,099
		259,400	**237,479**	**290,466**	**260,444**
Creditors: amounts falling due within one year	18	**(186,400)**	**(135,638)**	**(183,039)**	**(134,076)**
Net current assets		**73,000**	**101,841**	**107,427**	**126,368**
Total assets less current liabilities		**3,227,051**	**3,126,286**	**3,242,187**	**3,142,391**
Creditors: amounts falling due after more than one year	19	1,486,136	1,439,878	1,485,399	1,439,560
Provision for liabilities	25	907	9,802	794	9,663
Pension liability	24	29,827	34,412	29,827	34,412
Capital and reserves					
Income and expenditure reserve		872,896	805,259	888,882	821,821
Cashflow hedge reserve		(24,832)	(27,082)	(24,832)	(27,082)
Restricted reserve		14,190	13,994	14,190	13,994
Revaluation reserve		847,927	850,023	847,927	850,023
Total reserves		**1,710,181**	**1,642,194**	**1,726,167**	**1,658,756**
Total (funding)		**3,227,051**	**3,126,286**	**3,242,187**	**3,142,391**

The financial statements were approved and authorised for issue by the Board on 28 June 2018 and were signed on its behalf by:

Paula Kahn
Chair

Ian Johnson
Executive Director, Finance

Donald McKenzie
Company Secretary

Consolidated statement of cash flows for the period ended 31 March 2018

	31 March 2018 £'000	31 March 2017 £'000
Cash flows from operating activities		
Surplus for the year	65,368	79,651
Adjustment for:		
Surplus on disposal of fixed assets	(12,672)	(16,912)
Surplus on disposal of fixed asset investments	(7,268)	(8,721)
Share of operating surplus in joint ventures	(1,144)	(3,783)
Interest receivable	(1,056)	(1,456)
Interest and financing costs	44,625	48,459
Movement in fair value of financial instruments	(2,712)	1,557
Movement in fair value of investment property	(678)	(686)
Revaluation of investments	(133)	(1,856)
Tax charged/received	(6)	8
Depreciation	19,945	17,681
Amortised grant	(4,967)	(4,855)
Impairment	(1,401)	619
(Increase) in stock	(46,468)	(55,875)
Decrease in trade and other receivables	8,887	1,999
Increase/(decrease) in trade payables	2,512	(3,176)
Contributions (from) provisions	(8,894)	(5,199)
(Decrease)/increase in pension liability	(4,585)	707
Proceeds from sale of properties as operating activities	28,505	30,967
Proceeds from sale of fixed asset investments as operating activities	19,077	22,976
Cash generated from operations	**96,935**	**102,105**
Tax paid	(2)	(52)
Net cash from operating activities	**96,933**	**102,053**
Cash flows from investing activities		
Purchase of property, plant and equipment	(156,097)	(162,396)
Proceeds from sale of property, plant and equipment	6,819	30,576
Purchase of other investments	(10,491)	(1,932)
Proceeds from the sale of other investments	8,457	55,241
Interest received	1,056	1,456
Dividend received	-	3,250
Net capital grants repaid	(563)	(4,318)
Net cash from investing activities	**(150,819)**	**(78,123)**
Cash flows from financing activities		
Proceeds from borrowings	98,196	-
Repayment of borrowings	(6,603)	(49,191)
Capital element of finance lease payments	(25)	(23)
Interest paid	(53,226)	(52,762)
Interest element of finance lease payments	(45)	(47)
Net cash used in financing activities	**38,297**	**(102,023)**
Net movement in cash and cash equivalents	**(15,589)**	**(78,093)**
Cash and cash equivalents bought forward	104,190	182,283
Cash and cash equivalents carried forward	**88,601**	**104,190**

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 2018

Group	Income and expenditure reserve £'000	Financial instruments reserve £'000	Restricted reserve £'000	Revaluation reserve £'000	Total reserves £'000
Balance at 1 April 2017	**805,259**	**(27,082)**	**13,994**	**850,023**	**1,642,194**
Surplus for the year	65,368	-	-	-	**65,368**
Actuarial gain on pension scheme	369	-	-	-	**369**
Change in fair value of hedged financial instruments	-	2,250	-	-	**2,250**
Other comprehensive income for the year	369	2,250	-	-	**2,619**
Reserves transfers:					
Revaluation of gains on disposals	1,946	-	-	(1,946)	-
Depreciation on disposal	150	-	-	(150)	-
Transfer of restricted income to restricted reserve	(196)	-	196	-	-
Balance at 31 March 2018	**872,896**	**(24,832)**	**14,190**	**847,927**	**1,710,181**

Trust	Income and expenditure reserve £'000	Financial instruments reserve £'000	Restricted reserve £'000	Revaluation reserve £'000	Total reserves £'000
Balance at 1 April 2017	**821,821**	**(27,082)**	**13,994**	**850,023**	**1,658,756**
Surplus for the year	64,792	-	-	-	**64,792**
Actuarial gain on pension scheme	369	-	-	-	**369**
Change in fair value of hedged financial instruments	-	2,250	-	-	**2,250**
Other comprehensive income for the year	369	2,250	-	-	**2,619**
Reserves transfers:					
Revaluation of gains on disposal	1,946	-	-	(1,946)	-
Depreciation on disposal	150	-	-	(150)	-
Transfer of restricted income to restricted reserve	(196)	-	196	-	-
Balance at 31 March 2018	**888,882**	**(24,832)**	**14,190**	**847,927**	**1,726,167**

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**

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 Homes England (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 are explained in the accounting policies below. Areas where a degree of significant judgement has been applied are shown in boxes in the accounts.

Profit on disposal policy

Operating segments: there are publicly traded securities within the group and therefore a requirement to disclose information about Group operating segments under IFRS8. Segmental information is disclosed in note 2(b) and as part of the analysis in note 12. Information about income, expenditure and assets attributable to material operating segments are based on the nature and function of assets held rather than geography. This is appropriate based on the similarity of the services, nature of risks, type of customer and nature of regulatory environment across all geographical locations in which the Group operates. Operating segments are analysed along the lines of information presented to the Chief Operating Decision Maker who for the purpose of these accounts is determined to be the Board.

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 statement of comprehensive income.

Useful economic life of fixed assets

The useful economic life of housing structure is estimated to be 125 years and therefore depreciated over that period. A 10% decrease in the life would result in an increased charge of £613k 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 leases 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 £678k movement in the comprehensive income statement.

Government grant

Government grant is amortised over the useful economic life (UEL) of the asset apart from grant on shared ownership properties which is amortised over 25 years. A 10% decrease in the life would result in increased income in the comprehensive income statement of £328k.

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 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.

