



Registered Company No 07295935

**First Ark Limited Group**  
Annual Report and Financial Statements  
Year End 31<sup>st</sup> March 2017

<a href="#"><u>Index</u></a>	Page
Company Information	1
Board Members and Executive Directors	2
Chair of the Board's Statement	3 - 4
Strategic Report	5 - 16
Report of the Board	17 - 24
Independent Auditor's Report to the Members of First Ark Limited	25 - 26
Statement of Comprehensive Income	27
Statement of Financial Position	28
Statement of Changes in Reserves	29
Consolidated Cash Flow Statement	30
Notes to the Financial Statements	31 - 71

## Company Information

<b>Registered Group Office</b>	<b>First Ark Limited</b> Lakeview Kings Business Park, Prescot Merseyside, L34 1PJ
<b>Website</b>	<a href="http://www.firstark.com">www.firstark.com</a>
<b>External Auditors</b>	Grant Thornton UK LLP Chartered Accountants, Registered Auditors 4, Hardman Square Spinningfields Manchester, M3 3EB
<b>Internal Auditors</b>	TIAA Ltd 53-55 Gosport Business Centre Aerodrome Road Gosport, PO13 0FQ
<b>Principal Solicitors</b>	Anthony Collins Solicitors 134 Edmund Street Birmingham, B3 2ES
<b>Bankers</b>	Barclays Bank plc 48b and 50 Lord Street Liverpool, L2 1TD

## Board Members and Executive Directors

	Category	Changes in the year
Professor Peter Roberts (Chair)	Independent Board Member	
Estelle Rowe (Vice Chair)	Independent Board Member	
Helen White	Independent Board Member	
John Mallalieu	Independent Board Member	From 26 <sup>th</sup> April 2016
Philip Cusack	Independent Board Member	From 1 <sup>st</sup> January 2017
Christopher Saxton	Independent Board Member	To 31 <sup>st</sup> December 2016
Edward Connor	Council Nominated Board Member	To 7 <sup>th</sup> February 2017
Stephanie O’Keeffe	Council Nominated Board Member	From 7 <sup>th</sup> February 2017 to 12 <sup>th</sup> June 2017
Brian O’Hare	Council Nominated Board Member	From 12 <sup>th</sup> June 2017
Tracey Johnson	Independent Board Member	
David Neilson	Independent Board Member	To 26 <sup>th</sup> April 2016
Paul Burns	Independent Board Member	To 31 <sup>st</sup> March 2017
Robert Arthur Taylor	Group Chief Executive	
Antony Cahill	Executive Director – Business and Service Development	
Anthony Barwise	Strategic Director of Business Services	From 3 <sup>rd</sup> October 2016
Claire Heaney	Chief Operating Officer	From 18 <sup>th</sup> April 2016
Collette King	Executive Director – Business Transformation	To 19 <sup>th</sup> October 2016
Amanda Harris	Company Secretary	

## Chair of the Board's Statement

### Chair's Statement

The First Ark Group is a unique social impact business which brings together the best aspects of private, public, social enterprise and third sector organisations in order to balance commercial growth with real social and economic community outcomes. We work in partnership with many organisations who share our passion for making a difference, and by growing our businesses alongside each other we deliver mutually beneficial social, economic and environmental outcomes.



Last year was a period of transition, as the Group responded to the challenge of significant changes in its operating and regulatory environment.

Among other issues 2016/17 was the first year of a new policy regime requiring an annual 1 per cent rent reduction, a process which will continue for four years. This has had a significant impact for the Group, and has required strong and purposeful leadership in order to make the decisions necessary to achieve savings to offset the loss of income. Following our restructuring in 2015/16, coupled with a series of ongoing investments in systems and process change, the Group is pleased to report that our employees have responded positively to these changes and helped us to achieve the necessary cost savings in 2016/17. As a consequence First Ark has been able to maintain its financial performance, and this will enable the Group to meet its investment commitments to the communities it serves.

The regulatory regime has continued to evolve and First Ark is adapting its approach to compliance as the HCA's purpose and focus evolves. We welcome the increased clarity that these changes have introduced and we value the HCA's encouragement of the sector to seek opportunities to achieve greater returns on assets, within a strong framework of good governance. First Ark will continue to prioritise governance and compliance as a fundamental requirement for responsible sustainable growth and will implement any improvements thought necessary.

A number of major changes in the UK's macro-economic environment form the backdrop for ongoing social and economic challenges in the Liverpool City Region, and particularly within Knowsley. The Brexit negotiations, a hung parliament and increases in inflation make the outlook for investment, job creation and welfare reform uncertain. First Ark has responded by extending its work with local communities in order better to address their needs; our aim is to enable more of our customers to sustain their tenancies by working with partners to increase opportunities for training and employment, whilst providing practical assistance for tenants who are reliant on welfare benefits.

In 2016, First Ark launched a social investment fund, 'Invest for Impact', to help charities and social businesses in the North West to get the right backing to grow and make a more significant social and economic impact. As a social business, the First Ark Group understands the barriers and challenges associated with accessing funding support, so we are ideally placed to offer advice and guidance to other social enterprises.

## Chair of the Board's Statement (continued)

The First Ark Social Investment Fund has approved more than £1 million worth of funding since its inception. The success of the Group in undertaking a project of this nature reinforces First Ark's position as a leading social innovator.

The Board has ensured that we remain focused on our stated mission, which is to deliver first class homes, places, products and services that help people, communities and organisations to flourish. As ever, the needs of customers have remained at the heart of all our decisions.

For 2017/18, we have prioritised:

- Meeting our ongoing commitment to addressing the increased need for more housing by approving plans to expand our property portfolio. Homes will be developed throughout the North West and will increase the range of housing provided from rented and intermediate housing market products, through to shared ownership and homes for sale.
- Working to consolidate our foundations through focused investment in people, culture and systems development that maintain good governance and enhance operational efficiency.
- Delivering sustainable, profitable growth by offering a range of Facilities Management and other products and services, both within and outwith the Group;
- Continuing to improve the functionality of the Group's IT systems to ensure robust financial management and control, and ensuring we meet the requirements of the new data management legislation.
- Working to extend the range of external funds available for investment.

In conclusion, 2016/17 was a year when First Ark made significant progress towards achieving our 5 year strategic objectives by starting to consolidate the benefits of our continuing transformation programmes and drive for growth. We faced many challenges, but we adapted to these challenges, and this will help the Group to be better positioned to achieve its future vision.

I would like to express my thanks to the members of the First Ark Board and our other Boards, to the Executive team, to all of our hard working employees and, especially, to all our customers and other local residents, suppliers and partners. You continue to make a vital contribution to our success and your commitment is a key factor in achieving our vision of inspiring and delivering opportunity for all the people in the communities in which we work.



**Professor Peter Roberts**  
**Chair of the Board**

# Strategic Report

## Principal Activities and Business Model

The First Ark Group is a social impact business which seeks to bring together private, public, social and charitable enterprises to drive growth in Knowsley and the wider North West region. The proceeds of First Ark's operations are used to fund pioneering solutions: through direct delivery and strategic partnerships we provide a variety of affordable homes and opportunities for local people and businesses to gain employment, training and investment.

The First Ark Group (the Group) comprises seven companies:

- First Ark Limited (the non-charitable parent);
- Knowsley Housing Trust (KHT or the Trust), and its non-charitable subsidiaries KHTS Development Ltd and KHT Services Ltd.
- Vivark Limited
- One Ark Limited.
- First Ark Social Investment Ltd

First Ark, as the parent organisation, oversees the strategy and direction for the Group, and provides corporate services that demonstrate Value for Money to the whole Group.

The Trust commenced trading on 15<sup>th</sup> July 2002 in order to facilitate the transfer of homes from Knowsley Metropolitan Borough Council. The Trust's principal activity is the provision and management of social housing. The Trust is a charitable not for profit organisation that is also a registered housing provider subject to the regulatory requirements of the homes and communities agency (HCA) and operates throughout the Metropolitan Borough of Knowsley.

Vivark, the Group's commercial arm, incorporated the Group's repairs contractor service from 1<sup>st</sup> October 2012, with the aim of making returns from commercial activities which can be reinvested into communities, new products and services.

KHTS Development Ltd, a company limited by shares, was incorporated in June 2016 and will facilitate the development of a range of homes on behalf of KHT.

KHT Services Limited (KHTS), a company limited by shares, is the Trust's trading subsidiary which previously provided services to other organisations including local authorities, housing associations and other public bodies until 1<sup>st</sup> October 2012 when the repairs and maintenance activities were transferred to Vivark Limited. KHTS has been inactive since this time and going forward, it is to be used by the Trust primarily as a development company for its housing products.

One Ark Limited is a charitable subsidiary of the Group. The company's principal activities are focused on increasing local social and economic activity, creating resilient communities and generating opportunities for people to make inspiring changes to their life chances.

First Ark Social Investment Limited (FASI), a company limited by shares, was established in 2016. It manages the Group's social investment activity, providing funding through loans and grants to charities and social enterprises across North West England.

## Strategic Report (continued)

In total the Group's activities are directed toward helping the members of our local communities sustain their tenancies and toward increasing their opportunities for employment, training or education.

### Business and Financial Review

In the year to 31<sup>st</sup> March 2017, a year of transition and change, the Group has reported a surplus of £8.1m (2016: Deficit £4.3m).

Following the Government announcement in 2015 of the new rent setting regime, reducing social housing rent levels by 1% per year for 4 years from April 2016, the KHT and Group Boards agreed a plan to reduce operating expenditure across the Group. The Group has delivered on the first year of this plan with reductions in major repairs in KHT and overheads across the businesses.

The reduction in repairs expenditure has reduced the turnover of Vivark Limited, but the impact was offset to some extent by increased external sales of facilities management and refurbishment services. Vivark has also benefited from reduced employee costs following the restructuring programme in the year to April 2016.

First Ark Ltd was restructured in 2016 to incorporate all the head office functions and support services for the Group. A new methodology for calculating group recharges was introduced in the year to March 2017. The new process is designed to ensure the transparency and equity charges across the group, whilst simplifying the process.

There is a £5.9m (2016: £4.1m) fair value adjustment within finance costs this year in relation to the re-measurement of the private placement element of KHT's borrowings, which are considered to be a non-basic financial instrument.

The Group's five-year income and expenditure accounts and balance sheets are summarised in the table on the next page.

### Cashflow

Cash inflows and outflows for the period under review are set out in the consolidated cash flow statement on page 30. The statement of cash flows shows that, during the year, the Group generated net cash inflows from operating activities of £26.6m (2016: £20.2m).

