Registered Company No: 4338798

Knowsley Housing Trust

Annual Report and Financial Statements

Year Ended 31st March 2017

Contents

Contents	Page
Board Members, Executive Directors, Advisors and Bankers	1 - 2
Company Information	3
Chair of the Board's Statement	4 - 5
Strategic Report	6 - 19
Report of the Board	20 - 26
Independent Auditor's Report to the Members of Knowsley Housing Trust	27 - 28
Statement of Comprehensive Income	29
Statement of Financial Position	30
Statement of Changes in Reserves	31
Cashflow Statement	32
Notes to the Financial Statements	33 - 65

Board Members, Executive Directors, Advisors & Bankers

Knowsley Housing Trust (The Trust or KHT)

Board Member	Category	Changes in the Year
Helen White (Chair)	Independent Board Member	
Jonathan Webster	Independent Board Member	
Ian Foy	Independent Board Member	
Nicholas Gerrard	Independent Board Member	From 13 September 2016
Susan Giles	Independent Board Member	From 13 September 2016
Paul Deehan	Independent Board Member	From 13 September 2016
Barbara White	Tenant Board Member	To 19 May 2017
Patrick Canning	Tenant Board Member	
Edward Connor	Council Nominated Board Member	To 7 February 2017
Terence Byron	Council Nominated Board Member	
Brian O'Hare	Council Nominated Board Member	
Stephanie O'Keeffe	Council Nominated Board Member	From 7 February 2017 - To 12 June 2017
Shelley Powell	Council Nominated Board Member	From 12 June 2017

KHT Services Limited (A subsidiary of Knowsley Housing Trust)

Board Member	Category	Changes in the Year
Helen White	Independent Board member	To 13 September 2016
Robert Arthur Taylor	Executive Board Member	To 13 September 2016
Anthony Cahill	Executive Board Member	To 13 September 2016
Paul Deehan	Independent Board Member	From 13 September 2016
Joanna Embling	Independent Board Member	From 13 September 2016
John Spencer	Independent Board Member	From 13 September 2016
Philip Summers (Chair)	Independent Board Member	From 13 September 2016

KHTS Development Limited (A Subsidiary of Knowsley Housing Trust)

Board Member	Category	Changes in the Year
Joanna Embling (Chair)	Independent Board Member	From 13 September 2016
John Spencer	Independent Board Member	From 13 September 2016
Philip Summers	Independent Board Member	From 13 September 2016

Board Members, Executive Directors, Advisors & Bankers (continued)

Executive Director	Category	Changes in the Year
Robert Arthur Taylor	Group Chief Executive	
Anthony Cahill	Executive Director – Business and Service Development	
Claire Heaney	Chief Operating Officer	From 18 April 2016
Anthony Barwise	Strategic Director of Business Services	From 3 October 2016
Colette King	Executive Director – Business Transformation	To 19 October 2016

Company Secretary	Changes in the Year
Amanda Harris (Langan)	

Company Information

Registered Group Office	Knowsley Housing Trust Lakeview Kings Business Park Prescot Merseyside L34 1PJ
Website	www.k-h-t.org
Company Registration Number	A Company limited by guarantee registered in England and Wales number 4338798. Registered by the Homes and Communities Agency, number LH4343 Charity Registered with the Charity Commission number 1103644
External Auditors	Grant Thornton UK LLP Chartered Accountants, Registered Auditors 4, Hardman Square Spinningfields Manchester, M3 3EB
Internal Auditors	TIAA Ltd 53-55 Gosport Business Centre Aerodrome Road Gosport PO13 0FQ
Principal Solicitors	Anthony Collins Solicitors 134 Edmund Street Birmingham, B3 2ES
Bankers	Barclays Bank plc 48b and 50 Lord Street Liverpool L2 1TD

Chair of the Board's Statement

During the past year, ongoing rent reduction requirements and economic uncertainty have meant that KHT has continued to focus on ways in which it can deliver greater efficiencies in delivering its activities. We have continued to implement more automated activities that allow us to reach more customers as cost effectively as possible.