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 2018 £'000	Cost of sales 2018 £'000	Operating costs 2018 £'000	Operating surplus/ (deficit) 2018 £'000	Restated operating surplus/ (deficit) 2017 £'000
Social housing activities					
Income and expenditure from lettings - note 3	202,249	-	(135,018)	**67,231**	**79,496**
Other social housing activities					
First tranche sales	42,216	(32,048)	(603)	**9,565**	**10,986**
Mortgage rescue	297	-	(31)	**266**	**279**
Supporting people	14,023	-	(12,667)	**1,356**	**1,850**
Community investment	453	-	(2,550)	**(2,097)**	**(458)**
Registered care homes	3,493	-	(3,539)	**(46)**	**(134)**
Other	987	-	-	**987**	**235**
Total other social housing activities	**61,469**	**(32,048)**	**(19,390)**	**10,031**	**12,758**
Non-social housing activities					
Development of properties for sale	16,524	(14,402)	(401)	**1,721**	**306**
Market renting	4,874	-	(1,017)	**3,857**	**3,936**
Other	3,015	-	(1,531)	**1,484**	**(236)**
Total non-social housing activities	**24,413**	**(14,402)**	**(2,949)**	**7,062**	**4,006**
Total	**288,131**	**(46,450)**	**(157,357)**	**84,324**	**96,260**
Surplus on RTB/ RTA				1,428	1,287
Surplus on staircasing				9,829	10,758
Surplus on redemptions				7,268	8,721
Surplus on disposal of fixed assets				**18,525**	**20,766**
Operating surplus total				**102,849**	**117,026**

Trust	Turnover 2018 £'000	Cost of sales 2018 £'000	Operating costs 2018 £'000	Operating surplus/ (deficit) 2018 £'000	Operating surplus/ (deficit) 2017 £'000
Social housing activities					
Income and expenditure from lettings - note 3	202,249	-	(134,206)	**68,043**	**75,764**
Other social housing activities					
First tranche sales	42,216	(32,048)	(603)	**9,565**	**10,986**
Mortgage rescue	297	-	(31)	**266**	**279**
Qualifying charges donations	1,197	-	-	**1,197**	**4,912**
Supporting People	14,023	-	(12,666)	**1,357**	**1,850**
Community investment	453	-	(2,550)	**(2,097)**	**(458)**
Registered care homes	3,493	-	(3,539)	**(46)**	**(134)**
Other	988	-	-	**988**	**468**
Total other social housing activities	**62,667**	**(32,048)**	**(19,389)**	**11,230**	**17,903**
Non-social housing activities					
Market renting	4,874	-	(1,017)	**3,857**	**2,545**
Other	3,014	-	(1,531)	**1,483**	**(462)**
Total non-social housing activities	**7,888**	**-**	**(2,548)**	**5,340**	**2,083**
Total	**272,804**	**(32,048)**	**(156,143)**	**84,613**	**95,750**
Surplus on RTB/ RTA				**1,428**	**663**
Surplus on staircasing				**9,829**	**10,233**
Surplus on redemptions				**7,191**	**8,721**
Surplus on disposal of fixed assets				**18,448**	**19,587**
Operating surplus total				**103,061**	**115,337**

2b. Group management segmental analysis

	Asset management and Networks £'000	Development £'000	Customer services £'000	Central services £'000	Consolidated adjustments £'000	2018 Total £'000	2017 Total £'000
Turnover	25,153	65,570	228,384	2,596	(33,572)	**288,131**	**265,689**
Cost of sales	(14,038)	(54,140)	-	-	21,728	**(46,450)**	**(25,912)**
Operating costs	(64,652)	(2,237)	(70,675)	(30,605)	10,812	**(157,357)**	**(143,517)**
Other income	-	77	18,448	-	-	**18,525**	**20,766**
Operating surplus/ (deficit)	**(53,537)**	**9,270**	**176,157**	**(28,009)**	**(1,032)**	**102,849**	**117,026**

3. Particulars of income and expenditure from lettings

Group	General needs housing 2018 £'000	Supported housing 2018 £'000	Other housing provision 2018 £'000	LCHO 2018 £'000	Total 2018 £'000	Total 2017 £'000
Income from letting						
Rent receivable net of identifiable service charges	122,544	27,153	1,049	22,399	**173,145**	**170,197**
Service charges receivable	8,679	8,645	90	5,384	**22,798**	**21,459**
Net rental income	**131,223**	**35,798**	**1,139**	**27,783**	**195,943**	**191,656**
Amortised grant	724	-	-	4,243	**4,967**	**4,855**
Management fees	(8)	37	4	1,306	**1,339**	**1,483**
Total income from lettings	**131,939**	**35,835**	**1,143**	**33,332**	**202,249**	**197,994**
Expenditure on letting activities						
Service charge costs	22,052	7,157	227	3,752	**33,188**	**27,037**
Management	34,718	6,261	269	5,362	**46,610**	**37,492**
Routine maintenance	16,226	4,730	93	902	**21,951**	**16,592**
Planned maintenance	7,591	1,545	130	385	**9,651**	**10,384**
Major repairs	1,160	298	37	107	**1,602**	**3,951**
Bad debts	364	280	15	30	**689**	**1,908**
Lease charges	2,239	763	-	85	**3,087**	**2,834**
Depreciation	16,459	2,545	-	-	**19,004**	**16,646**
Accelerated depreciation	694	219	3	25	**941**	**1,035**
Impairment	(1,705)	-	-	-	**(1,705)**	**619**
Total expenditure	**99,798**	**23,798**	**774**	**10,648**	**135,018**	**118,498**
Surplus on social housing	**32,141**	**12,037**	**369**	**22,684**	**67,231**	**79,496**
Rent loss through voids	(1,154)	(34)	(516)	(87)	**(1,791)**	**(2,712)**

Trust	General needs housing 2018 £'000	Supported housing 2018 £'000	Other housing provision 2018 £'000	LCHO 2018 £'000	Total 2018 £'000	Total 2017 £'000
Income from letting						
Rent receivable net of identifiable service charges	122,544	27,153	1,049	22,399	**173,145**	**163,990**
Service charge income	8,679	8,645	90	5,384	**22,798**	**20,301**
Net rental income	**131,223**	**35,798**	**1,139**	**27,783**	**195,943**	**184,291**
Amortised grant	724	-	-	4,243	**4,967**	**4,401**
Management fees	(8)	37	4	1,306	**1,339**	**1,226**
Total income from lettings	**131,939**	**35,835**	**1,143**	**33,332**	**202,249**	**189,918**
Expenditure on letting activities						
Service charge costs	21,865	7,157	227	3,752	**33,001**	**25,878**
Management	34,852	6,262	271	5,405	**46,790**	**37,365**
Routine maintenance	17,779	4,730	93	902	**23,504**	**18,235**
Planned maintenance	7,637	1,545	130	385	**9,697**	**8,985**
Major repairs	1,166	298	37	107	**1,608**	**2,964**
Bad debts	364	280	15	30	**689**	**1,860**
Lease charges	1,142	763	-	85	**1,990**	**2,209**
Depreciation	16,346	2,545	-	-	**18,891**	**15,008**
Accelerated depreciation	694	219	3	25	**941**	**1,031**
Impairment	(2,905)	-	-	-	**(2,905)**	**619**
Total expenditure	**98,940**	**23,799**	**776**	**10,691**	**134,206**	**114,154**
Surplus on social housing	**32,999**	**12,036**	**367**	**22,641**	**68,043**	**75,764**
Rent loss through voids	(1,154)	(34)	(516)	(87)	**(1,791)**	**(2,453)**