During the year the Group made interest payments of £8.2m (2016: £20.1m including early redemption penalties of £11.9m) and debt repayments of £10m. The net cash inflow for the group after investing activity was £4.7m (2016: £3.7m)

## Performance in the Period

	2017	2016	2015 Restated	2014	2013
<b>Income &amp; Expenditure (£'000)</b>					
Turnover	64,481	65,642	62,325	57,929	56,682
Operating Costs	(45,089)	(51,095)	(50,724)	(50,863)	(39,977)
Property Sales, Interest and Tax	(10,888)	(23,232)	(6,579)	(6,839)	(8,011)
<b>(Deficit) / Surplus for the year</b>	<b>8,504</b>	<b>(8,685)</b>	<b>5,022</b>	<b>227</b>	<b>8,694</b>
Remeasurement in respect of pension scheme	(365)	4,349	(11,338)	-	-
<b>Total comprehensive (deficit) / income for the year</b>	<b>8,139</b>	<b>(4,336)</b>	<b>(6,316)</b>	<b>227</b>	<b>8,694</b>
<b>Balance Sheet (£'000)</b>					
Tangible fixed assets, net of depreciation	228,688	225,738	225,509	193,227	176,197
Net current assets/(liabilities)	9,197	(3,572)	(25,469)	(25,058)	1,097
<b>Total assets less current liabilities</b>	<b>237,885</b>	<b>222,166</b>	<b>200,040</b>	<b>168,169</b>	<b>177,293</b>
Creditors (due over one year)*	213,762	206,508	164,446	136,996	138,137
Pension liability (FRS17)	2,407	2,081	17,681	7,103	27,587
Reserves	21,716	13,577	17,913	24,070	11,569
<b>Total assets less total liabilities</b>	<b>237,885</b>	<b>222,166</b>	<b>200,040</b>	<b>168,169</b>	<b>177,293</b>
*Grants were previously included within Fixed Assets prior and are now classified as creditors under FRS102. The 2015 figures have been restated in order to provide a meaningful comparative.					
<b>Accommodation figures</b>					
Total number of Social Housing dwellings at year end	13,284	13,471	13,536	13,372	13,366
<b>Key Statistics</b>					
Surplus for the year (as a % of turnover)	13.3%	(13.2)%	8.1%	0.4%	13.4%
Rent losses on empty homes (as a % of rent and service charges receivable)	2.9%	2.9%	2.7%	3.1%	1.75%
Rent arrears (gross as a % of rent and service charges receivable)	6.4%	7.1%	4.6%	5.2%	4.9%
Interest Cover (surplus before interest payable and capitalised interest)	1.6	1.0	1.4	1.1	1.9
Liquidity (current assets divided by current liabilities)	1.78	0.83	0.30	0.33	1.16
Gearing Reserves (total loans as a % of capital plus loans plus reserves)	77.7%	91.4%	90.4%	81.3%	77.9%
Total reserves per home (£)	1,638	1,008	1,323	1,800	866

## Strategic Report (continued)

### Strategy and Objectives

The First Ark Group's mission is "to deliver first class homes, places, products and services that help people and organisations to flourish", with a vision to "create success that changes people's lives". The Corporate Strategy document was published in 2015. It outlined the Group's mission, vision, values and purpose, and shared the five year strategy with all of our audiences. The plans were reviewed and updated by the Group Boards in February 2016 as part of the annual budget setting exercise.

The Group's 5 year plan recognises the need to continue on our journey of innovation and change to enable us to keep investing in our housing portfolio and our communities during uncertain economic times for the UK. We will continue to review our business model, as risks and opportunities emerge, to ensure the Group stays on course to deliver on our strategic priorities of:

- Delivering our 5 year objectives and promises;
- Being recognised as a leader in customer service;
- Being regarded as an employer of choice
- Growing a strong local, regional and national brand that is recognised as a viable socio-economic solution for delivering social change and benefits
- Generating substantial social value and investment
- Increasing our size and scope at acceptable returns through an increased range of products and services.

The priorities for 2017/18 will build on the foundations of improvement established in 2016/17. The budget for the year has been set in line with the 5 year strategy and reflects the following principles:

- Ensuring the cost base of the Group remains at the appropriate level to deliver improved financial and operational performance, to consolidate the foundations, and to deliver growth;
- Improving the year on year profitability and self-sustainability levels of all Group companies to create additional financial capacity, financial resilience, and facilitate growth.
- Ensuring previous savings are maintained and the effects of inflation are absorbed to off-set the effect of below inflation rent increases on the Group's profitability.
- Protecting the delivery of the HCA new build development programmes within KHT.
- Ensuring KHT is able to meet its loan covenant requirements and remains compliant with regulations.

## Strategic Report (continued)

### Value for Money

What does Value for Money mean to First Ark?

Our strategic approach has been developed, overseen and driven by the Board and our customers' delivered through the Executive Team and all employees. Our key aim is to create financial and operational capacity to grow and sustain the business so that the Group can deliver its business objectives. This will be achieved by working towards the following priority objectives in both the delivery of our core services and our partnership working:

- Reduce the overall management cost per property.
- Maximise the return on assets.
- Maximise the social, economic, and environmental return on investment.
- Increase turnover and maintaining operating margin.

In 2016/17 we achieved the following:

- A market viability assessment approach was undertaken for each new empty home to identify the best route to market. We appraised the impact of alternative marketing providers to find the most effective channel to let our homes. Also we have introduced lettings surgeries to ensure properties are let in a timely manner.
- There has been a reduced number of empty homes and reduced tenancy turnover below our target of 8.33%.
- A target of 120 homes by end of March 2017 was set and achieved. However, to achieve the target the Board recognised that additional investment was required to achieve the target and to deliver the standard and quality of homes that our customers expect. As a result, the average cost per empty home increased to £4,782 against the target of £3,400, however a significant element of the extra costs was included in the business plan as planned maintenance expenditure brought forwards from future years. Targets for further improvements in the cost and volume of empty homes have been set for 2017/18.
- The Empty Homes focus group are utilising business intelligence to manage performance. A Tenancy Sustainability Team has been established whose focus will be on working with those tenants at greatest risk of tenancy failure, to support them to sustain a successful tenancy
- Carried out a full employment engagement survey, and all teams throughout the Group has developed action plans based on the survey feedback;
- Continued with our staff training programme, CIH, NVQ, and there are other training programmes on going.
- E-Learning platform was developed in 2016 and plans are to re-launch during 2017/18

## Strategic Report (continued)

- In particular these toolkits have been utilised to manage resources and reduce the number of empty homes, and also provide additional insight and understanding into the termination of tenancies, which has led to the development of a Tenancy Sustainability Team.
- In 2016/17 we invested £105k in returnable investments representing 16% of our total charitable investments (*which where £181k underspent against budget*) As part of our BI Roadmap our next steps are to enhance and embed strategic planning and a performance management framework across the Group which ensure the links between performance management, intelligence & insight are understood and as such the Business Assurance Team has been restructured to bring these services together under the responsibility of the BI Manager.
- We launched our first Social Investment Fund in October 2016. A £4m Growth fund for Social Enterprises and Charities, the £4m fund is of blended capital from the most effective channel to let our homes. Also we have introduced lettings surgeries to ensure properties are let in a timely manner.
- We have continued with our transformation programme and introduced several new modules into our 'Line of Business' core product suite. These included
  - Introduction of a new repairs solution incorporating a new mobile platform (AGILE) which delivers efficiencies in completing repairs on site, allows staff to access people, property or tenancy information in the field and allows new repairs to be agreed and raised on site.
- During the last twelve months the Board has extended its governance framework through the set-up of its subsidiaries KHTS and KHTS Development. These Boards have the specific skills to manage the risks from diverse development activities ensuring a robust framework is in place at a strategic level. A review of the whole Group's governance arrangements is likely to start during 2017/18.
- The Customer Assurance Panel (CAP) continues to be at the heart of our governance framework. The CAP consists of a group of customers with an independent Chair who has a strong housing management background

### During the year, the CAP has:

- Reviewed, challenged and approved the 2016/17 self-assessment against the HCA Consumer Standards and developed an action plan to improve a number of areas;
- Reviewed the Customer Engagement Service;
- Approved the revised local offers; and
- Provided customer insight to the development of the Customer Experience Framework.

## Strategic Report (continued)

- We are establishing a Business Intelligence and Analytics Hub and have recruited a Business Intelligence Manager who has been working across the Group to evaluate the intelligence requirements to deliver the Corporate Plan and objectives.
- A new approach to business and customer intelligence will support and promote an intelligence led business model and will be delivered through the Groups wider “Consolidating Foundations” programme.
- A range of intelligence reports have been developed to inform business decisions, direction and approach in relation to key operational improvement areas

As at the end of March 2017, we had generated significant interest in the fund and our Investment Committee had approved £450k of blended capital for Social Enterprises and Charities across the North West of England, from Cumbria, Lancashire, Greater Manchester and Merseyside.

We will be launching a second fund early in 2017/18 and further investment funds during the financial year alongside our social impact programmes that will be based around three key themes in addressing the challenges of:

- Poverty Premium
- Creating sustainable employment with business growth as a key catalyst
- Helping people get a foot on the property ladder and maintain a sustainable place to live

The two new development subsidiaries were set-up during the year, and a funding strategy was developed and approved by the Board which ensures the Group’s development and growth ambitions are fully funded in the business plan.

The Corporate Strategy has been reviewed and allowed the board to reflect on the high level priorities and activity areas for focus over the remaining life of our Corporate Strategy and Business Plans and plan for the future towards achieving our business aims and model.

Our full Value for Money Self-Assessment can be found on our website [www.firskark.com](http://www.firskark.com)

## Strategic Report (continued)

### Principal Risks and Uncertainties

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

The key controls required to manage each risk, together with the person responsible for the control are also recorded. The risks are then assessed according to the probability of the risk occurring and the potential impact given the current control environment.

The Board has assessed that the risks in the table below are those that are most likely to influence future performance.

## Strategic Report (continued)

Key Risk	Action being taken
<p>Welfare Reform leading to higher rent arrears/loss of rent due to bad debts, and higher rent collection costs.</p>	<p>Welfare Reform is a key risk residing on the Group's Strategic Risk Register.</p> <p>The Group has developed a robust action plan to deal proactively with the impact of the Welfare Reforms, and we have recruited additional staff to focus on financial inclusion and to manage the increased workload;</p> <p>We are working closely with all of our affected customers to ensure they understand and can deal with the impact;</p> <p>We have developed, and continue to refine and improve, our customer intelligence approach to understand which customers are affected;</p> <p>We continue to model the impact of new and proposed policy changes on our customers and our business; and</p> <p>The business plans include prudent assumptions for long-term rent collection costs and bad debts.</p>
Key Risk	Action being taken
<p>The UK voted to leave the European Union in the 23 June 2016 EU referendum. The government is now preparing to leave the EU in the best possible way for the UK's national interests. The reaction of sector funders to Brexit could result in higher funding costs as funders re-evaluate their credit risk and seek to pass on their increased costs of capital.</p>	<p>The situation regarding Brexit is very dynamic and uncertain consequently, the Board will keep a watching brief on the political and economic landscape as the impact of Brexit unfolds, whilst producing a variety of scenario's and stress testing comparators so that it is better able to understand and deal with the risks and opportunities that arise;</p> <p>Through their funding advisors, the Board will pay particular attention to Brexit alongside general market and economic forecasts and indicators as we develop the strategy to fund our growth ambitions over the next few years.</p>
<p>Growth and Diversification.</p>	<p>Failure to achieve the Group's growth targets, which is a key risk, which resides on the Group's Strategic Risk Register, could have an adverse effect on the Business Plan, as our cost base will need to either reduce or be spread across fewer activities; and</p>