In this challenging environment, welfare reform changes have led to more of our customers having to pay some or all of their rent reducing their reliance on benefit payments. Despite this, we have collected more cash from customers than ever before and achieved a cash collection level of £21.4m in 2016/17, whilst through our benefit advice teams, securing over £2.1m in additional benefits for our customers to help improve their ability to live within their homes and contribute to 300 less terminations.

In 2016/17, KHT provided £500k, under a contractual arrangement with One Ark, to be used towards tackling the multiple barriers that KHT tenants, Knowsley residents and those in the wider Liverpool City Region community experience compared to many other parts of the UK and was able to achieve a number of key-targeted outcomes as follows:

- Creating 1,112 opportunities across Liverpool City Region including 263 for Knowsley residents to get back into employment, apprenticeship and traineeships, re-engage with education or successfully complete a qualification;
- Supporting 351 people and businesses across Liverpool City Region to become more digitally included including 290 within Knowsley;
- Improving health and wellbeing for 136 Knowsley residents; and
- Enabling 30 businesses to start up and grow with 7 of these located in Knowsley.

KHT also delivers a number of operational activities, which generate social impact, from the Welfare Team supporting tenants with debt and accessing additional income, to the Independent Living Team supporting tenants with community engagement and providing vital support, which contributes to improving their health and wellbeing. This delivered £7.8m worth of social value benefits as a result of activities with residents, with a further £3m of social value delivered through KHT's Furnished Tenancies, Adaptations and Customer Involvement Teams.

Alongside the social impact, KHT have also had a number of positive economic impacts upon the public finances for example through savings to the NHS from our activities that have provided improved health and wellbeing for residents to local authority savings through helping to reduce homelessness. We also continue to be a key contributor to the Multi Agency Safeguarding Hub in Knowsley and provide a permanent presence in the Hub on a daily basis through our Safer Communities Team.

We continue to work with local partners to focus upon community safety and have created a specialist post within the Safer Communities Team to focus upon identifying and tackling instances of Domestic Violence, this has been identified as a growing issue nationally. We are members of the Adult and Children's Safeguarding Boards, and set up a KHT internal Safeguarding Forum to raise awareness and ensure concerns are captured and addressed with Partners.

Chair of the Board's Statement (continued)

Our aim is to put our customers at the heart of everything we do, we continuously look at how we interact with our customers, the quality of these interactions and the overall satisfaction and experience we are providing. During 2016/17 we have specifically reviewed our social media policy, launched Live Chat to improve the service to customers and set up a digital team, all to improve the customer experience when using our services.

Overall Customer satisfaction with KHT captured throughout the year ranged from 85% to 96% with performance consistently above 90% from July 2016 onwards. As staff interaction with customers has the biggest impact on satisfaction, I'd like to pass on my thanks to all the employees at KHT for their continued efforts.

I am also delighted to demonstrate significant progress in the range of partnerships and expansion of the range of new homes we develop, which saw KHT entering into a number of exciting development initiatives including:

- Our first mixed tenure developments on-site at Mill Lane, Kirkby and Arncliffe Road, Halewood delivering shared ownership homes and homes for outright sale, with all homes now completed and sold;
- A developing partnership with Step Forward, who provide homes for veterans and key workers across the North West of England; and
- A Joint Venture Partnership with Seddons, which delivers new developments.

In terms of specific development achievements, we have during 2016/17:

- Worked with partners to provide a purpose built house for a local family with medical needs; and
- Submitted a planning application for 172 new homes for sale and shared ownership at Watch Factory Phase 2, this will follow on from the foundations set through Phase 1, which we expect to complete during 2017/18 to provide a range of accommodation with access to support and care services.

I would like to express my personal thanks to the Executive Team and to all of our employees who have supported our customers through the changes of the last year and who strive to make KHT the community focussed business it is.

My thanks also go to my colleagues on the Board, and the Customer Assurance Panel, whose dedication helps ensure that the business is fit for the challenges of the future. Special thanks of course goes to our KHT customers and to other local residents and community groups who continue to be at the heart of everything we do.

Helen White
Chair of the Board

Strategic Report

Principal Activities:

Knowsley Housing Trust ('the Trust') is a not for profit registered charity limited by guarantee and a registered provider with the Homes and Communities Agency (HCA) which is administered by a Board.