4. Housing units

	Owned and Managed	Owned but Managed by others	Not Owned but Managed	Group and Trust Total	Group and Trust Total
	2018	**2018**	**2018**	**2018**	**2017**
General needs rented housing - social	20,928	359	377	21,662	21,651
General needs rented housing - affordable	1,041	-	2	1,043	843
Low cost home ownership	4,006	31	83	4,120	3,829
Supported	1,574	708	204	2,486	2,386
Housing for older people	3,171	38	-	3,209	3,189
Total social housing units	**30,718**	**1,136**	**666**	**32,520**	**31,898**
Intermediate rent	133	-	-	133	133
Keyworker accommodation	138	-	28	166	166
Residential care home bed spaces	-	114	-	114	286
Market rent	454	44	13	511	493
Other – rent to HomeBuy	36	13	-	49	49
Leaseholders	4,330	73	150	4,553	4,480
Totals	**35,809**	**1,380**	**857**	**38,046**	**37,505**
Units under construction				**1,947**	**1,499**

5. Operating surplus is stated after charging/ (crediting)

Operating surplus is stated after charging/ (crediting):	Group 2018 **£'000**	Group 2017 **£'000**	Trust 2018 **£'000**	Trust 2017 **£'000**
Depreciation:				
Tangible fixed assets - housing properties	17,892	15,311	17,892	13,767
Other fixed assets	1,112	1,335	999	1,241
Accelerated depreciation on component - tangible fixed assets	941	1,035	941	1,031
Impairment	(1,401)	619	(2,905)	619
Operating leases charges				
Offices	999	611	999	611
Other buildings non-office	1,090	1,543	1,090	1,543
Leases non-buildings	1,669	680	29	55
Auditor's remuneration (excluding VAT):				
Audit of these financial statements	155	145	155	145
In respect of other services	11	17	11	17

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

Other income	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
RTB/ RTA				
Disposal proceeds	5,147	4,397	5,147	3,448
Cost of sales	(3,029)	(2,350)	(3,029)	(2,055)
Disposal proceeds fund	-	(92)	-	(92)
Recycled capital grant fund	(690)	(670)	(690)	(670)
Grant abatement	-	2	-	2
	1,428	**1,287**	**1,428**	**633**
Staircasing				
Disposal proceeds	24,058	26,570	24,058	24,870
Cost of sales	(11,961)	(13,466)	(11,961)	(12,307)
Recycled capital grant fund	(2,268)	(2,346)	(2,268)	(2,321)
Grant abatement	-	-	-	(9)
	9,829	**10,758**	**9,829**	**10,233**
Redemptions				
HomeBuy redemption income	19,077	22,976	19,000	22,976
HomeBuy redemption expense	(11,809)	(14,255)	(11,809)	(14,255)
	7,268	**8,721**	**7,191**	**8,721**
Total surplus on disposal of fixed asset	**18,525**	**20,766**	**18,448**	**19,587**

Operating surplus includes Total other income, and the prior year comparative is represented on this basis.

Surplus on asset disposals	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
Disposal proceeds	10,819	30,576	23,967	42,457
Cost of sales	(8,024)	(24,765)	(20,833)	(35,317)
Recycled capital grant fund	(1,380)	(944)	(1,379)	(944)
	1,415	**4,867**	**1,755**	**6,196**

RTB/ RTA, staircasing and redemption sales are reported in operating surplus under surplus on disposal of fixed assets as they are part of our regular business sales activity. Sales of operational assets are reported after operating surplus.

7. Interest receivable and related income

	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
Interest received	301	664	295	632
Subsidiary companies	-	-	2,866	1,309
Regeneration partners	220	290	220	290
Dividend income	535	502	535	502
	1,056	**1,456**	**3,916**	**2,733**

Movement in fair value of financial instruments				
Gain/ (loss) on fair value of hedged derivative instruments	2,712	(1,557)	2,712	(1,557)
	2,712	**(1,557)**	**2,712**	**(1,557)**

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 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
Interest on loans repayable	53,226	52,762	53,225	47,779
Net interest on pension fund	(126)	1,885	(126)	1,885
Interest on finance leases	45	47	45	47
Interest on recycled capital grant fund and disposal proceeds fund (Note 21 and 22)	514	534	514	530
Less: interest capitalised	(9,034)	(6,769)	(6,195)	(5,483)
	44,625	**48,459**	**47,463**	**44,758**
(Gain)/ loss on hedged derivative instrument	(2,250)	2,731	(2,250)	2,731

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 5 days annual leave/ holiday entitlement to be carried over into the next reporting period and an accrual is only raised if it is material to do so. The charge in the year is £517k (2017: £438k) and was accrued for.

Average monthly full-time equivalent number of employees

	2018 **Number**	2017 **Number**
Senior Managers and Executives	7	6
Office staff	845	790
Scheme staff	460	454
In-house contractors	233	186
	1,545	**1,436**

Staff costs (for employees above)

	2018 **£'000**	2017 **£'000**
Wages and salaries	50,502	46,789
Social security costs	4,851	4,247
Pension costs	1,631	1,578
Staff costs	**56,984**	**52,614**

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

	2018 **Number**	2017 **Number**
£60,000 - £70,000	32	23
£70,001 - £80,000	21	22
£80,001 - £90,000	12	10
£90,001 - £100,000	4	5
£100,001 - £110,000	11	7
£110,001 - £120,000	3	5
£120,001 - £130,000	4	5
£130,001 - £140,000	3	3
£140,001 - £150,000	2	1
£160,001 - £170,000	-	2
£170,001 - £180,000	-	1
£180,001 - £190,000	2	-
£200,001 - £210,000	2	-
£240,001 - £250,000	1	1
£250,001 - £260,000	1	-
£260,001 - £270,000	-	1
	98	**86**

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.