Key Risk	Action being taken
	<p>The Group has an in-depth understanding of its overhead costs, and the progress against Growth targets will be regularly reviewed and corrective actions taken where required.</p> <p>Stress Testing has been undertaken to provide assurance over the validity of assumptions used and outcomes of cash flows based on fluctuating new business development.</p>
<p>Funding costs and the availability of future funding.</p>	<p>KHT refinanced its loan facility in May 2015, removing many of the restrictions of the previous facility and entering the Private Placement (PP) market for the first time for an element of the new facility. The PP allowed the Board to access longer-term money than that, which is currently generally available through traditional bank financing, at lower interest rates. The new combination of longer-term PP and shorter-term bank financing balances the Board's repayment risk;</p> <p>We have regular communication with the lenders to maintain strong relationships;</p> <p>The loan covenants are monitored monthly, and are reported to the Board at each meeting; and</p> <p>The Board has recently appointed new funding advisors to provide a fresh independent perspective on their current and future funding requirements.</p>
<p>Failure to effectively monitor, anticipate and respond to changes in the external environment.</p>	<p>The Group's employees maintain close contact with key external bodies to ensure any changes are fully understood before they impact the Group;</p> <p>The Board has overseen the development of a strategic Early Warning System, which identifies new and emerging risks in sufficient time to understand, evaluate and mitigate them before they impact the organisation.</p>
<p>Operational performance fails to achieve the target</p>	<p>Managers are accountable for performance within their functional areas;</p> <p>Regular performance monitoring is undertaken; and</p> <p>Robust action plans are put in place at an early stage if performance appears to be displaying an</p>

Key Risk	Action being taken
	adverse trend.
<p>Government rent policy continues to reduce the rental income over the life of the 30 year business plan</p>	<p>We have incorporated the long-term impact of the Government's 2015 Summer Budget into our financial plans;</p> <p>We have reviewed and reduced the organisation's expenditure to ensure the financial plans remain viable;</p> <p>We have stress-tested our plans against a number of multi-variate scenarios, and we have developed a range of risk mitigation strategies; and</p> <p>We are developing a range of financial 'Golden Rules' to further improve our risk management approach.</p>
<p>Governance arrangements are not robust enough to meet regulatory requirements and deliver strategic outcomes</p>	<p>Maintaining robust Governance arrangements is a key strategic risk for the Group.</p> <p>Non-executive directors with the right skills is fundamental to successful delivery of the Group's strategic objectives.</p> <p>The first phase of the Board's governance review was completed in September 2015, which resulted in a change in the constitution of the KHT Board in a move towards a skills first approach;</p> <p>The review has resulted in the appointment of 5 new independent Board members to the KHT Board, and 11 overall throughout the First Ark Group.</p>
<p>Poor data quality and data integrity</p>	<p>A working group from across the business has been set up to consider the best approach to validating &amp; quality assuring data captured within the core systems</p> <p>As part of this the group will look to rationalise the options for data capture.</p> <p>Additional resource has been identified for the business intelligence &amp; performance team as part of a business assurance restructure.</p>

## Strategic Report (continued)

### Housing Properties

As at 31 March 2017 the group owned and managed 13,284 housing properties (2016: 13,471). The properties are carried in the balance sheet at cost (after depreciation) of £224.3 million (2016: £220 million). The Group's housing properties were last valued at 30<sup>th</sup> September 2014 and the value of the properties, on an existing use for social housing basis, was £344m.

### Future Developments

Our aim to **increase the range of homes** we develop both inside and outside of Knowsley will be achieved through using a range of partnerships and joint ventures. It is based on delivering around 1,000 new homes over the next 5 years. Additional capacity will be created through generating profits from sales, creating new security and therefore borrowing capacity from homes for rent and for shared ownership outside of Knowsley and in the North West. Routes to creating our new homes will include:

- Taking Section 106 opportunities with developers across the North West;
- Entering into risk and reward arrangements with developers;
- Engagement with the HCA accessing grant where available;
- Developing our extra care and older persons' capabilities;
- Engaging with local authorities on particular sites identified; and
- Other routes such as direct purchases, NHS partnerships, wider opportunities

The Vivark Board approved a 5 year corporate plan in 2015, which was reviewed in Feb 2017. The company remains committed to its key objectives of increasing the range of facilities management products offered across the North West of England, to create social and financial value for the Group and its customers.

One Ark aims to increase its investments over the next 5 years through a focus on investment in social enterprises. One Ark will also continue to collaborate with organisations and secure investments to deliver programmes that create life-changing opportunities for people of our communities.

### Statement of Compliance

In preparing this Strategic Report, the board has followed the principles set out in the Statement of Recommended Practice: Accounting by registered and social housing providers (SORP) 2014.

The Strategic Report were approved by board on 12 September 2017 and signed on its behalf by:



**Professor Peter Roberts**  
Chair of the Board

## Report of the Board

The Board is pleased to present its report and the Group's audited financial statements for the year ended 31<sup>st</sup> March 2017.

### Principal Activities

Details of the Group's principal activities, its performance during the year and factors likely to affect its future development are contained within the Strategic Report which precedes this report.

### Board Members, Group Chief Executive and Executive Directors

The current First Ark Limited Board members and Group Executive Directors, and those who served for part of the year, are set out on Page 1.

The Group Board members are drawn from a wide background and include independent, tenant and council nominated members. Collectively they bring a range of professional, commercial and local experience.

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

### Remuneration

#### Policy

A Remuneration Committee (comprising 3 to 6 members including the Chairs of the First Ark Group Board, the KHT Board, the Vivark Limited Board and the One Ark Board) is responsible for recommending to the Board the Group's pay policy and terms and conditions of employment for the Group Chief Executive. In addition, the Remuneration Committee is responsible for setting the remuneration of Executive Directors and their terms and conditions, including an annual salary review. Salaries for Executive Directors are set having regard to each director's responsibilities and pay levels for comparable corporate positions.

The Group's Board has determined that at least one member of the Remuneration Committee will be represented in the appointment process for all Executive Director posts, whilst the First Ark Board, or a sub-group of the Board, would deal with any decision to dismiss an Executive Director.

#### Service Contracts

The Group Chief Executive and the Executive Directors are appointed on a permanent contract of employment basis, by First Ark Limited (from 1<sup>st</sup> November 2012). The Group Chief Executive and the Executive Directors' notice periods are three months.

#### Pensions

All Group employees, including the Chief Executive and the Executive Directors, are eligible to join a defined contribution scheme which the Group contributes towards on behalf of its employees.

## Report of the Board (continued)

### Other Benefits

In addition to their basic salary, the Group Chief Executive and the Executive Directors are entitled to either the provision of a leased car or a cash alternative. Summary details of the Directors' remuneration is included in Note 14 to the financial statements.

### Employees

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

The Group provides information to its employees throughout the year on its objectives, progress and activities through regular team meetings. A competency framework for all staff has been in place for a number of years, and is underpinned by our review process Framework for Success.

A Joint Consultative Committee consisting of the employees' Trade Unions and members of the Group's management team meets regularly to discuss issues relevant to employees. The Group has a Human Resources Strategy in place, which has been approved by the Board and which recognises the importance and contribution of our employees to the ongoing success of the Group.

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

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

### Corporate Social Responsibility

The Group fully encourages and embraces its responsibilities on all matters relating to Corporate Social Responsibility (CSR). The Group has a number of plans and strategies in place that manages all of the aspects of being a social business, including:

- The One Ark Limited business plan;
- The First Ark Social Investment plan;
- An environmental policy;
- The people strategy; and
- The Value for Money strategy.

The Group reports on its social impact annually through its Social Accounts and the Value for Money self-assessment.

## Report of the Board (continued)

### Complaints

The Group operates a clear and consistent complaints policy which is available to all of our customers. During the year we resolved 143 complaints, all of which (100%) were resolved within the target times that are set out in our Service Standards. The Group values all of the feedback that we receive from our customers, and we endeavour to resolve all complaints within the target times.

### Donations

First Ark Limited did not make any charitable donations during the year. (2016: £70k).

### Payment of Creditors

Our policy is to pay purchase invoices within 30 days of receipt or earlier if agreed with the supplier.

### Financial risk management objectives and policies

The group uses various financial instruments, including loans and cash, and other items such as trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations.

The existence of these financial instruments exposes the group to a number of financial risks. The main risks arising from the group's financial instruments are considered by the Board to be interest rate risk, liquidity risk and credit risk. The Board review and agree policies for managing each of these risks and they are summarised below.

#### Interest rate risk

The group finances its operations through a mixture of retained surpluses, bank borrowings and private placements. The group's exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and variable rate facilities, including interest rate swap instruments.

#### Liquidity risk

The group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and invest cash assets safely and profitably. In addition to drawn borrowings the group has £19 million of undrawn committed facilities.

#### Credit risk

The group's principal credit risk relates to tenant arrears. This risk is managed by providing support to eligible customers with their application for Housing Benefit and to closely monitor the arrears of self-paying customers. The Welfare Reform and resulting changes to the benefits system has been identified as a key risk to the Group, and the management team actively manage and monitor the impact of these changes.

## Report of the Board (continued)

### National Housing Federation (NHF) Excellence in Governance

We are pleased to report that the Group complies with the principal recommendations of the NHF guidance, Excellence in Governance. The ways in which we seek to achieve good governance are outlined below.

Board	Members	Made up of
First Ark Limited	9 members	Currently: <ul style="list-style-type: none"> <li>- 4 Independent members</li> <li>- 1 KMBC nominated representative</li> <li>- Chair of KHT Board</li> <li>- Chair of Vivark Board</li> <li>- Chair of Audit Committee</li> <li>- Chair of One Ark Board</li> </ul>
Knowsley Housing Trust	12 members	Currently: <ul style="list-style-type: none"> <li>- 6 independent members</li> <li>- 3 KMBC nominated representatives</li> <li>- 3 tenant members</li> </ul>
KHT Services Limited	Between 3 and 8 members	Currently: <ul style="list-style-type: none"> <li>- 4 Independent members</li> </ul>
KHTs Developments Limited	Between 2 and 5 members	Currently: <ul style="list-style-type: none"> <li>- 3 Independent members</li> </ul>
Vivark Limited	Between 3 and 7 Members	Currently: <ul style="list-style-type: none"> <li>- 5 Independent members</li> </ul>
First Ark Audit & Risk Committee	The Audit & Risk Committee will normally be chaired by the Vice-Chair of the Parent Board and consists of up to 6 members, drawn from within the Group on the basis of skills and interests.	Currently: <ul style="list-style-type: none"> <li>- Vice Chair of First Ark Board</li> <li>- 3 Independent members of KHT Board</li> <li>- 1 Independent member of One Ark Board</li> <li>- 1 Independent member of Vivark Board</li> </ul>
One Ark Limited	Between 3 and 7 Members	Currently: <ul style="list-style-type: none"> <li>- 5 Independent members</li> </ul>

## Report of the Board (continued)

All of the Group's Boards normally meet five times per year, but will call special meetings should there be issues of significant importance or concern.

During 2017/18 the Executive Directors Team met on 66 occasions.

### Internal Controls Assurance

The Board acknowledges its overall responsibility for establishing and maintaining the whole system of internal controls and for reviewing its effectiveness. This responsibility applies to all of the organisations within the Group.

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

In meeting its responsibilities, the Board has adopted a risk based approach to establishing and maintaining internal controls, which are embedded within the day to day management and governance processes. This approach includes the regular evaluation of the nature and extent of the risks to which the Group is exposed.

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

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

### Business Planning and Budgeting

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

The Group's updated Business Plan was approved by the Board prior to the start of the 2017/18 financial year, and the Corporate Plan has been reviewed during the year.