The Trust is a subsidiary of the First Ark Group (First Ark) and operates throughout the Metropolitan Borough of Knowsley with its main head office at Kings Business Park, Prescot.

The Trust commenced trading on the 15th July 2002 in order to facilitate the transfer of homes from Knowsley Metropolitan Borough Council (KMBC) and its principal activity is the provision and management of social housing.

As well as owning over 13,266 properties, the Trust is continuing to develop new products and services including low cost home ownership, primarily shared ownership and housing and care for people who need additional housing related support.

KHT Services Limited (KHTS), a company limited by shares, was activated during 2016 by the Trust with the specific role of developing homes for outright sale, and KHT Development Limited was set up with the specific role of delivering homes for shared ownership.

Business and Financial Review

The year has seen a strong financial performance by the Group with a reported surplus of £9.0m (2016: £8.4m deficit) in what has been yet another challenging year.

We have seen slight reduction in turnover of £2.4m compared to prior year due to a decrease in net rental income due mainly to the 1% reduction in social rents and the reduction in units due to right to buy/right to acquire sales in the year.

However, this has been offset by significant savings in operating expenditure of £7.0m (14%) on prior year due to a continued initiative to identify ways in which we can reduce costs as a result of the Government rent setting regime introduced in July 2015, which reduces social housing rent levels by 1% per year for 4 years from April 2016.

To absorb the impact of the rent reductions, the KHT Board has continued to reduce operating expenditure, whilst maintaining investment in both our existing housing stock as well as new home developments. We will closely monitor spending over the next few years to ensure we maintain homes and services to acceptable standards.

The operating expenditure savings have been achieved as a result of a reduction in routine maintenance costs of £3m, major repair costs of £3m and management/service charge costs of £1m. This is partially offset by an increase in accelerated depreciation included in other costs of c£2.4m for the disposal of the remaining life on component replacements such as bathrooms, kitchens and central heating systems.

Strategic Report (continued)

The results for the year have also been impacted by an impairment charge on social housing properties of £662k (2016: £2,042) and a gain on disposal of properties of £3,493 (2016: £1,818)

KHT's loan facility includes a £90m bond under private placement and £105m bank funding from Abbey National Treasury Services (£70m), and Barclays (£35m). This facility has been adjusted to fair value resulting in a charge of £5.9m (2016: £4.1m).

The First Ark Group closed and exited from the Merseyside Pension Fund on 31st December 2015 to reduce its annual expenditure and to remove the pension risk exposure and volatility from the balance sheet. We continue to meet the liability in respect of previous unfunded benefits, which amounted to £0.4m during the year.

Strategic Report (continued)

Group Highlights & Five Year Summary

The Group's five-year income and expenditure accounts and balance sheets are summarised as follows:

For the year ended 31 March	**2017**	**2016**	**2015**	**2014**	**2013**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
			Restated		
Income and expenditure					
Total turnover	62,139	64,482	61,777	57,303	56,447
Operating surplus	19,797	15,121	10,842	4,980	16,364
Surplus/(Deficit) for the year transferred to reserves	8,599	(3,955)	(6,894)	(1,502)	8,458
Balance sheet					
Housing properties	224,281	219,600	217,718	187,076	169,660
Other fixed assets	5,004	6,083	7,693	6,017	6,415
Fixed assets	229,285	225,683	225,411	193,093	176,075
Net current assets/(liabilities)	6,945	(5,633)	(27,868)	(26,888)	983
Total assets	236,230	220,050	197,543	166,205	177,058
Loans due over 1 year	184,974	179,057	137,588	136,932	136,852
Pensions liability	2,407	2,081	17,681	7,103	27,587
Grants*	28,041	27,510	27,221	-	-
Other long term liabilities	747	(59)	(176)	64	64
Reserves	20,060	11,461	15,229	22,106	12,555
	236,229	220,050	197,543	166,205	177,058
Housing properties owned at year end:					
Social housing	13,266	13,495	13,536	13,372	13,366
Non-social housing	-	-	-	-	-

*Grants were previously included in Housing property assets prior to the adoption of FRS 102. The 2015 figures have been restated as a result in order to provide a meaningful comparative set of results. Earlier years have not been restated.