	2018 **Gross pay** **£**	2018 **Pension** **£**	2018 **Total** **£**	2017 **Total** **£**
The aggregate emoluments payable to directors	1,579,124	70,088	**1,649,212**	**1,461,415**
Highest paid executive director (Chief Executive in 2017, Director of Finance in 2018)	247,739	1,836	**249,575**	**268,901**

*New Chief Executive was appointed on 16 October 2017, whose pay for the year to March 2018 was £117.7k

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	2018 Attendance MHT Board	2018 Attendance of other committees and Boards	2018 Salary £	2018 Expenses £	2017 Salary £	2017 Expenses £
Christine Turner - Retired 22/09/16	-	-	-	-	5,494	1,285
Clive Deadman	9 (82%)	16 (94%)	11,500	3,393	11,500	4,102
Janet Dean	10 (91%)	7 (88%)	11,500	2,787	11,500	3,778
Jerry Piper	11 (100%)	9 (100%)	12,167	576	12,500	111
Michael Dunn	10 (91%)	21 (95%)	11,500	3,621	11,500	2,629
Mike Green - Retired 31/08/17	4 (100%)	8 (100%)	4,792	743	11,500	1,174
Paula Kahn	11 (100%)	4 (100%)	22,500	471	22,500	748
Stuart Beevor	9 (82%)	14 (88%)	13,750	779	13,750	578
Natalie Burrows - Resigned 22/02/18	10 (100%)	4 (100%)	8,539	289	4,750	113
Lesley-Anne Alexander - Appointed 03/10/16	9 (82%)	9 (100%)	10,500	-	5,250	241
			106,748	**12,659**	**110,244**	**14,759**

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 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
UK corporation tax	(6)	8	-	-
Tax on surplus on ordinary activities	**(6)**	**8**	**-**	**-**

Reconciliation of current tax	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
Surplus on ordinary activities before tax	65,362	79,659	64,792	80,493
Surplus on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2017: 20%)	12,419	15,932	12,310	16,099
Surplus covered by charitable exemption	(12,425)	(15,924)	(12,310)	(16,099)
Current tax (receivable)/ payable for the year	**(6)**	**8**	**-**	**-**

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). Housing properties constructed or acquired (including land) on the open market before the date of transition are stated at either historical cost or deemed cost.

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.

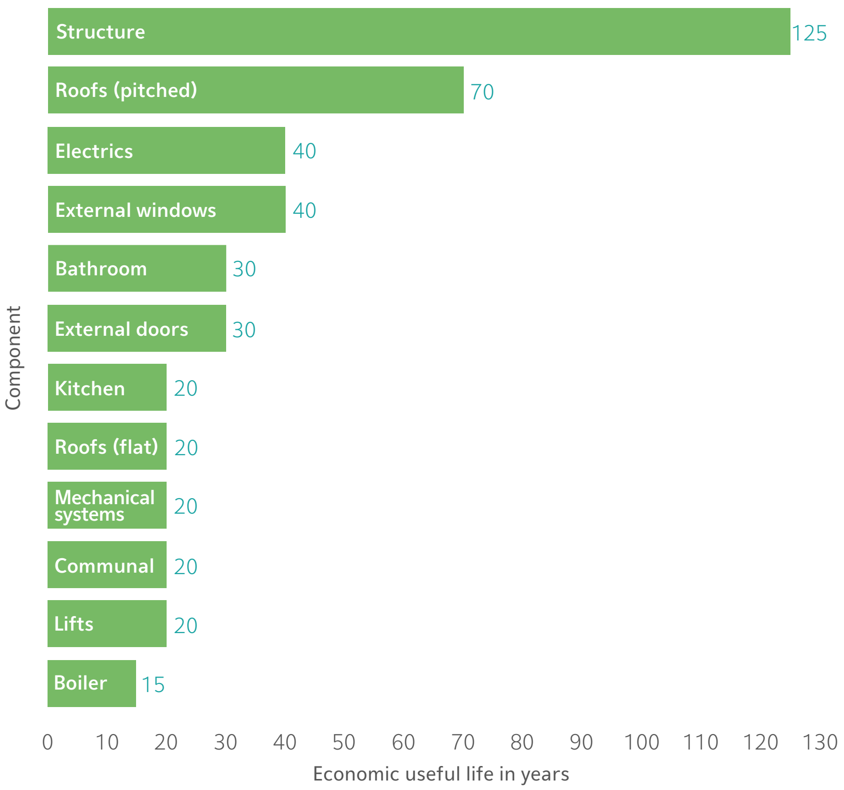
No depreciation is charged in the period of acquisition and depreciation is charged in the period of disposal.

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, when 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 historical annual depreciation charge on revalued assets and the annual depreciation charge on a historical 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 (PPE) 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 2018. 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 and Expenditure 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 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 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 the Statement of comprehensive income and expenditure.

Impairment brought forward at 1 April 2017 totalled £13,246k. Impairment charged in the year ended 31 March 2018 totalled £33k following an impairment review of all PPE stock. A review of all PPE with impairment was completed during the year and resulted in £1,847k being reversed. A review of all Landbank with impairment resulted in £1,090k being reversed and £2,080k being moved to stock. £8k of impairment was written back on disposal bringing the balance at 31st March 2018 to £8,253k.

Capitalised interest

Additions to housing properties in the course of construction during the year included capitalised interest of £4,832k (2017: £6,769k). The weighted average cost of capital was 4.58% (2017: 5.09%). The aggregate amount capitalised is £100.4m. (2017: £95.5m).

Properties held for security

Metropolitan had property with a net book value of £1,809m pledged as security at 31 March 2018 (2017: £2,035m).

Freehold/leasehold

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

	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
Long leasehold	236,079	237,112	236,037	237,070
Freehold	2,742,030	2,602,089	2,741,919	2,601,933
	2,978,109	**2,839,201**	**2,977,956**	**2,839,003**

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 £613k (2017: £638k).

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 14 years as at 31 March 2018.

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 2017	**108,410**	**51,526**	**2,387,977**	**306,767**	**1,646**	**2,856,326**	**47,824**	**2,904,150**
*Reclassification	(2,717)	2,717	633	350	127	1,110	(1,110)	**-**
Schemes completed in year	(44,145)	(77,147)	-	-	-	(121,292)	-	**(121,292)**
Transfer to current assets	(13,835)	-	-	-	-	(13,835)	-	**(13,835)**
Additions								
- Completed properties	-	-	42,989	77,177	-	120,166	3,730	**123,896**
- Properties under construction	77,034	82,334	-	-	-	159,368	-	**159,368**
- Replacement of components	-	-	28,774	-	-	28,774	-	**28,774**
Revaluations	-	-	-	-	-	-	678	**678**
Disposals	(5,447)	(28)	(5,528)	(15,478)	-	(26,481)	(45)	**(26,526)**
At 31 March 2018	**119,300**	**59,402**	**2,454,845**	**368,816**	**1,773**	**3,004,136**	**51,077**	**3,055,213**
Depreciation								
At 1 April 2017	**-**	**-**	**51,659**	**-**	**47**	**51,706**	**-**	**51,706**
Charge for year	-	-	17,877	-	14	17,891	-	**17,891**
Eliminated in respect of disposals	-	-	(743)	-	-	(743)	-	**(743)**
At 31 March 2018	**-**	**-**	**68,793**	**-**	**61**	**68,854**	**-**	**68,854**
Impairment								
At 1 April 2017	**10,687**	**1,932**	**484**	**141**	**-**	**13,244**	**-**	**13,244**
Impairment charged to income & expenditure	-	-	33	-	-	33	-	**33**
Impairment reversal to income & expenditure	-	-	(2,938)	-	-	(2,938)	-	**(2,938)**
Completed properties	(4,568)	-	4,568	-	-	-	-	-
Transfer to current assets	(2,081)	-	-	-	-	(2,081)	-	**(2,081)**
Released on disposals	-	-	-	(8)		(8)	-	**(8)**
At 31 March 2018	**4,038**	**1,932**	**2,147**	**133**	**-**	**8,250**	**-**	**8,250**
Net book value								
At 31 March 2018	**115,262**	**57,470**	**2,383,905**	**368,683**	**1,712**	**2,927,032**	**51,077**	**2,978,109**
At 31 March 2017	**97,722**	**49,594**	**2,335,836**	**306,626**	**1,599**	**2,791,377**	**47,824**	**2,839,201**