### Audit & Risk Committee

The Audit & Risk Committee is also required to report to the Board on internal controls and alert them to any emerging issues. The Audit & Risk Committee ensures that corrective action is taken in relation to any significant control issues highlighted by the internal and external auditors. As part of its review of the organisation's internal controls system, the Committee oversees the performance of the internal and external auditors. The Committee provides advice to the First Ark Board, and provides an annual review to them that focuses on the effectiveness of the internal controls system, including the Group's systems for managing risk.

## Report of the Board (continued)

### Internal Audit Programme

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

TIAA were appointed as the Group's Internal Auditors from 1<sup>st</sup> April 2013. The internal audit programme for 2016/17 generated recommendations for action, which have helped the Group to improve its internal control environment.

The Audit & Risk Committee considered the Internal Audit Annual Report for 2016/17 at its meeting on 18<sup>th</sup> July 2017 which included 23 audit inspections during the year.

### External Audit

External audit provides feedback to the Audit & Risk Committee on the operation of the internal financial controls reviewed as part of the annual audit. The external audit process involves an interim and year end audit.

Each year, after the year end audit, a management letter is presented to the Special Audit & Risk Committee, and when it has been reviewed by the Board, it is submitted to the Homes and Communities Agency (HCA).

The First Ark Group will re-tender its audit provision in the autumn of 2017 in accordance with the normal tender cycle.

### Regulatory Reports

The Board recognises the impact that any legislative or regulatory breaches can have on organisations, and so monitors and co-ordinates KHT's compliance activities through its Business Assurance team and each year assesses itself against the HCA Regulatory standards.

During 2016/17 issues were identified in respect of KHT's data integrity which raised concerns about the Group's compliance with the Welfare Reform and Work Act 2016, relating to the conversion of properties to Affordable Rent. The concerns were reported to the HCA's regulatory team and the Board, supported by the Executive, have fully investigated the issue. Corrective action has been taken and a robust action plan has been put in place to address the cause of the issue. As a result, however, the Board has determined that, for the 2016/17 year, KHT was not fully compliant with the Governance and Viability Standard. KHT is compliant with the Consumer Standard.

### Fraud

The Group complies with the HCA's requirements with regard to fraud, and the anti-fraud policy is included as part of the Group's standing orders and financial regulations.

## Report of the Board (continued)

The policy requires a register to be maintained of all actual and attempted frauds. All such cases are reported to the Board, and all cases in excess of £1,000 must be reported to the HCA.

There were no reported cases of fraud in the year.

### Charity Commission

The Board confirms that we have referred to the guidance contained in the Charity Commission's general guidance on public benefit when reviewing the Trust and One Ark's aims and objectives and in planning future activities.

The Board confirms that KHT and One Ark do not undertake any public fundraising, and do not work with any third party commercial participators or professional fundraisers.

### Going Concern

The Group's business activities, its current financial position and factors likely to affect future development are set out in the operating and financial review. The Group has in place long term debt facilities which provide adequate resources to finance committed development and reinvestment programmes together with day to day activities. After making enquiries the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the financial statements are signed. For this reason, the Board continues to adopt the going concern basis in the financial statements.

### Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report and Report of the Board and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these financial statements, the directors 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 have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

## Report of the Board (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Report of the Board was approved by the Board on 12 September 2017 and signed on its behalf by:



Professor Peter Roberts  
**Chair of the Board**



Estelle Rowe  
**Vice Chair of the Board**

# Independent Auditor's Report to the Members of the First Ark Group

## Independent auditor's report to the members of First Ark Limited

We have audited the financial statements of First Ark Limited for the year ended 31 March 2017 which comprise the group and company Statement of Comprehensive Income, the group and company Statement of Financial Position, the group and company Statement of Changes in Reserves, the consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the board and the auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 23 - 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

## Independent Auditor's Report to the Members of the First Ark Group (continued)

- the information given in the Strategic Report and the Report of the Board for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Board have been prepared in accordance with applicable legal requirements.

### Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the Board.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Joanne Love**  
**Senior Statutory Auditor**  
for and on behalf of Grant Thornton UK LLP,  
Statutory Auditor, Chartered Accountants  
Manchester

**Date: 19<sup>th</sup> September 2017**

## Statement of Comprehensive Income

	Notes	Group		Company	
		31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000	31 March 2016 £'000
Turnover	3	64,481	65,642	9,656	7,513
Cost of sales	3	(348)	(578)	-	-
Operating expenditure	3				
		<u>(44,741)</u>	<u>(50,517)</u>	<u>(9,875)</u>	<u>(7,493)</u>
<b>Operating surplus/(deficit)</b>		19,392	14,547	(219)	20
Gain on disposal of property, plant and equipment (fixed assets)	6	3,493	1,818	-	-
Share of operating surplus in JV	7	(58)	-	-	-
Interest receivable	8	30	82	-	5
Interest and financing costs	9	(14,297)	(13,430)	-	-
Exceptional interest costs	9	-	(11,954)	-	-
<b>(Deficit)/Surplus before tax</b>		<u>8,560</u>	<u>(8,937)</u>	<u>(219)</u>	<u>25</u>
Taxation	15	(56)	252	39	(7)
<b>(Deficit)/surplus for the year after tax</b>		<u>8,504</u>	<u>(8,685)</u>	<u>(180)</u>	<u>18</u>
Remeasurement in respect of pension scheme	11	(365)	4,349	-	-
<b>Total comprehensive (deficit)/income for the year</b>		<u>8,139</u>	<u>(4,336)</u>	<u>(180)</u>	<u>18</u>

The financial statements were approved and authorised for issue by the Board on 12 September 2017 and signed on its behalf by:



Professor Peter Roberts  
Chair of the Board



Estelle Rowe  
Vice Chair of the Board

The notes on pages 31 to 71 form an integral part of these financial statements

## Statement of Financial Position

		Group		Company	
	Notes	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000	31 March 2016 £'000
<b>Fixed assets</b>					
Tangible fixed assets	16	228,688	225,738	-	8
Social Investments	20	143	148	-	-
		<u>228,831</u>	<u>225,886</u>	<u>-</u>	<u>8</u>
<b>Current assets</b>					
Stock	21	97	136	-	-
Investments	22	99	-	-	-
Properties held for sale	19	924	2,793	-	-
Trade and other debtors	23	3,587	2,710	1,217	249
Cash and cash equivalents	24	16,270	11,533	127	508
		<u>20,977</u>	<u>17,172</u>	<u>1,344</u>	<u>757</u>
<b>Less: Creditors:</b> amounts falling due within one year	25	(11,923)	(20,892)	(1,196)	(437)
<b>Net current assets/(liabilities)</b>		<u>9,051</u>	<u>(3,720)</u>	<u>148</u>	<u>320</u>
<b>Total assets less current liabilities</b>		<u>237,885</u>	<u>222,166</u>	<u>148</u>	<u>328</u>
<b>Creditors:</b> amounts falling due after more than one year					
	26	213,762	206,508	-	-
<b>Provisions for liabilities</b>					
Pension provision	11	2,407	2,081	-	-
		<u>216,169</u>	<u>208,589</u>	<u>-</u>	<u>-</u>
<b>Reserves</b>					
Income and expenditure reserve	34	20,658	12,507	148	328
Restricted reserves	34	1,058	1,070	-	-
		<u>237,885</u>	<u>222,166</u>	<u>148</u>	<u>328</u>
<b>Total reserves</b>		<u>237,885</u>	<u>222,166</u>	<u>148</u>	<u>328</u>

The financial statements were approved and authorised for issue by the Board on 12 September 2017 and signed on its behalf by:



Professor Peter Roberts  
Chair of the Board



Estelle Rowe  
Vice Chair of the Board

Company Registered Number 07295935

The notes on pages 31 - 71 form an integral part of these financial statements

## Statement of Changes in Reserves

	Group				Company		
	Non-equity share capital	Restricted reserves	Income and expenditure reserve	Total	Non-equity share capital	Income and expenditure reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance as at 1 April 2015</b>	-	694	17,219	17,913	-	310	310
Total comprehensive (deficit)/income	-	376	(4,712)	(4,336)		18	18
<b>Balance as at 31 March 2016</b>	-	1,070	12,507	13,577	-	328	328
Total comprehensive income/(deficit)	-	(12)	8,151	8,139	-	(180)	(180)
<b>Balance as at 31 March 2017</b>	-	1,058	20,658	21,716	-	148	148

## Consolidated Statement of Cash Flows

	Notes	Year ended 31 Mar 2017 £'000	Year ended 31 Mar 2016 £'000
<b>Net cash generated from operating activities (see Note i)</b>		26,033	20,286
<b>Cash flow from investing activities</b>			
Purchase of tangible fixed assets		(9,522)	(14,949)
Grants received		737	958
Social investment additions		(105)	(90)
Proceeds from sale of tangible fixed assets		5,716	3,493
Social Investment repayments received		35	
Interest received		45	82
		<u>(3,094)</u>	<u>(10,506)</u>
<b>Cash flow from financing activities</b>			
Interest paid		(8,202)	(13,012)
Exceptional finance costs			(11,954)
(Repayments)/Increase of borrowings		(10,000)	18,912
		<u>(18,202)</u>	<u>(6,054)</u>
<b>Net change in cash and cash equivalents</b>		<u>4,737</u>	<u>3,726</u>
<b>Cash and cash equivalents at beginning of the year</b>		11,533	7,807
<b>Cash and cash equivalents at end of the year</b>		<u>16,270</u>	<u>11,533</u>
<b>Note i</b>			
		Year ended 31 Mar 2017 £'000	Year ended 31 Mar 2016 £'000
<b>Cash flow from operating activities</b>			
Surplus/(Deficit) for the year		8,504	(8,685)
<b>Adjustments for non-cash items:</b>			
Depreciation		7,954	7,863
Impairment		737	2,049
Fair value interest cost		5,918	4,052
Profit on disposal of fixed assets		(1,162)	(1,818)
Government grants utilised in year		(316)	(296)
Amortisation of loan arrangement fees		79	(179)
Decrease in housing held for resale		1,869	
(Increase)/decrease in stock		39	521
Decrease/(increase) in trade and other debtors		(845)	(81)
(Decrease)/increase in trade and other creditors		(4,901)	3,227
Pension costs less contributions payable		-	(11,251)
Interest payable		8,202	13,012
Exceptional finance cost			11,954
Interest received		(45)	(82)
<b>Net cash generated from operating activities</b>		<u>26,033</u>	<u>20,286</u>

# Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017

## 1. Legal Status

First Ark Limited, Knowsley Housing Trust, Vivark Limited, One Ark Limited, KHT Services Limited and KHTS Developments Ltd are registered under the Companies Act 2006. Knowsley Housing Trust is registered with the Homes and Communities Agency as a social landlord and the Charities Commission. One Ark Limited is a charity registered with the Charities Commission.

The registered office is Lakeview, Kings Business Park, Prescot, Merseyside, L34 1PJ.

## 2. Principal Accounting Policies

### Basis of Accounting

The Group's financial statements have been prepared in accordance with applicable United Kingdom Accounting Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS 102) and the Companies Act 2006.

As a matter of accounting policy, the Group has opted to apply the Statement of Recommended Practice for Registered Social Housing Providers; Housing SORP 2014 and comply with the Accounting Direction for Private Registered Providers of Social Housing 2015.

The financial statements comply with the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. The accounts are presented in sterling (£).