Statistics:					
Operating surplus as % of turnover	31.86%	23.45%	17.55%	8.69%	28.99%
Rent loss (empty homes as % of rent and service charge receivable)	3.44%	2.90%	2.65%	3.08%	1.75%
Bad debt (bad debt provision as % of rent and service charge receivable	6.57%	5.56%	4.25%	4.86%	3.89%
Rent arrears (rent arrears as % of rent and service charge receivable)	5.14%	7.11%	4.61%	5.22%	4.95%

Strategic Report (continued)

Operating and Financial Review and Strategic Report

Objectives and Strategy

The First Ark Group developed a revised Corporate Strategy for the period 2015 - 2020, which outlined the Group's Mission, Vision, Values and Purpose and shared the Group's objectives for the next five years with its stakeholders.

At First Ark *we're on a mission to deliver first class homes, places, products and services that help people and organisations to flourish.* This underpins everything that KHT aims to achieve for both its existing and future customers, with a clear focus on:

- Increasing the attractiveness of our offer to customers, maximising our income by introducing a "customer-led offer" approach;
- Increasing the range of housing provided from rented and intermediate housing market products, through to homes for sale helping to shape housing markets whilst generating substantial social value, additional profits and return on assets;
- Developing the ways in which KHT will invest in homes and neighbourhoods and creating more attractive places to live across the North West, considering the principles of garden cities and villages where appropriate; and
- Increasing the range of services available to customers, whilst achieving an acceptable level of return.

Our **Customer-Led Offer** approach aims to ensure we can deliver an offer that will meet the changing needs of our customers and an offer that can attract and retain a diverse customer base from young people, to families with general needs through to supported living, being regarded as a home provider of choice. This covers our homes and the services that we provide to support and underpin our customer tenancies and ensure we protect both our customers and our long-term income. Its aims are to:

- Stabilise and increase income from our homes;
- Let homes to a wider range of residents including attracting residents from outside of the Knowsley Borough;
- Influence and change customer behaviour on the ground; and
- Make KHT more efficient and able to provide improved value for money.

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:

Strategic Report (continued)

- 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 delivery model for investment focused on managing risk, ensuring tax efficiency and appropriate skilled strategic oversight will involve:

- KHT acquiring new homes for shared ownership and affordable rent directly from KHTS Development Limited;
- KHTS undertaking outright sale and mixed development opportunities for profit utilising an on-lending facility with KHT receiving an appropriate return, utilising a range of Joint Ventures and partnerships;
- Where tax efficient, KHT purchasing affordable homes directly from developers; and
- KHT re-assessing funding arrangements and requirements on a regular basis with KHTS Development / KHTS.

Our aim to develop and introduce a wide range of products and services to meet our customers' needs, whilst ensuring they obtain maximum value by purchasing through us will be achieved through working with wide ranging local partners to ensure we drive significant local, social and economic impact as we do so. This will also involve ensuring all of our customers have access to the services they pay for, particularly when we are operating over a wider and potentially more dispersed area. Therefore, our approach will include:

- Developing our services around our digital offer and more self-service based service access and access to our contact team via telephone;
- Delivering repairs services utilising both KHT's existing arrangements and Vivark's wider growth partners;
- Local Management partnerships if required; and
- Assessing regularly the overall value for money from services