*Reclassification is the result of a review of Garages, Community Centres and Allenby Close

Trust housing properties

Trust	Housing properties under construction Letting £'000	Housing properties under construction Low cost home ownership £'000	Restated Completed housing properties Letting £'000	Completed housing properties Low cost home ownership £'000	Restated Community £'000	Housing properties total £'000	Investment properties £'000	Restated Property asset total £'000
Cost/value								
At 1 April 2017	**108,410**	**51,524**	**2,377,837**	**306,767**	**1,606**	**2,846,144**	**47,627**	**2,893,771**
*Reclassification	(2,717)	2,717	633	350	127	1,110	(1,110)	**-**
Schemes completed in year	(44,145)	(77,147)	-	-	-	(121,292)	-	**(121,292)**
Transfer to subsidiary	(13,835)	-	-	-	-	(13,835)	-	**(13,835)**
Additions								
-Completed properties	-	-	42,989	77,178	-	120,167	3,729	**123,896**
-Properties under construction	77,034	82,334	-	-	-	159,368	-	**159,368**
-Replacement of components	-	-	28,775	-	-	28,775	-	**28,775**
Revaluation	-	-	-	-	-	-	678	**678**
Disposals	(5,447)	(28)	(5,528)	(15,478)	-	(26,481)	-	**(26,481)**
At 31 March 2018	**119,300**	**59,400**	**2,444,706**	**368,817**	**1,733**	**2,993,956**	**50,924**	**3,044,880**
Depreciation								
At 1 April 2017	**-**	**-**	**41,515**	**-**	**7**	**41,522**	**-**	**41,522**
Charge for year	-	-	17,878	-	14	17,892	-	**17,892**
Eliminated in respect of disposals	-	-	(743)	-	-	(743)	-	**(743)**
At 31 March 2018	**-**	**-**	**58,650**	**-**	**21**	**58,671**	**-**	**58,671**
Impairment								
At 1 April 2017	**10,689**	**1,932**	**484**	**141**	**-**	**13,246**	**-**	**13,246**
Impairment charged to income & expenditure	-	-	33	-	-	33	-	**33**
Impairment reversal to income & expenditure	-	-	(2,938)	-	-	(2,938)	-	**(2,938)**
Completed properties	(4,568)	-	4,568	-	-	-	-	**-**
Transfer to current assets	(2,080)	-	-	-	-	(2,080)	-	**(2,080)**
Released on disposals	-	-	-	(8)	-	(8)	-	**(8)**
At 31 March 2018	**4,041**	**1,932**	**2,147**	**133**	**-**	**8,253**	**-**	**8,253**
Net book value								
At 31 March 2018	**115,259**	**57,468**	**2,383,909**	**368,684**	**1,712**	**2,927,032**	**50,924**	**2,977,956**
At 31 March 2017	**97,721**	**49,592**	**2,335,838**	**306,626**	**1,599**	**2,791,376**	**47,627**	**2,839,003**

*Reclassification is the result of a review of Garages, Community Centres and Allenby Close

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:

Furniture and equipment	5 years
IT equipment (from 1/1/18)	5 years
IT equipment (until 31/12/17)	3 years

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 2017	**11,883**	**3,226**	**11,403**	**26,512**
Additions	41	352	3,109	**3,502**
Disposals	(3,470)	-	(410)	**(3,880)**
At 31 March 2018	**8,454**	**3,578**	**14,102**	**26,134**

Accumulated depreciation				
At 1 April 2017	**3,307**	**2,693**	**8,492**	**14,492**
Depreciation charge	196	149	767	**1,112**
Disposals	(896)	-	(113)	**(1,009)**
At 31 March 2018	**2,607**	**2,842**	**9,146**	**14,595**

Net book value				
At 31 March 2018	**5,847**	**736**	**4,956**	**11,539**
At 31 March 2017	**8,576**	**533**	**2,911**	**12,020**

Trust	Offices £'000	Furniture and equipment £'000	Computer £'000	Total £'000
Cost				
At 1 April 2017	**11,883**	**3,226**	**11,061**	**26,170**
Additions	41	272	3,094	**3,407**
Disposals	(3,470)	-	(410)	**(3,880)**
At 31 March 2018	**8,454**	**3,498**	**13,745**	**25,697**
Accumulated depreciation				
At 1 April 2017	**3,307**	**2,693**	**8,398**	**14,398**
Depreciation charge	197	149	653	**999**
Disposals	(896)	-	(113)	**(1,009)**
At 31 March 2018	**2,608**	**2,842**	**8,938**	**14,388**
Net book value				
At 31 March 2018	**5,846**	**656**	**4,807**	**11,309**
At 31 March 2017	**8,576**	**533**	**2,663**	**11,772**

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. When loans are redeemed the carrying value of the loan is charged to cost of sales and the grant is recycled through the recycled capital grant fund.

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. When loans are redeemed the carrying value of the loan and the carrying value of our investment is charged to cost of sales and the grant is recycled through the recycled capital grant fund.

	Group £'000	Trust £'000
Opening balance at 1 April 2017	**138,439**	**138,439**
Redemption	(11,809)	(11,809)
Ported loans previously redeemed	243	243
Balance at 31 March 2018	**126,873**	**126,873**

15. Other investments

	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
Bond securities	2,291	2,280	2,291	2,280
Other investments	1,524	1,524	1,524	1,524
Bank deposits	14,757	22,992	14,757	22,992
Subsidiary investment	-	-	50	13
	18,572	**26,796**	**18,622**	**26,809**

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 2018 £'000	*Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
Work in progress, low cost home ownership	29,696	23,355	29,696	23,355
Completed properties, low cost home ownership	17,871	7,741	17,871	7,741
Work in progress, outright sales developments	53,731	60,679	-	-
Completed properties – outright sale	30,857	2,815	-	
Land held for sale	2,405	2,502	2,405	2,501
	143,560	**97,092**	**49,972**	**33,597**

The stock figure above includes capitalised interest of £6,016k (2017: £2,496k).