The First Ark Group meets the definition of a public benefit entity in accordance with FRS 102.

### *Parent company disclosure exemptions*

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

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

### Basis of Consolidation

The group accounts consolidate the accounts of the company and all its subsidiaries at 31<sup>st</sup> March using the acquisition method.

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

The consolidated financial statements incorporate the financial statements of the company and all entities controlled by the group and its subsidiaries. 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 subsidiaries acquired during the year are included in total comprehensive income from the effective date of acquisition using accounting policies consistent with those of the parent. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

### Going Concern

The group's business activities, its current financial position and factors likely to affect its future development are set out within the Strategic Report. The group has in place long term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, along with the group's day to day operations. The group also has a long-term business plan which shows that it is able to service these debt facilities whilst remaining compliant with lenders' covenants.

On this basis the board has a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date in which the report and financial statements are signed. For this reason it continues to adopt the going concern basis in the financial statements.

### Significant management judgements and estimates

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

### Development expenditure

The Group capitalises development expenditure in accordance with the accounting policy described on page 38. Initial capitalisation of costs are based on management's judgement that a development scheme is confirmed, usually when Board approval has taken place including access to the appropriate funding. In determining whether a project is likely to cease, management monitors the development and considers if changes have occurred that result in impairment.

### Categorisation of housing properties

The Group has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the Group has considered if the asset is

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

held for social benefit or to earn commercial rentals and reviewed the nature of the arrangements for intra group property.

The Group has determined that there are no investment properties.

### Bank loans

The Group has assessed its bank loans as basic using the criteria in Section 11 of FRS 102, although the loan agreements contain two-way breakage clauses. The Group's interpretation of the Financial Reporting Standard is that the clauses do not prevent the loans from being accounted for as basic. The Group also has a private placement bond that is classified as non-basic following interpretation of the Financial Reporting Standard.

### Estimation uncertainty

### Tangible fixed assets

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

### Impairment

From 1<sup>st</sup> April 2016, KHT has reduced its rental income by 1% per annum and will continue to do so each year until 2019/20 in accordance with the new Government rent setting regime. This is an indicator of impairment, and as a result we have estimated the recoverable amount of housing properties as follows:

- Determined the level at which the recoverable amount is to be assessed. This was determined to be at individual property level;
- Estimated the recoverable amount of the property using the higher of EUV-SH valuations or depreciated replacement cost, using appropriate construction costs and land prices;
- Calculated the carrying amount of the property; and
- Compared the carrying amount to the recoverable amount to determine if an impairment loss has occurred.

One Ark Limited values social investments at cost less impairment on the Statement of Financial Position. Impairment is assessed by way of an annual review of the recoverability of the investments and provisions are made where required.

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### Fair value measurement

On the 1<sup>st</sup> May 2016, KHT refinanced its loan facility to include a £90m bond under private placement (PP) which was denominated in sterling, despite being funded by US investors. However, there is an early repayment clause within the loan agreement that, if triggered, would result in a settlement linked to US dollars rather than KHT's functional currency. Therefore, the bond is recognised as a non-basic financial instrument and as a result, is measured at fair value through surplus or deficit.

As at 31<sup>st</sup> March 2017, the fair value of the £90m loan notes was £99.9m (2016: £94.1m) The value was calculated by discounting the future cash flows of the notes by relevant Gilt rates plus the assumed cost of new debt (assumed to be 150bp).

The adjustment of £5.9m (2016: £4.1m) is shown as an interest expense within the Statement of Comprehensive Income.

### Turnover and revenue recognition

Turnover comprises rental income receivable in the year, amortised capital grant, revenue grants from local authorities and the Homes and Communities Agency, income from the sale of shared ownership and other properties developed for outright sale, and other income, and is recognised in relation to the period when the goods or services have been supplied.

Rental income is recognised when the property becomes available for let, net of any voids. Income from property sales is recognised at the point of legal completion of the sale. Supporting People income is recognised as it falls due under the contractual arrangements.

Vivark's turnover is the revenue arising from the sales of goods and services. It is stated at the fair value of the consideration receivable, net of value added tax. Revenue from services provided is recognised when the company has performed its obligations and in exchange obtained the right to consideration.

Revenue generated from Vivark's construction contracts is recognised in accordance with the stage of completion of the contractual obligations to the customer. The state of completion of the contracts at the balance sheet date is assessed by reference to the value of work done.

Where the outcome of a contract can be assessed reliably, contract revenue and associated costs are recognised as revenue and costs respectively by reference to the stage of completion of the contract activity at the balance sheet date.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

recoverable and the contract costs are recognised in the period in which they are incurred.

One Ark's turnover arises from charitable donations or grants all of which represent amounts receivable for carrying out projects and services of work. The income is recognised when the charity has entitlement to the funds, any performance conditions attached to the income have been met, it is probable that the income will be received and the amount can be reliably measured.

### Bank loan interest costs

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

### Bank loan finance issue costs

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

### Service charges

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

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

### Taxation

The tax expense for the period comprises current and deferred tax.

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

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;

Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances for the cost of a fixed asset have been met.

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

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

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair value of liabilities acquired and the amount that will be assessed for tax.

### Value Added Tax

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

The Trust has an approved VAT Shelter Scheme which commenced on the 15<sup>th</sup> July 2002. As a result VAT incurred on elements of the Improvement Programme can be recovered. The balance of VAT recoverable at the year-end is included as a current asset in the statement of financial position.

KHT Services Limited can recover 100% of the VAT it incurs as all of its services are subject to VAT.

Charges from First Ark Limited to the Trust, Vivark Limited and One Ark Limited to the rest of the First Ark Group are outside the scope of VAT, as a VAT Group was set up on 1<sup>st</sup> April 2005.

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### Tangible fixed assets and depreciation

#### Housing Properties

Housing properties are properties held for the provision of social housing or to otherwise provide social benefit. Properties are available for rent and are stated at cost, less accumulated depreciation less impairment.

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

Freehold land is not depreciated.

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

The Group depreciates freehold housing properties by component on a straight-line basis over the estimated UELs of the component categories.

The UELs for identified components are as follows:

<u>Component</u>	<u>Useful Economic Life</u>
Structure	85 years
Kitchens	20 years or remaining life of the property, whichever is shorter
Bathrooms	30 years or remaining life of the property, whichever is shorter
Roofs	65 years or remaining life of the property
Windows and Doors	30 years or remaining life of the property
Mechanical Installation	40 years or remaining life of the property
Boilers / Storage Heaters	20 years or remaining life of the property
Electrical Installation	30 years or remaining life of the property
Lift	20 years or remaining life of the property
Shower	30 years or remaining life of the property
Solar Panels	20 years or remaining life of the property

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

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

Fixed Asset Type	Useful Economic Life
Office Premises	10-20 years
Plant and Machinery	4 years
Computer Equipment	3 years
Furniture, Equipment and Vehicles	4 years

### Shared ownership properties

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

### Donated land and other assets

Land and other assets donated by local authorities and other government sources is 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 government grant and recognised on the statement of financial position as deferred income within liabilities. Where the donation is from a non-public source, the value of the donation is included as income.

### Impairment

Housing properties and social investments are assessed for impairment indicators annually. Where indicators are identified an assessment for impairment is undertaken comparing the carrying amount of the property or investment to its recoverable amount. Where the carrying amount is deemed to exceed its recoverable amount, the property or investment is written down to its recoverable amount. The resulting impairment loss is recognised as operating expenditure. Where the property is currently deemed not to be providing service potential to the association, its recoverable amount is its fair value less costs to sell.

### Leasing and hire purchase

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

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest rate method so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring the surplus or deficit for the period.

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

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

### Investment policy

The Group ensures adequate liquidity is maintained at all times to meet unexpected expenditure requirements that may arise. A minimum of £5m is held in cash deposits available to withdraw immediately. The funds are kept in an interest bearing deposit account in an attempt to maximise interest wherever possible.

In the event of the Group having surplus funds, consideration will be given firstly to supporting its capital investment programmes and subsequently to repaying its debt.

Investments are included at cost less impairment in the Statement of Financial Position. Investment income is reflected in the Statement of Comprehensive Income when receivable.

### Stock and properties held for sale

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

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

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

### Short-term debtors and creditors

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

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

Where deferral of payment terms have been agreed at below market rate, and where material, the balance is shown as the present value, discounted at a market rate.

### Rent arrears

Where a repayment schedule is in place for rent arrears, a net present value adjustment is made.

### Social Housing and other government grants

Where developments have been financed wholly or partly by social housing and other grants, the amount of the grant received has been included as deferred income and recognised in Turnover over the estimated useful life of the associated asset structure, under the accruals model. Social Housing Grant (SHG) received for items of cost written off in the Statement of Comprehensive Income is included as part of Turnover.

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

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

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

### Disposal Proceeds Fund (DPF)

Receipts from the sale of right to acquire properties less the net book value of the property and the costs of disposal are credited to the DPF. This creditor is carried forward until it is used to fund the acquisition of new social housing.

### Holiday pay accrual

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

### Pensions

Contributions to defined contribution pension plans are recognised as an expense in the period in which they are incurred.

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

KHT exited the Merseyside Pension Fund (MPF), a multi-employer funded defined benefit scheme, on 31<sup>st</sup> December 2015.

The MPF scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis. The net surplus or deficit is presented separately from other net assets on the statement of financial position. A net surplus is recognised only to the extent that it is recoverable by the Group through refunds from the plan.

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

### Public benefit entity concessionary loans

Public benefit entity concessionary loans are initially recognised as a loan at the amount paid to the purchaser and are subsequently updated to reflect accrued interest. Any impairment loss is recognised in the statement of income and retained earnings.

### Financial Instruments

Financial instruments which meet the criteria of a basic financial instrument as defined in Section 11 of FRS 102 are measured at amortised historical cost

Non-basic financial instruments are recognised at fair value using a valuation technique with any gains or losses being reported in surplus or deficit. At each year end, the instruments are revalued to fair value, with the movements posted to the income and expenditure account.

### Impairment of Financial Assets

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

The following financial instruments are assessed individually for impairment:

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

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

An impairment loss is measured as follows;

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

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

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

The amount of the reversal is recognised in profit or loss immediately.

### Reserves

The Group accounts include consolidated reserves of One Ark Limited, a charitable subsidiary of the First Ark Group which carries restricted and unrestricted funds.

Restricted funds are to be used for specific purposes laid down by the donor or grant making body. Expenditure for those purposes is charged to the fund, together with a fair allocation of overheads and support costs.

Unrestricted funds are donations and other incoming resources received or generated for expenditure on the general objectives of the charity.