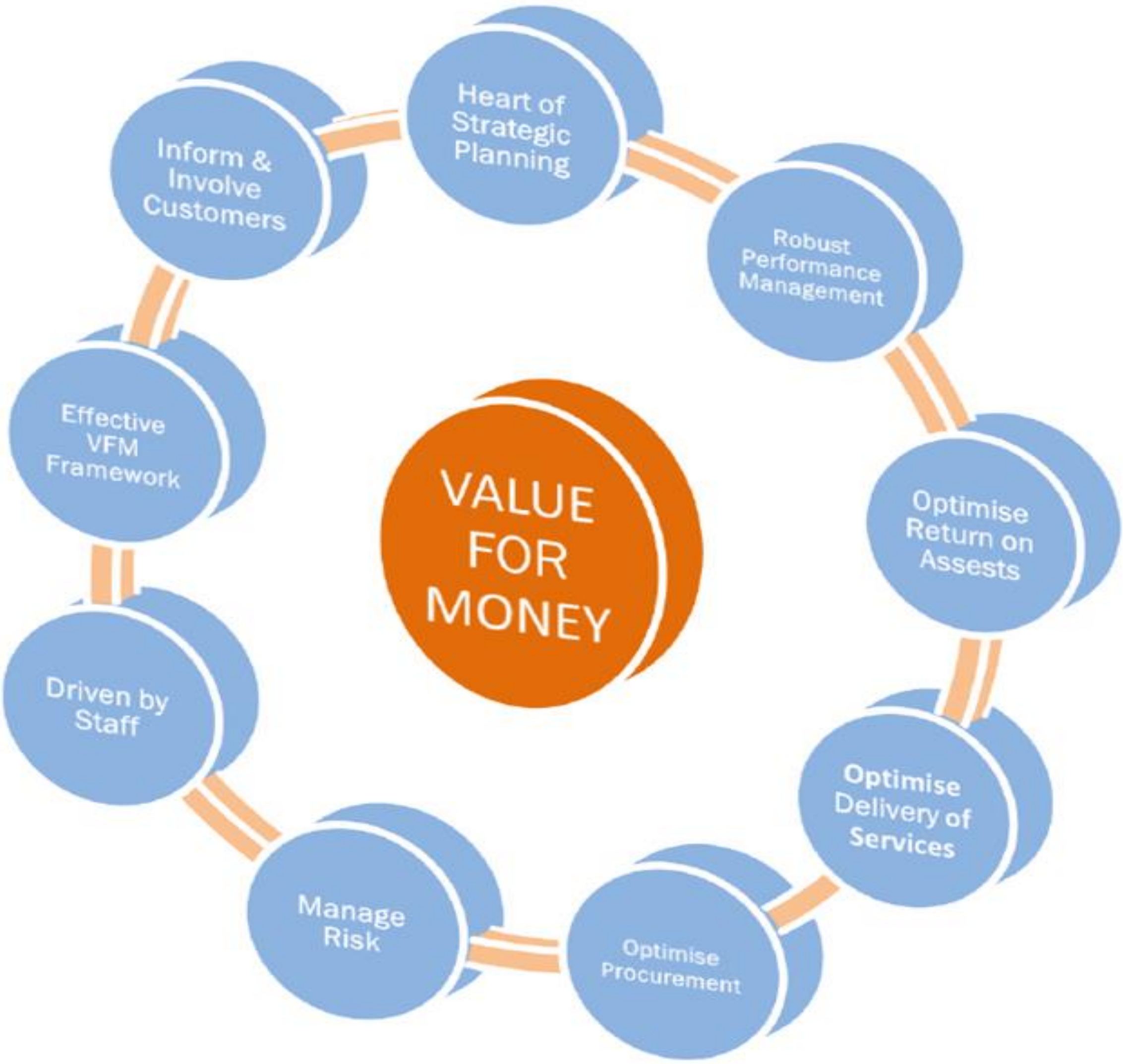
The above strategy will enable us to be more resilient against any shocks that future economic changes and government policy may have on our business, whilst retaining the ability for us to continue to deliver a great customer experience and expansion of our homes portfolio.

What Value for Money means to us?

Our strategic approach is at First Ark Group level and 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 nine objectives in both the delivery of our core services and our partnership working:

Strategic Report (continued)

- Ensure VFM is at the heart of the Group's strategic planning process
- Ensure the Group has a robust Performance Management Framework for monitoring and reporting against the Group's priorities and service plans
- Optimise the future return on all of the Group's assets
- Optimise VFM in the delivery of the Group's services
- Optimise VFM in the procurement of goods and services
- Identify and mitigate the risks to the delivery of the Group's objectives
- Ensure that all of the Group's staff are driving VFM
- Report to the Group's customers how we are approaching VFM and our VFM achievements
- Ensure the Group's approach to VFM remains effective



Strategic Report (continued)