*Restated for 2017, Completed properties – outright sales split with work in progress as it was incorrect in the prior year.

17. Debtors

	Group 2018 **£'000**	Group 2017 **£'000**	Trust 2018 **£'000**	Trust 2017 **£'000**
Due within one year				
Rental debtors	21,557	18,754	21,572	18,760
Less: bad debt impairment	(10,313)	(9,933)	(10,313)	(9,933)
Net rental debtors	**11,244**	**8,821**	**11,259**	**8,827**
Amounts owed by subsidiary undertakings	-	-	-	9,478
Prepayment in respect of major repairs to housing properties	-	8,279	-	8,279
SHG receivable	64	27	64	27
Prepayments and accrued income	3,903	3,426	3,641	3,338
VAT debtor	272	988	272	988
Other debtors	7,889	14,595	7,656	11,450
	23,372	**36,136**	**22,892**	**42,387**
Due after more than one year				
Intercompany loan	-	-	129,400	81,300
Staff loans	67	61	67	61
Other debtors	3,800	-	3,800	-
	3,867	**61**	**133,267**	**81,361**

18. Creditors: Amounts falling due within one year

	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
Debt (Note 23)	19,847	5,918	19,847	5,918
Trade creditors	7,944	5,617	6,444	5,262
Due to subsidiary undertakings	-	-	4,158	5,581
Amounts owed in respect of housing properties	9,406	15,377	9,181	14,044
Amounts owed to partners in regeneration schemes	384	3,342	384	3,342
Other taxation and social security	1,334	1,192	1,284	1,192
Other creditors	16,032	20,205	13,694	18,758
Obligations under finance leases (Note 29)	26	25	26	25
Provision for deferred tax	-	9	-	1
Accruals and deferred income	51,039	39,296	47,633	35,296
Recycled Capital Grant Fund (Note 21)	61,678	28,702	61,678	28,702
Disposals Proceeds Fund (Note 22)	1,084	912	1,084	912
Rent and service charge paid in advance	12,659	10,188	12,659	10,188
Deferred government grant (Note 20)	4,967	4,855	4,967	4,855
	186,400	**135,638**	**183,039**	**134,076**

19. Creditors: amounts falling due after one year

	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
Debt (Note 23)	970,735	892,865	970,734	892,865
Corporate bond (Note 23)	146,923	146,811	146,923	146,811
Derivative financial instruments	43,999	48,962	43,999	48,962
Obligations under finance leases	587	613	587	613
Amounts owed in respect of housing properties under development	6,174	7,446	5,400	7,128
Recycled Capital Grant Fund (Note 21)	42,504	73,614	42,504	73,614
Disposal Proceeds Fund (Note 22)	1,415	2,134	1,415	2,134
Deferred government grant (Note 20)	273,799	267,433	273,799	267,433
Intercompany payable	-	-	38	-
	1,486,136	**1,439,878**	**1,485,399**	**1,439,560**

20. Deferred government grant (DGG)

	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
At 1 April	**272,288**	**290,069**	**272,288**	**229,990**
Movement in RCGF	3,221	3,308	3,221	3,308
Movement in DPF	-	570	-	570
Net SHG	16,968	(4,877)	16,908	(2,969)
Grant released on stock swap	-	(1,793)	-	(1,793)
Amortisation in current year to income & expenditure	(4,967)	(4,855)	(4,907)	(4,401)
Transfer from subsidiary undertakings	-	-	-	57,717
HomeBuy utilised	(8,744)	(10,134)	(8,744)	(10,134)
At 31 March	**278,766**	**272,288**	**278,766**	**272,288**

21. Recycled capital grant fund (RCGF)

	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
At 1 April	**102,316**	**96,378**	**102,316**	**95,558**
Utilised on new build	(14,937)	(6,917)	(14,937)	(6,917)
Grants recycled upon relevant events:				
HomeBuy	8,744	10,134	8,744	10,134
Recycled from DCG	3,221	3,038	3,221	3,064
Recycled from reserves	4,338	3,481	4,338	3,455
Repaid to GLA	-	(4,318)	-	(4,318)
Interest accrued	500	520	500	520
Transfer within Group	-	-	-	820
At 31 March	**104,182**	**102,316**	**104,182**	**102,316**
RCGF creditor falling due in one year	61,678	28,702	61,678	28,702
RCGF creditor falling due after one year	42,504	73,614	42,504	73,614
	104,182	**102,316**	**104,182**	**102,316**

We recognise and recycle the use of the Recycled Capital Grant in accordance with guidance from the Regulator for Social Housing and Greater London Authority. As at 31 March 2018, there is £21m that is over three years old and is potentially due for repayment.

22. Disposal proceeds fund (DPF)

	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
At 1 April	**3,046**	**2,394**	**3,046**	**2,394**
Adjustments	-	68	-	72
Repayment	(561)	-	(561)	-
Net sales proceeds	-	570	-	570
Interest accrued	14	14	14	10
At 31 March	**2,499**	**3,046**	**2,499**	**3,046**
DPF creditor falling due in one year	1,084	912	1,084	912
DPF creditor falling due after one year	1,415	2,134	1,415	2,134
	2,499	**3,046**	**2,499**	**3,046**

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

23. Debt analysis

Loans	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
Within one year	19,847	5,918	19,847	5,918
Between one and two years	15,276	17,807	15,275	17,807
Between two and five years	72,637	31,872	72,637	31,872
In more than five years	1,029,745	989,997	1,029,745	989,997
	1,137,505	**1,045,594**	**1,137,504**	**1,045,594**

Security

Loans are predominantly 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 1.55% to 12% (2017: 2% to 12%).

The Group had undrawn loan facilities of £222m (2017: £327m).

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).

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. Re-measurements 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.

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 2018 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. Re-measurements are reported in Other comprehensive income for the year.

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 2018	31 March 2017	31 March 2016
Rate of discount	1.7	1.3	2.3

Present value of pension liability

£'000	31 March 2018	31 March 2017	31 March 2016
Present value of pension liability	26,135	30,519	32,703

Reconciliation of opening and closing pension liability

	£'000
Pension liability as at 1 April 2017	**30,519**
Unwinding of the discount factor (interest expense)	294
Deficit contribution paid	(4,155)
Remeasurements - impact of any change in assumptions	(523)
Remeasurements - amendments to the contribution schedule	-
Pension liability as at 31 March 2018	**26,135**

Income and expenditure impact

	31 March 2018 £'000
Interest expense	294
Remeasurements – impact of any change in assumptions	(532)

Deficit contribution schedule

Year ending	(£'000) March 2018	(£'000) March 2017	(£'000) March 2016
Year 1	4,319	4,155	3,997
Year 2	4,490	4,319	4,155
Year 3	3,875	4,490	4,319
Year 4	3,211	3,875	4,490
Year 5	3,327	3,211	3,875
Year 6	2,806	3,327	3,211
Year 7	2,244	2,806	3,327
Year 8	2,311	2,244	2,806
Year 9	1,190	2,311	2,244
Year 10	-	1,190	2,311
Year 11	-	-	1,190

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 pension 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 2016.