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 3(a) Particulars of turnover, cost of sales, operating expenditure and operating surplus

Group	2017			
	Turnover £'000	Cost of sales £'000	Operating expenditure £'000	Operating surplus £'000
<b>Social housing lettings (note 3b)</b>	<b>61,071</b>		<b>(41,166)</b>	<b>19,905</b>
<b>Other social housing activities</b>				
Supporting people contract income	72		(21)	51
Other supporting people income	160		(236)	(76)
Current asset property sales	511	(348)		163
Community investment	190		(702)	(512)
Other KHT Services <sup>(1)</sup>	41		(185)	(144)
<b>Total from social housing activities</b>	<b>62,045</b>	<b>(348)</b>	<b>(42,310)</b>	<b>19,387</b>
<b>Activities other than social housing <sup>(2)</sup></b>				
Lettings (Note 3b)	284		(284)	-
Group management Facilities Management Services	2,152		(1,928)	224
<b>Total</b>	<b><u>64,481</u></b>	<b><u>(348)</u></b>	<b><u>(44,741)</u></b>	<b><u>19,392</u></b>

Group	2016			
	Turnover £'000	Cost of sales £'000	Operating expenditure £'000	Operating surplus £'000
Social housing lettings (note 3b)	63,302	-	(48,557)	14,745
<b>Other social housing activities</b>				
Supporting people contract income	86	-	(61)	25
Other supporting people income	167	-	(237)	(70)
Current asset property sales	781	(578)	-	203
Community investment	116	-	(501)	(385)
Other KHT Services <sup>(1)</sup>	-	-	(16)	(16)
	-	-	-	-
<b>Total from social housing activities</b>	<b>64,452</b>	<b>(578)</b>	<b>(49,372)</b>	<b>14,502</b>
<b>Activities other than social housing</b> <sup>(2)</sup>				
Lettings (Note 3b)	146	-	(146)	-
Facilities Management Services	<u>1,044</u>	<u>-</u>	<u>(999)</u>	<u>45</u>
<b>Total</b>	<b><u>65,642</u></b>	<b><u>(578)</u></b>	<b><u>(50,517)</u></b>	<b><u>14,547</u></b>

#### Notes

- (1) **Other social housing activities** – includes repairs undertaken on behalf of other Registered Providers of Social Housing.
- (2) **Activities other than social housing** – includes contract management activities.

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 3(b). Particulars of Income and Expenditure from Social Housing lettings

Group	2017			2016
	General Housing £'000	Supported Housing £'000	Total £'000	Total £'000
<b>Turnover from social housing lettings</b>				
Rent receivable net of empty homes	54,930	3,044	57,974	56,691
Service charges receivable net of empty homes	1,625	488	2,113	1,422
Amortised government grants	316	-	316	296
Other	626	42	668	1,893
<b>Turnover from social housing lettings</b>	<b>57,497</b>	<b>3,574</b>	<b>61,071</b>	<b>63,302</b>
<b>Expenditure on social housing lettings</b>				
Management	(11,810)	(23)	(11,833)	(19,829)
Service charge costs	(1,529)	(499)	(2,028)	(3)
Routine maintenance	(11,800)		(11,800)	(11,545)
Major repairs expenditure	(3,373)		(3,373)	(5,726)
Bad debts	(1,411)		(1,411)	(1,717)
Depreciation of housing properties	(7,643)		(7,643)	(7,695)
Other Costs	(2,416)		(2,416)	
Impairment of Housing Properties	(662)		(662)	(2,042)
<b>Operating costs on social housing lettings</b>	<b>(40,644)</b>	<b>(522)</b>	<b>(41,166)</b>	<b>(48,557)</b>
<b>Operating surplus on social housing lettings</b>	<b>16,853</b>	<b>3,052</b>	<b>19,905</b>	<b>14,745</b>
<b>Void losses</b> (being rental income lost as a result of property not being let, although it is available for letting)	<b>1,870</b>	<b>216</b>	<b>2,086</b>	<b>1,776</b>

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 3(c). Particulars of Turnover, Cost of Sales, Operating Costs and Operating Surplus

#### Company

	Turnover	2017 Operating costs	Operating surplus	Turnover	2016 Operating costs	Operating Surplus
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Non-social housing activities						
Management Costs	9,656	(9,875)	(219)	7,513	(7,493)	20
	<b>9,656</b>	<b>(9,875)</b>	<b>(219)</b>	<b>7,513</b>	<b>(7,493)</b>	<b>20</b>

### 4. Accommodation in Management and Development

At the end of the year accommodation in management for each class of accommodation was as follows:

	Group		Company	
	2017	2016	2017	2016
<b>Social housing</b>		Restated		
General housing - social rent	11,895	12,116	-	-
- affordable rent	639	624	-	-
Supported housing	679	708	-	-
LCHO	53	47	-	-
Total owned properties	13,266	13,495	-	-
Managed on behalf of others	18	2	-	-
Total owned and managed	13,284	13,497	-	-
Of which:				
Held for demolition/redevelopment	94	233	-	-

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 5. Operating Surplus

This is arrived at after charging:	Group		Company	
	2017	2016	2017	2016
	£ '000	£'000	£ '000	£ '000
Depreciation of Housing Properties	7,643	7,500	-	-
Depreciation of other assets	303	363	8	29
Impairment of Housing Properties	662	2,042	-	-
Impairment of land banked	-	-	-	-
Operating lease rentals				
- land and buildings	32	108	-	-
- vehicles	481	444	-	-
Auditors remuneration (excluding VAT)				
- for audit services	63	50	7	9
- for non-audit services (tax computation)	10	10	6	3
- for non-audit services (other)	91	86	65	16

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## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 6. Gain on disposal of property, plant and equipment (Group)

	Total 2017	Total 2016
	£'000	£'000
Proceeds of sales	5,716	3,092
Carrying value	(1,548)	(978)
Surplus	<u>4,168</u>	<u>2,114</u>
Recycled capital grants fund (Note 23)	(139)	-
Disposal proceeds funds (Note 24)	(535)	(296)
	<u><b>3,493</b></u>	<u><b>1,818</b></u>

### 7. Share of operating (deficit)/surplus in joint venture

KHT has a joint venture with Seddon RDP Limited in relation with Arncliffe Road, Halewood. KHT's share of the JV profit was £124k. However this has been offset by £182k in relation to the cost of land previously released to the statement of comprehensive income for the year ended 31 March 2016, leaving a net deficit of £58k.

### 8. Interest Receivable and Other Income

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Interest receivable	30	82	-	5
	<u>30</u>	<u>82</u>	<u>-</u>	<u>5</u>
	<u><u>30</u></u>	<u><u>82</u></u>	<u><u>-</u></u>	<u><u>5</u></u>

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 9. Interest and financing costs

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Loans and bank overdrafts	8,281	8,955	-	-
Pension interest cost	98	418	-	-
Financial instrument fair value adjustment	5,518	4,057	-	-
	<u>14,297</u>	<u>13,430</u>	<u>-</u>	<u>-</u>

### 10. Employees

Average monthly number of employees expressed in full time equivalents:

	Group		Company	
	2017 Number	2016 Number	2017 Number	2016 Number
Development	17	16	1	1
Housing maintenance	179	170	3	-
Business services	66	117	63	63
Customer & communities	141	128	46	42
Asset management	28	41	1	5
Evolve	6	6	6	6
Charitable activities	7	6	1	-
	<u>444</u>	<u>484</u>	<u>118</u>	<u>117</u>

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### Employee costs:

	Group		Company	
	2017	2016	2017	2016
	£ '000	£ '000	£ '000	£ '000
Wages and salaries	11,849	14,275	3,953	3,922
Social security costs	1,115	1,158	389	356
Pension costs	462	887	241	183
	13,426	16,320	4,501	4,461
	13,426	16,320	4,501	4,461

Wages and salaries includes £98K (2016: £1.5m) in redundancy costs.

## 11. Pension Obligations

### The Merseyside Pension Fund (Group and Trust)

The Merseyside Pension Fund (MPF) is a multi-employer scheme with more than one participating employer, which is administered by Wirral Metropolitan Borough Council under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme.

Knowsley Housing Trust terminated its participation in the Fund on the 31<sup>st</sup> December 2015, and the impact of the termination is seen in the accounting disclosures below. The result of the termination is final assets and funded benefit obligations of zero.

There is still a liability in respect of unfunded benefits and this is included in the Pension liability figures, although this will now be dealt with directly by the Group independently of the Fund.

#### Contributions

The contributions to the MPF for the year ended 31<sup>st</sup> March 2017 were £NIL (2016: £13 million including a termination payment of £11.5m).

#### Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31<sup>st</sup> March 2014 updated to 31<sup>st</sup> March 2017 by a qualified independent actuary.

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

	At 31 <sup>st</sup> March 2017 %	At 31 <sup>st</sup> March 2016 %
Rate of increase in salaries	N/A	2.1
Rate of increase in pensions in payment	2.3	3.6
Discount rate	2.5	2.1
Inflation assumption	2.3	3.9

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	At 31 <sup>st</sup> March 2017 Years	At 31 <sup>st</sup> March 2016 Years
<i>Retiring in 20 years</i>		
Males	24.9	24.8
Females	27.7	28.1
<i>Retiring today</i>		
Males	21.9	22.4
Females	24.7	25.3

The financial actuarial assumptions for the FRS102 calculations for the 31<sup>st</sup> March 2017 year end depends on market yields at that date. Those yields vary slightly from employer to employer depending on the duration of its pension liabilities. For accounting purposes, we assess the duration as at the latest formal actuarial valuation of the Fund. Overall, these assumptions are based on a yield on corporate bonds of around 2.6% and a market-implied RPI inflation figure of about 3.4% (+/- adjustments according to the duration of the liabilities). However, benefit increases under the LGPS are based on CPI, not RPI, and to calculate our CPI assumptions we deduct a margin (currently 1.2%) from the market-implied RPI figure (subject to a minimum CPI figure of 2.0%). This margin is partly to allow for supply/demand distortions in the investment markets and partly because CPI is currently a lower measure of inflation than RPI.

Increases in pensions and deferred pensions are in line with CPI but are subject to a minimum of zero. In current market conditions the impact of this minimum on our assumptions is not material.

Our proposed salary growth assumption is consistent with the results of the latest formal actuarial valuation of the Fund (i.e. the same long-term “real” salary inflation assumption in excess of CPI inflation, and allowing for any short term pay assumptions).

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

Duration Profile:	Young	Young – Intermediate	Non – Pensioner	Intermediate	Mature	Very Mature	Retired
Approximate duration at latest actuarial valuation (years)	Over 28.5	27 – 28.5	25.5 - 27	22.5 – 25.5	19 – 22.5	15.5 – 19	Up to 15.5
<b>(% per annum)</b>							
Rate of CPI inflation:	2.2	2.2	2.2	2.2	2.3	2.3	2.3
Discount rate:	2.6	2.6	2.6	2.6	2.6	2.5	2.5
Rate of increase in salaries:	<b>Scheme and employer-specific</b>						
Rate of increase in pensions/deferred pensions:	2.2	2.2	2.2	2.2	2.3	2.3	2.3
Active post 1 April 2014 CARE revaluation rate	2.2	2.2	2.2	2.2	2.3	2.3	2.3

	At 31 <sup>st</sup> March 2017 £'000	At 31 <sup>st</sup> March 2016 £'000
Fair value of the above assets	-	-
Value placed on the liabilities	(2,407)	(2,081)
Net pension liability	<u>(2,407)</u>	<u>(2,081)</u>

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 13. Pension Obligations (continued)

#### Analysis of the amount charged to operating costs in the Statement of Comprehensive Income

	At 31 <sup>st</sup> March 2017 £'000	At 31 <sup>st</sup> March 2016 £'000
Employer service cost (net of employee contributions)	-	1,036
Administration expenses	-	21
Effect of curtailments	-	1,846
Effect of settlements	-	(1,522)
<b>Total operating charge</b>	<u>-</u>	<u>1,381</u>
<b>Analysis of pension finance income / (costs)</b>		
Expected return on pension scheme assets	-	2,300
Interest on pension scheme liabilities	(98)	(2,718)
<b>Amounts charged to financing costs</b>	<u>(98)</u>	<u>(418)</u>
<b>Amount of gains and losses recognised in the Statement of Comprehensive Income</b>		
Actuarial gain/ (loss) on pension scheme	(365)	4,349
<b>Actuarial gain/(loss) recognised</b>	<u>(365)</u>	<u>4,349</u>

The cumulative actuarial deficit at 31 March 2017 was £23.347m (2015: £27.696m).