Scorecard	Target 2018	2017	2016	2015	2014	2013
No. of properties under management	**13,419**	**13,284**	**13,497**	**13,538**	**13,374**	**13,367**
General needs - social rent	11,824	11,895	12,116	12,220	12,334	12,404
General needs - affordable rent	775	639	624	410	247	170
Supported housing	679	679	708	906	791	792
Low Cost Home Ownership	123	53	47	-	-	-
Managed on behalf of others	18	18	2	2	2	1
				Restated	*Restated*	*Restated*
Income and expenditure	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Turnover	65,095	64,481	65,642	62,325	57,929	56,682
Operating costs	(47,777)	(45,089)	(51,095)	(50,789)	(50,863)	(39,977)
Other costs	(6,545)	(10,832)	(7,473)	(7,792)	(6,482)	(7,906)
Exceptional costs		-	(16,011)	-	-	-
Surplus / (Deficit) before tax - ex exceptional costs	**10,773**	**8,560**	**(8,937)**	**3,744**	**584**	**8,799**
Surplus / (Deficit) before tax - ex exceptional costs	*10,773*	*8,560*	*7,074*	*3,744*	*584*	*8,799*
Total comprehensive income/(deficit)	**10,773**	**8,195**	**(4,336)**	**(6,316)**	**227**	**8,694**
Total comprehensive income/(deficit) - ex exceptional costs & pension	*10,773*	*8,560*	*7,326*	*3,853*	*227*	*8,694*
Financial position						
Fixed assets net of depreciation	240,123	228,688	225,738	225,509	215,202	212,788
Current assets	26,794	21,166	17,320	11,112	12,307	8,943
Current liabilities	(5,611)	(11,913)	(20,892)	(36,581)	(59,340)	(27,408)
Net current Assets/(liabilities)	21,183	9,253	(3,572)	(25,469)	(47,033)	(18,465)
Total assets less current liabilities	261,306	237,941	211,166	170,540	118,444	174,762
Creditors > 1yr	(220,209)	(213,762)	(206,508)	(164,446)	(136,996)	(136,916)
Reserves	39,016	21,772	13,577	17,904	24,070	12,790
Financial statistics						
Operating margin	16.5%	13.3%	(13.6%)	6.0%	1.0%	15.5%
Operating margin - ex exceptional costs	*16.5%*	*13.3%*	*10.8%*	*6.0%*	*1.0%*	*15.5%*
Net margin	16.5%	12.7%	(6.6%)	(10.1%)	0.4%	15.3%
Net margin - ex exceptional costs & pension	*16.5%*	*13.3%*	*11.2%*	*6.2%*	*0.4%*	*15.3%*
Return on net assets	4.5%	3.6%	(1.9%)	(2.8%)	0.1%	4.1%
Return on net assets - ex exceptional costs & pension	*4.5%*	*3.7%*	*3.2%*	*1.7%*	*0.1%*	*4.1%*
Liquidity ratio	4.78	1.78	0.83	0.30	0.21	0.33
Interest cover	1.95	2.31	1.55	1.27	0.84	1.96
Gearing	79.4%	81.3%	84.2%	74.1%	76.8%	64.7%
Operating cost per unit margin	£3,560	£3,394	£3,786	£3,752	£3,803	£2,991
Net debt per unit	£14,201	£14,000	£14,081	£12,342	£12,363	£10,293