Assumptions

	2018	2017	2016
Discount rate	2.55%	2.70%	3.60%
Pension increases	2.35%	2.70%	2.30%
Salary increases	2.35%	4.20%	4.10%
Inflation assumption (CPI)	-	-	2.30%
Inflation assumption (RPI)	-	-	3.20%

Net pension liability

	31 March 2018 £'000	31 March 2017 £'000
Present value of defined benefit obligation	10,915	11,195
Fair value of fund assets (bid value)	(7,223)	(7,302)
Net liability in balance sheet	**3,692**	**3,893**

Impact on income and expenditure

	2018 £'000	2017 £'000
Service cost	157	72
Net interest on the defined liability	103	86
Administration expenses	3	2
Total	**263**	**160**

Remeasurement in other comprehensive income

	2018 £'000	2017 £'000
Return on fund assets in excess of interest	(1)	1,182
Other actuarial losses on assets	-	(63)
Change in financial assumptions	370	(2,131)
Change in demographic assumptions	-	(60)
Experience loss on DB obligation	-	(285)
Remeasurement of net assets / (defined liability)	**369**	**(1,357)**

Reconciliation of opening and closing assets

	2018 £'000	2017 £'000
Opening fair value of scheme assets	7,302	6,235
Interest on assets	194	220
Return on assets less interest	(1)	1,183
Administration expenses	(3)	(2)
Actuarial loss	-	(63)
Contribution by employer including unfunded benefits	95	39
Contributions by scheme participants	23	17
Estimated total benefits paid (net of transfer in)	(387)	(327)
Fair value of scheme assets at end of period	**7,223**	**7,302**

Reconciliation of opening and closing obligations

	2018 £'000	2017 £'000
Opening defined benefit obligation	11,195	8,651
Service cost	157	72
Interest cost	297	306
Change in financial assumptions	(370)	2,131
Change in demographic assumptions	-	60
Experience gain on DB obligation	-	285
Estimated funded benefits paid (net of transfers in)	(387)	(327)
Contributions by scheme participants	23	17
Closing defined benefit obligation	**10,915**	**11,195**

Projected pension expenses for year to 31 March 2019

	2019 £'000	2018 £'000
Service cost	131	115
Net interest on the defined liability (asset)	93	104
Administration expense	3	3
Total loss	**227**	**222**
Employer contributions	90	79

Sensitivity analysis

	2018	2018	2018	2017	2017	2016	2016	2016
Adjustment to discount rate	+0.1%	0.00%	-0.1%	0.00%	-0.1%	+0.1%	0.00%	-0.1%
Present value of defined benefit obligation £'000	10,726	10,915	11,107	11,195	11,392	8,500	8,651	8,804
Projected service cost £'000	128	131	134	115	118	90	92	94
Adjustment to long-term salary increase	+0.1%	0.00%	-0.1%	0.00%	-0.1%	+0.1%	0.00%	-0.1%
Present value of defined benefit obligation	10,924	10,915	10,906	11,195	11,180	8,665	8,651	8,637
Projected service cost	131	131	131	115	115	92	92	92
Adjustment to pension increases and deferred revaluation	+0.1%	0.00%	-0.1%	0.00%	-0.1%	+0.1%	0.00%	-0.1%
Present value of defined benefit obligation	11,099	10,915	10,734	11,195	11,016	8,793	8,651	8,512
Projected service cost	134	131	128	115	112	94	92	90
	+1 Year	**None**	**-1 Year**	**None**	**-1 Year**	**+1 Year**	**None**	**-1 Year**
Adjustment to mortality age rating assumption	11,348	10,915	10,499	11,195	10,778	8,925	8,651	8,386
Present value of defined benefit obligation £'000	135	131	127	115	111	94	92	90

National Health Service (NHS) Pension

As at 28 March 2018, two staff members transferred to MHT were in the NHS Pension Scheme. MHT is in the process of joining the NHS scheme at the reporting date.

The NHS Pension Scheme is an unfunded defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State in England and Wales. It is not possible for MHT to identify its share of the underlying scheme assets and liabilities.

Membership of this scheme is restricted to existing staff who are members and new staff who were already members by reason of their previous NHS employment. The NHS scheme is funded centrally by the Treasury on a current cost basis.

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 related to the transfer of the Ashmole Estate from the London Borough of Lambeth (Trust) to Metropolitan Housing Trust. The provision was 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 in the Lymington Fields scheme. This funding was provided by Homes England 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.

The Allpay provision relates to a HMRC ruling that Allpay should have charged VAT on their income collection services.

Group	Major repairs - stock transfer **£'000**	Re-structure provisions **£'000**	Overage provision **£'000**	Allpay provision **£'000**	Total **£'000**
Opening balance at 1 April 2017	**8,279**	**1,385**	**138**	**-**	**9,802**
Additions	-	553	-	225	778
Amounts used	(8,279)	(1,369)	(25)	-	(9,673)
Balance at 31 March 2018	**-**	**569**	**113**	**225**	**907**

Trust	Major repairs - stock transfer £'000	Re-structure provisions £'000	Allpay provision £'000	Total £'000
Opening balance at 1 April 2017	8,279	1,384	-	9,663
Additions	-	554	225	779
Amounts used	(8,279)	(1,369)	-	(9,648)
Balance at 31 March 2018	**-**	**569**	**225**	**794**

26. Share capital

	2018 number	2017 number
Opening balance	28	30
Shares cancelled	(3)	(2)
Closing balance	**25**	**28**

The nominal value of a share is £1.

27. Capital commitments

Group	Property, plant and equipment £'000	Investment property £'000	Inventory £'000	2018 £'000	2017 £'000
Capital expenditure that has been contracted for	284,977	12,589	120,477	**418,043**	**504,704**
Capital expenditure that has been authorised by the Board but has not yet been contracted for	164,937	32,627	85,981	**283,545**	**209,420**

Trust	Property, plant and equipment £'000	Investment property £'000	Inventory £'000	2018 £'000	2017 £'000
Capital expenditure that has been contracted for	284,977	12,589	53,076	**350,642**	**409,221**
Capital expenditure that has been authorised by the Board but has not yet been contracted for	164,937	32,627	22,574	**220,138**	**209,420**

The amount contracted for at 31 March 2018 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.

The Group has a number of financing options available including a future bond issue, private placements and bank loan financing.