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

Asset and Liability Reconciliation	At 31 <sup>st</sup> March 2017 £'000	At 31 <sup>st</sup> March 2016 £'000
<b>Reconciliation of liabilities</b>		
<b>Liabilities at start of period</b>	(2,081)	(111,141)
Service cost	-	(1,036)
Employee contributions	-	(290)
Interest cost	(98)	(2,718)
Actuarial gain/(loss)	(365)	7,653
Benefits paid	137	2,907
Gain on curtailments	-	1,846
Settlements	-	104,390
<b>Liabilities at end of period</b>	<u>(2,407)</u>	<u>(2,081)</u>
<b>Reconciliation of assets</b>		
<b>Assets at start of period</b>	-	93,460
Return on plan assets	-	2,300
Actuarial gain	-	(3,304)
Administration expenses	-	(21)
Employer contributions	137	13,050
Employee contributions	-	290
Benefits paid	(137)	(2,907)
Settlements	-	(102,868)
<b>Assets at end of period</b>	<u>-</u>	<u>-</u>

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 14. Key management personnel and directors remuneration

#### Board Members

	2017	2016
	£	£
P Roberts	15,624	15,312
E Rowe	12,996	10,974
C Saxton	11,480	10,974
T Johnson	4,240	2,347
P Burns	4,240	2,316
E Connor	-	-
S O'Keeffe	-	-
H White*	-	-
J Mallalieu**	-	-
D Neilson**	-	-
P Cusack***	-	-
	<u>48,580</u>	<u>41,923</u>

\* Paid by KHT Ltd

\*\* Paid by One Ark Ltd

\*\*\* Paid by Vivark Ltd

Expenses paid to Board members in the year were £6,544 (2016: £5,186).

The aggregate remuneration for key management personnel charged in the year is:

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Basic salary	490	434	490	234
Benefits in kind	-	-	-	-
Pension contributions	12	14	12	7
National Insurance Contributions	63	60	63	32
	<u>565</u>	<u>508</u>	<u>565</u>	<u>273</u>

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

The full time equivalent number of employees who received emoluments greater than £60k were:

	2017 No	2016 No
£60,001 to £70,000	3	4
£70,001 to £80,000	-	5
£80,001 to £90,000	4	1
£90,001 to £100,000	-	-
Over £100,000	3	3

The emoluments of the highest paid employee, the Group Chief Executive, including pension contributions, were £159,181 (2016: £172,652).

The Group Chief Executive is eligible to join the First Ark Group's defined contribution scheme on the same terms as all other employees. The Group does not make any further contribution to an individual pension arrangement for the Group Chief Executive.

### 15. Tax on Surplus on ordinary activities

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
<b>Current Tax</b>				
UK corporation tax on deficit for the year	12	2	-	2
Adjustments in respect of prior years	(2)	(199)	2	-
Total current tax charge/(credit)	<u>10</u>	<u>(197)</u>	<u>2</u>	<u>2</u>
<b>Deferred taxation</b>				
Net origination and reversal of timing differences	37	(55)	37	5
Adjustments in respect of prior periods	5			
Effect of tax rate change on opening balance	4			
Total deferred tax charge/(credit)	<u>46</u>	<u>(55)</u>	<u>37</u>	<u>5</u>
<b>Tax on surplus on ordinary activities</b>	<u><u>56</u></u>	<u><u>(252)</u></u>	<u><u>39</u></u>	<u><u>7</u></u>

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 15. Tax on Surplus on ordinary activities (continued)

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£ '000	£ '000
<b>Current tax reconciliation</b>				
Surplus/(Deficit) on ordinary activities before tax	8,560	(8,937)	(219)	25
Theoretical tax at UK corporation tax rate 20% (2016: 20%)	1,712	(1,788)	43	5
Effects of:				
Movement in deferred tax	-	-	(6)	-
Expenses not deductible for tax purposes	53			-
Income not taxable	(1,717)			
Adjustment to losses	145			
Utilisation of losses	-	124		
Other timing differences		2		2
Deficit in relation to charitable activity		1,568		-
Adjustment in relation to prior periods	2	(158)	2	-
Adjust closing deferred tax to average rate	26			
Adjust opening deferred tax to average rate	(35)			
Deferred tax not recognised	(130)			
<b>Actual current taxation charge</b>	<u>56</u>	<u>(252)</u>	<u>39</u>	<u>7</u>

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 16. Tangible Fixed Assets

Group										
	Social Housing Properties held for letting	Assets in the course of construction	Total Housing Properties	Land held for development	Offices	Furniture fixtures and fittings	Computers and office equipment	Plant & Machinery	Total Other Tangible Fixed Assets	Total Tangible Fixed Assets
<b>Cost</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 April 2016	286,033	8,801	294,834	5,620	3,550	901	4,101	226	14,398	309,232
Works to existing properties	4,157	9,625	13,782	1,132	-	-	-	-	1,132	14,914
Additions	-	-	-	-	-	4	108	-	112	112
Schemes completed	298	(298)	-	-	-	-	-	-	-	-
Disposals	(4,438)	-	(4,438)	(1,569)	-	-	-	-	(1,569)	(6,007)
Transfers to/from assets held for sale	1,203	-	1,203	-	-	-	-	-	-	1,203
<b>At 31 March 2017</b>	<b>287,253</b>	<b>18,128</b>	<b>305,381</b>	<b>5,183</b>	<b>3,550</b>	<b>905</b>	<b>4,209</b>	<b>226</b>	<b>14,073</b>	<b>319,454</b>
<b>Depreciation &amp; Impairment</b>										
At 1 April 2016	(75,234)	-	(75,234)	(1,566)	(2,211)	(356)	(3,942)	(185)	(8,260)	(83,494)
Charged in year	(7,643)	-	(7,643)	-	(167)	(42)	(84)	(20)	(312)	(7,956)
Impairment losses	(181)	-	(181)	(481)	-	-	-	-	(481)	(662)
Disposals	1,346	-	1,346	-	-	-	-	-	-	1,346
<b>At 31 March 2017</b>	<b>(81,712)</b>	<b>-</b>	<b>(81,712)</b>	<b>(2,047)</b>	<b>(2,378)</b>	<b>(398)</b>	<b>(4,026)</b>	<b>(205)</b>	<b>(9,053)</b>	<b>(90,766)</b>
<b>Net Book Value at 31 March 2017</b>	<b>205,541</b>	<b>18,128</b>	<b>223,669</b>	<b>3,136</b>	<b>1,172</b>	<b>507</b>	<b>183</b>	<b>21</b>	<b>5,020</b>	<b>228,688</b>
Net book value at 31 March 2016	210,799	8,801	219,600	4,054	1,339	545	159	41	6,138	225,738

During the year, the Trust continued to participate in the North Huyton New Deal for Communities development. As a consequence, a number of properties have been demolished and the land readied for development. The remaining land is held within Land Held for development and at 31<sup>st</sup> March 2017 is valued at £3.136m (2016: £1.7m).

The Group considers impairment at individual property level in accordance with the requirements of Financial Reporting 102 and SORP 2014.

During the year, as a result of the future reduction in rental income following the new Government rent setting regime, social housing properties with a book value of £2.042m were fully impaired.

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 16. Tangible Fixed Assets (continued)

#### Company

	Office equipment £'000
Cost	
At 1 <sup>st</sup> April 2016	95
Additions	-
At 31 <sup>st</sup> March 2017	<u>95</u>
Depreciation	
At 1 <sup>st</sup> April 2016	87
Charge in year	8
At 31 <sup>st</sup> March 2017	<u>95</u>
Net book amount	
At 31 <sup>st</sup> March 2017	<u>-</u>
At 31 <sup>st</sup> March 2016	<u>8</u>

The latest valuation in September 2014 valued the housing properties at £344 million.

Housing properties book value, net of depreciation and grants, and offices net book value comprises:

	Group		Company	
	2017 £ '000	2016 £ '000	2017 £ '000	2016 £ '000
Freehold land and buildings	<u>225,453</u>	<u>220,939</u>	<u>-</u>	<u>-</u>

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 17. Expenditure on works to existing properties:

	Group		Company	
	2017 £'000	2016 £'000	2017 £ '000	2016 £ '000
Amounts capitalised	4,156	4,870	-	-
Amounts charged to income and expenditure account	2,933	6,597	-	-
	<u>7,089</u>	<u>11,467</u>	<u>-</u>	<u>-</u>

### 18. Fixed asset investments

#### Group Companies

The group comprises the following entities, all registered in England:

Name	Incorporation and Ownership	Regulated/ Non-regulated	Nature of Business
Knowsley Housing Trust	Company – 100%	Regulated	Housing association
Vivark Limited	Company – 100%	Non-regulated	Facilities management
One Ark Limited	Company – 100%	Non-regulated	Social investment
First Ark Social Investment Limited	Company – 100%	Non-regulated	Social investment
KHT Services Limited	100% owned by KHT	Non-regulated	Currently not trading
KHT Services Development Limited	100% owned by KHT	Non-regulated	Currently not trading

Knowsley Housing Trust and One Ark Limited are companies limited by guarantee and are owned by First Ark Limited.

The authorised Share Capital of Vivark Limited of 1 Ordinary £1 share is allotted, called up and fully paid and owned by First Ark Limited, who is the ultimate parent undertaking.

The authorised Share Capital of First Ark Social Investment Limited of 1 Ordinary £1 share is allotted, called up and fully paid and owned by First Ark Limited, who is the ultimate parent undertaking.

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

The authorised Share Capital of KHT Services Limited of 1 Ordinary £1 share is allotted, called up and fully paid and owned by Knowsley Housing Trust, who is the ultimate parent undertaking.

The authorised Share Capital of KHTS Development Limited of 1 Ordinary £1 share is allotted, called up and fully paid and owned by Knowsley Housing Trust, who is the ultimate parent undertaking.

Expenditure between the companies during the financial year is disclosed in the related parties section of the financial statements.

### 19. Properties held for sale

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
<b>Shared ownership properties:</b>				
Completed properties	212	424	-	-
Properties held for outright sale	712	1,914	-	-
Land held for outright sale		455		
	924	2,793	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

### 20. Social Investments

#### Group

	Programme Related Investments £	Mixed purpose Investments £	Total £
<b>Cost</b>			
At 1 April 2016	35,000	120,100	155,100
Investments made	0	105,000	105,000
Repayments received		(35,000)	(35,000)
At 31 March 2017	<u>35,000</u>	<u>190,100</u>	<u>225,100</u>
<b>Impairment provision</b>			
At 1 April 2016	7,000	-	7,000
Movement in the year	-	75,000	75,000
At 31 March 2017	<u>7,000</u>	<u>75,000</u>	<u>82,000</u>
<b>Net book value</b>			
31 March 2016	<u>28,000</u>	<u>120,100</u>	<u>148,100</u>
<b>31 March 2017</b>	<u>28,000</u>	<u>115,100</u>	<u>143,100</u>

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 20. Investments (continued)

An impairment review has been undertaken during the year based on a review of the recoverability of the above investments. The results of the review were to impair the investments by £75k (2016: £7k).