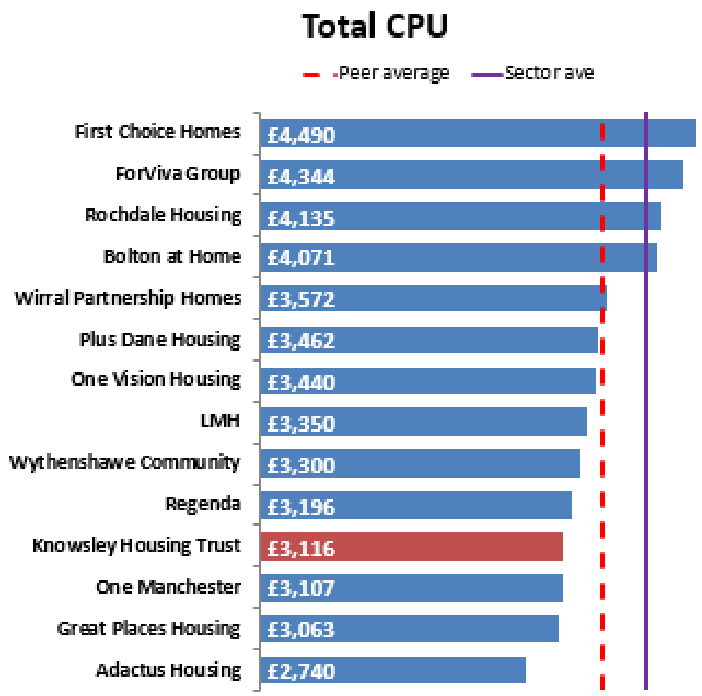
Scorecard

The table above shows the First Ark Group sector scorecard for both the last 5 years and the 2017/18 targets.

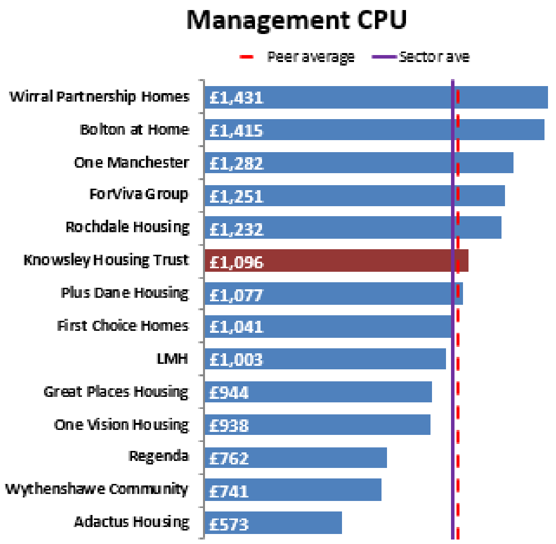
Despite the 1% reduction in rents both the operating and net margins and return on assets after exceptional costs have improved and planned to improve further in to 2018 partially due to the development programme.

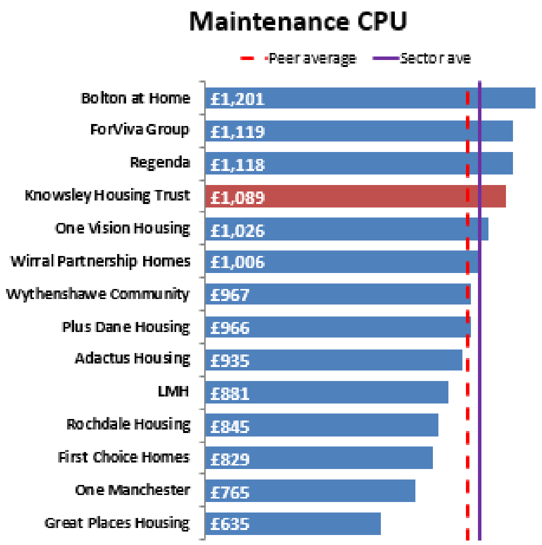
Strategic Report (continued)