28. Contingent assets / liabilities

The Group receives grant from Homes England 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 2018, the value of grant received in respect of these properties that had not been disposed of was £1,034m (2017: £1,034m).

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 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
Within one year	26	25	26	25
Between one to five years	127	118	127	118
In more than five years	460	495	460	495
	613	**638**	**613**	**638**

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 and Expenditure 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:

	2018 Land and buildings £'000	2018 Other £'000	2017 Land and buildings £'000	2017 Other £'000
Less than one year	737	744	769	33
Between one to five years	2,507	1,649	2,443	362
More than five years	864	7	1,455	20
	4,108	**2,400**	**4,667**	**415**

The Groups future minimum operating lease receivables are as follows:

	2018 LCHO £'000	2018 Commercial £'000	2017 LCHO £'000	2017 Commercial £'000
Less than one year	21,195	749	22,254	882
Between one to five years	75,155	2,472	78,913	2,674
More than five years	210,730	3,881	228,166	4,429
	307,080	**7,102**	**329,333**	**7,985**

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 2018 charges applied for these services to private subsidiaries is as follows:

	2018 **£'000**	2017 **£'000**
EM Property Service Limited (Metworks)	-	213

MHT waived the management charge to EMPS in 2018 as EMPS only provided services for MHT.

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%

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:

	2018 £'000	2017 £'000
Canalside	256	256
Total	**256**	**256**

During the year ended 31 March 2018, BMM LLP made profit distribution to MLL in cash totalling £nil (2017: £3,250k). BMM LLP is a Joint Venture between Metropolitan and Barratt Homes. Metropolitan has a 25% share of the Joint Venture.

MLL has a Limited Liability Partnership with house builder Westleigh Development Ltd in Westleigh Cherry Bank LLP (WCB) to develop the Monks Road scheme near Lincoln. There has 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.

During 2017/18 all remaining properties were sold and Westleigh Cherry Bank distributed funds on a share basis with both partners.

Rent received from tenant and leaseholder board members across the Group during the year are £nil (2017: £nil). Rent arrears of the Group's tenant and leaseholder board members as at 31 March 2018 was £nil (2017: £nil). 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, £4.2m 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.

During the year, MHT carried out a part disposal of three plots of land at market value to MLL (2016/17: three plots of land at market value). This part disposal totalled £13.2m (2016/17: £12.3m). In addition, MHT purchased 20 outright sales units from MLL (2016/17: nil) to sell them as shared ownership for a total consideration of £6.8m (2016/17: nil).

MHT was charged £6.3m interest by MF Plc for the intercompany loan (2016/17: £6.3m). As at 31 March 2018, the loan was £148.2m (2016/17: £148.1m).

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 (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the Group has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instrument are stated on the balance sheet at historical cost. Loans and investments that are payable or receivable within one year are not discounted.

Cancellable embedded options (CEO)

Embedded derivative optionality 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 historical cost because the difference between historical cost and amortised cost is deemed to be immaterial.

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 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 historical 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.

The effectiveness relationships between a loan and a swap are subject to qualitative tests at designation and should not require any further tests thereafter.

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 consist of swaps with a notional value of £189m at 31 March 2018 (2017: £189m) with interest rates ranging between 2.04% and 5.7% (2017: 2.16% and 5.7%) and maturities between 1 and 30 years (2017: 2 and 31 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 2018 was £44m (2017: £49.0m). This liability is secured with property charged to the counterparty or with cash deposits. As at 31 March 2018 the Group had £12.7m (2017: £12.25m) 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/or 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 Thomson Reuters 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 2018, £26.2m (2017: £24.9m) of cash is classified as restricted cash and cash equivalents due to legal restrictions. Restricted cash is where we hold cash on behalf of a third party or where there are restrictions on how we spend this cash.

Financial instruments

	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
Financial assets measured at historical cost				
Trade receivable	11,244	8,821	11,259	8,827
Other receivables	15,995	27,376	144,900	114,921
Investments	18,572	26,796	18,622	26,809
Cash and cash equivalents	88,601	104,190	84,335	103,099
	134,412	167,183	259,116	253,656
Financial assets that are equity instruments measured at cost less impairment				
Concessionary loans receivable	126,873	138,439	126,873	138,439
	261,285	**305,622**	**385,989**	**392,095**
Financial liabilities measured at fair value through profit and loss:				
Derivative financial instruments	43,999	48,962	43,999	48,962
Financial liabilities measured at historical cost:				
Loans	1,137,505	1,045,594	1,137,504	1,045,594
Trade creditors	7,944	5,617	6,444	5,262
Other creditors	482,475	474,705	479,878	473,180
Financial leases	613	638	613	638
	1,672,536	**1,575,516**	**1,668,438**	**1,573,636**

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 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%
West Bridgford LLP ('WBF')	Galliford Try	50%	50%
Westleigh Cherry Bank LLP ('WCB') (dormant)	Westleigh	50%	50%

Wilford Lane, Nottingham is a site that is being delivered via the West Bridgford LLP, a new joint venture from December 2017 in partnership with Galliford Try.

	BMM 2018 £'000	WCB 2018 £'000	WBF 2018 £'000	Total 2018 £'000	BMM 2017 £'000	WCB 2017 £'000	Total 2017 £'000
Investment at 1 April	7,710	279	-	**7,989**	7,341	821	8,162
Additions/(disposals)	4,678	(232)	5,380	**9,826**	(165)	(542)	(707)
Share of profits	1,250	(47)	(60)	**1,143**	3,784	-	3,784
Dividends	-	-	-	**-**	(3,250)	-	(3,250)
As at 31 March	**13,638**	**-**	**5,320**	**18,958**	**7,710**	**279**	**7,989**

33. Prior year adjustments

There are no prior year adjustments.

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 £2.1m during the year due to property disposals (total reduction of £4.1m in 2017).

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.

There has been an upward revaluation of the Migration Foundation and other shares held in this of £133k (2017: £1,856k).

36. Government grants

Government grants included in the Statement of Financial Position:

	Group 2018 £'000	Group 2017 £'000	Trust 2018 £'000	Trust 2017 £'000
Other fixed assets				
Creditors due within one year:				
Recycled Capital Grant Fund	(61,678)	(28,702)	(61,678)	(28,702)
Disposal Proceeds Fund	(1,084)	(912)	(1,084)	(912)
Deferred government grant	(4,967)	(4,855)	(4,967)	(4,855)
Creditors due after one year:				
Recycled Capital Grant Fund	(42,504)	(73,614)	(42,504)	(73,164)
Disposal Proceeds Fund	(1,415)	(2,134)	(1,415)	(2,134)
Deferred government grant	(273,799)	(267,433)	(273,799)	(267,433)
Reserves:				
Reserve	(1,034,326)	(1,033,698)	(1,034,326)	(1,033,698)
	(1,419,773)	**(1,411,348)**	**(1,419,773)**	**(1,410,898)**

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