### 21. Stock

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Raw materials and consumables	97	136	-	-

An impairment loss of £nil (2016: £8k) was recognised in cost of sales against stock during the year due to slow moving and obsolete stock.

### 22. Investments

First Ark Social Investment Limited has approved one investment which was in place at 31<sup>st</sup> March 2017, being a £99k loan, repayable over five years.

### 23. Debtors

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Rent arrears	4,142	4,348	-	-
Less: provision for bad debts	(3,531)	(3,403)	-	-
Less: adjustment for net present value for arrears with repayment schedules	(415)	(271)	-	-
Amounts owed by group undertakings	-	-	879	91
Other debtors	769	473	7	16
Less: provision for bad debts	(65)		(7)	
Prepayment and accrued income	2,152	839	293	141
Corporation tax	-	132	45	-
Deferred tax	38	86	-	1
Debtors due within one year	3,090	2,204	1,217	249
Debtors due more than one year	497	506	-	-
	3,587	2,710	1,217	249

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

Debtors due more than one year relate to public benefit entity concessionary loans issued to customers by way of a deposit for a new home following a compulsory buy-out arrangement. The loans are secured against the new properties purchased and are therefore only recoverable once title is exchanged.

### 24. Cash and cash equivalents

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Cash at bank	16,270	11,533	127	508
	<u>16,270</u>	<u>11,533</u>	<u>127</u>	<u>508</u>

### 25. Creditors: amounts falling due within one year

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade creditors	1,829	1,088	298	156
Rent and service charges received in advance	1,140	1,093	-	-
Corporation Tax	13	-	-	1
Deferred Tax	-	1	6	-
Social Security & Other Taxes	399	-	112	105
Other creditors	203	568	1	-
Loans Due for repayment in less than one year (note 25b)	1,000	11,000	-	-
Loan Issue Costs	(55)	-	-	-
Grants received in advance	218	6	-	-
Accruals and deferred income	6,857	6,835	779	175
Deferred capital grant (note 27)	319	301	-	-
	<u>11,923</u>	<u>20,892</u>	<u>1,196</u>	<u>437</u>

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 26(a). Creditors: amounts falling due after more than one year

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Loans (Note 26b)	184,974	179,057	-	-
Loan issue costs	(624)	(755)	-	-
Deferred Capital Grant (Note 28)	28,041	27,510	-	-
Recycled capital grant fund (Note 29)	234	94	-	-
Disposal proceeds fund (Note 30)	1,137	602	-	-
	<u>213,762</u>	<u>206,508</u>	<u>-</u>	<u>-</u>

### 26(b). Debt Analysis

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
<b>Loans repayable:</b>				
Within one year	1,000	11,000	-	-
In one year or more but less than two years		6,667	-	-
In two years or more and less than five years		4,000	-	-
In five years or more	184,974	168,390	-	-
Less: loan issue costs	<u>(680)</u>	<u>(755)</u>	<u>-</u>	<u>-</u>
Total loans	<u>185,295</u>	<u>189,302</u>	<u>-</u>	<u>-</u>

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 26(b). Debt Analysis (continued)

The bank loans are secured by a floating charge on allocated housing properties.

The facility is made up of £90m from the issue of a Private Placement Bond and £85m in bank funding. The Private Placement Bond is revalued annually, with the fair value of the Bond increasing to £99.9m (2016: £94.1m).

The long term loans totalling £175 million are at fixed rates of interest ranging from 3.57% to 6.66% and fall to be repaid between 2025 and 2040.

KHT has £20m available in the form of a rolling credit facility, of which £1m was drawn at 31<sup>st</sup> March 2017 (2016; £11m)

The interest rate profile of the Group at 31 March 2017 was:

	Total £'000	Variable Rate £'000	Fixed rate £'000	Average rate of interest %
Loans	176,000	6,402	<u>169,598</u>	<u>4.54%</u>

At 31<sup>st</sup> March 2016 the Group has the following borrowing facilities:

	£'000
Undrawn committed facilities	-
Undrawn facilities	19,000

### 27. Stock Transfer Obligations

Immediately prior to entering into the Stock Transfer Agreement between the Council and the Knowsley Housing Trust, the Council contracted with the Trust to perform the refurbishment works required to bring the properties into an agreed state. The expected cost of the works was £174m. At transfer the Trust contracted with the Council to acquire the benefit of the anticipated refurbishment works (estimated to cost £174m), plus the housing properties at a price equal to the agreed value of the properties in their unenhanced condition (£30.6m). The nature of the contracts is such that neither an asset nor a liability arise.

At the time of the transfer KHT paid over a net cash amount of £30.66million to the Council, representing the acquisition of the properties in their unenhanced condition (£30.66million) and the value of the Councils obligation to carry out the refurbishment works (£174million), less the amount due to be incurred by the Trust under the

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

Development Agreement in relation to the anticipated cost of the repairs/improvements (£174million).

The impact of these two transactions is that whilst the Council has a legal obligation to the Trust to complete the refurbishment works, this work has been contracted back to the Trust who are also legally obligated. The underlying substance of the transaction is therefore that the Trust has acquired the properties in their existing condition at their agreed value, and will complete certain repairs/improvements in line with guarantees to customers of not less than £174 million. In the opinion of the Board, the commercial effect of these transactions when viewed as a whole does not, in practice, create separate assets and liabilities for reporting purposes. Therefore the resulting debit and credit balances, relating to the legal obligation of the Council to complete the refurbishment works for the Trust and the equal and opposite legal obligation of the Trust to perform the refurbishment works for the Council, have been offset and are not recorded in the balance sheets of the Trust or the Group.

At 31st March 2017 refurbishment works to the value of £281.0 million (2016: £273.9 million) had been completed. The additional commitment is due to less homes being demolished than originally planned, and these works being required to meet the Decent Homes Standard.

### 28. Deferred capital grant

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
At start of the year	27,811	27,297	-	-
Grant received in the year	950	958	-	-
Disposals	(86)	(148)	-	-
Released to income in the year	(316)	(296)	-	-
	<b>28,360</b>	<b>27,811</b>	<b>-</b>	<b>-</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Amount due to be released < 1 year	319	301	-	-
Amount due to be released > 1 year	28,041	27,510	-	-
	<b>28,360</b>	<b>27,811</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 29. Recycled capital grant fund

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
At the start of the year	94	94	-	-
Grant received in the year	140	-	-	-
At the end of the year	<u>234</u>	<u>94</u>	<u>-</u>	<u>-</u>

Withdrawals from the capital grants fund are used for the purchase and development of new housing schemes for letting and for approved works to existing properties.

### 30. Disposal proceeds fund

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
At start of year:	602	306	-	-
Inputs to DPF	535	296	-	-
- Funds recycled				
At end of year	<u>1,137</u>	<u>602</u>	<u>-</u>	<u>-</u>
Amounts older than three years where repayment may be required	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

### 31. Capital commitments

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Expenditure contracted for but not provided in the accounts	11,903	9,370	-	-
Expenditure authorised by the Board but not contracted for	17,076	10,886	-	-
	<u>28,979</u>	<u>20,256</u>	<u>-</u>	<u>-</u>

These commitments will be financed primarily through on-going operations, borrowings which are available for drawn-down under existing loan arrangements and social housing grant.

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 32. Grant and financial assistance

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
The total accumulated government grant and financial assistance received or receivable at 31 <sup>st</sup> March:				
Held as deferred capital grant	28,360	27,811	-	-
Recognised as income in statement of Comprehensive Income	316	229	-	-
	<u>28,676</u>	<u>28,040</u>	<u>-</u>	<u>-</u>

### 33. Operating leases

During the year, the Group and the Trust held properties under non-cancellable operating leases as follows:

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Land and buildings:				
In one year or more but less than two years	30	32	-	-
In two years or more and less than five years	-	30	-	-
In five years or more	-	-	-	-
Others:				
In one year or more but less than two years	328	367	-	-
In two years or more and less than five years	337	777	-	-
In five years or more	-	-	-	-
	<u>695</u>	<u>1,206</u>	<u>-</u>	<u>-</u>

### 34. Reserves

The profit and loss account includes all current and prior period retained profits and losses.

Restricted reserves are those of One Ark Limited and relate to a programme of planned charitable activity for 2017/18.

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 35. Related parties

First Ark Limited is the ultimate parent undertaking of the Group

#### **Board Members**

The directors of the Company are paid as disclosed in Note 14

The Group maintains a register of interests of Board members. This register is available for inspection at the Group's Head Office.

Edward Connor, Stephanie O'Keefe and Brian O'Hare are elected members of Knowsley Metropolitan Borough Council (KMBC).

#### **Transactions with Group Companies**

The company has taken advantage of exemptions conferred by Financial Reporting Standard 102 from disclosing transactions with fellow wholly owned group undertakings consolidated in the accounts of First Ark Group

#### **Other related parties**

During the year the Group paid £1,334k (2016: £1,083k) to KMBC for the provision of services including property leasing, IT and telephony services.

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

### 36. Financial instruments

The Group's financial instruments may be analysed as follows:	2017 £'000	2016 £'000
<b>Financial assets</b>		
(a) Financial assets measure at fair value through profit and loss		
(b) Financial assets that are debt instruments measure at amortised cost	17,232	11,196
(c) Financial assets that are equity instruments measured at cost less impairment	-	-
<b>Financial liabilities</b>		
(a) Financial liabilities measured at amortised cost	94,210	100,429
(b) Derivative financial instruments designated as hedges of variable interest rate risk	-	-
(c) Financial liabilities measured at fair value through profit or loss	99,975	94,057
(d) Loan commitments measure at cost less impairment	-	-

Financial assets measured at amortised cost comprise cash at bank and in hand, trade debtors, other debtors, and loans to third parties by One Ark Limited and First Ark Social Investments Limited.

Financial liabilities measured at amortised cost comprise bank loans and overdrafts, trade creditors, accruals and other creditors.

#### Financial liabilities measured at fair value through profit and loss

Financial liabilities measured at fair value through profit and loss comprise a bond under private placement. The financial liability has been accounted for as a non-basic financial instrument in accordance with the requirements of Section 12 of FRS 102.

## Notes to the Financial Statements for the year ended 31<sup>st</sup> March 2017 (continued)

The fair value of the financial liability as at 31<sup>st</sup> March 2017 has been based on an equivalent instrument using gilt rates at the balance sheet date plus an appropriate premium.

Movements in the carrying amount of the financial liability are presented below:

	2017 £'000	2016 £'000
Carrying amount at 1 <sup>st</sup> April 2016		-
Drawn down	90,000	90,000
Repayments		-
Change in fair values:		
Changes in credit risk		-
Other market factors	9,975	4,057
<b>Carrying amount at 31<sup>st</sup> March 2017</b>	<b>99,975</b>	<b>94,057</b>

The cumulative changes since inception of the instrument due to changes in credit risk are £nil (2016: £nil).

The total undiscounted amount repayable at maturity in respect of the loan is £90m, equivalent to a difference between the carrying amount and the amount repayable of £9.975m.

### 37. Post balance sheet events

There were no significant post balance sheet events requiring adjustment to the financial statements.