Comparative costs for delivering services

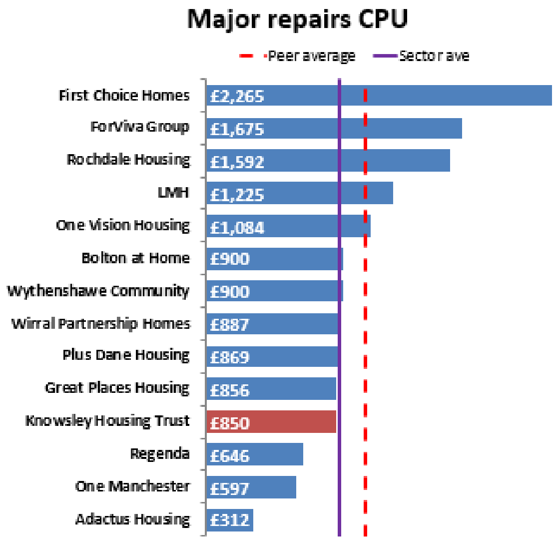


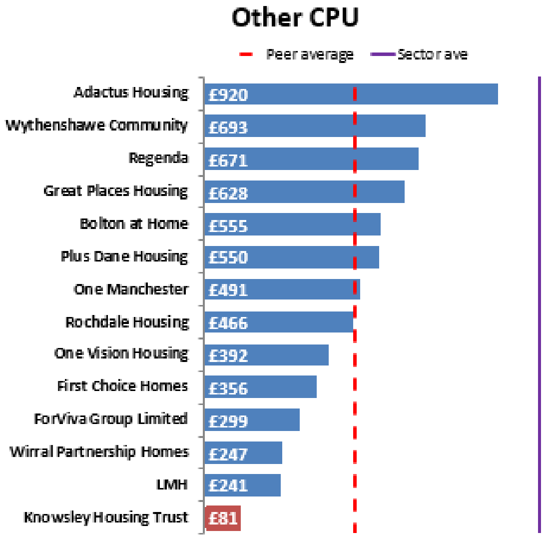
When comparing KHT to regional peers and the sector average KHT compare favourably with a total cost per unit of £3,116 based on 2015/16 results. (Source 2016 HCA global accounts). Below is breakdown of how the total cost per unit is made up.





Strategic Report (continued)





The value for money gains achieved in the year against the targets set are as follows:

- 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 employee engagement survey, and all teams throughout the Group have developed action plans based on the survey feedback;
- Continued with our staff training programme, CIH, NVQ, and there are other training programmes on going.

Strategic Report (continued)

- E-Learning platform was developed in 2016 and plans are to re-launch during 2017/18

- In particular, these toolkits have been utilised to manage resources and reduce the number of empty homes, and 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 were £181k underspent against budget).*

- 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. In addition, 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

Strategic Report (continued)

- Provided customer insight to the development of the Customer Experience Framework.
- 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 https://www.firstark.com/about-us/what-matters-to-us

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.

Strategic Report (continued)

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

Key Risk	Action being taken
Welfare Reform leading to higher rent arrears/loss of rent due to bad debts, and higher rent collection costs.	Welfare Reform is a key risk residing on the Group's Strategic Risk Register. 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; We are working closely with all of our affected customers to ensure they understand and can deal with the impact; We have developed, and continue to refine and improve, our customer intelligence approach to understand which customers are affected; We continue to model the impact of new and proposed policy changes on our customers and our business; and The business plans include prudent assumptions for long-term rent collection costs and bad debts.
Right to Buy – the Conservative government will extend the Right to Buy to all housing association tenants	We understand the number of tenants that will be affected by the proposed policy, and we have modelled several Right to Buy scenarios through our financial business plans; and We are keeping up to date with government policy changes, and we will implement appropriate mitigation strategies once further details of the Right to Buy changes are released.
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.	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; 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.

Key Risk	Action being taken
Growth and Diversification.	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. 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. 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.
Funding costs and the availability of future funding.	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; We have regular communication with the lenders to maintain strong relationships; The loan covenants are monitored monthly, and are reported to the Board at each meeting; and The Board has recently appointed new funding advisors to provide a fresh independent perspective on their current and future funding requirements.
Failure to effectively monitor, anticipate and respond to changes in the external environment.	The Group's employees maintain close contact with key external bodies to ensure any changes are fully understood before they impact the Group; 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.
Operational performance fails to achieve the target	Managers are accountable for performance within their functional areas; Regular performance monitoring is undertaken; and Robust action plans are put in place at an early stage if performance appears to be displaying an adverse trend.

Key Risk	Action being taken
Government rent policy continues to reduce the rental income over the life of the 30 year business plan	We have incorporated the long-term impact of the Government's 2015 Summer Budget into our financial plans; We have reviewed and reduced the organisation's expenditure to ensure the financial plans remain viable; We have stress-tested our plans against a number of multi-variate scenarios, and we have developed a range of risk mitigation strategies; and We are developing a range of financial 'Golden Rules' to further improve our risk management approach.
Governance arrangements are not robust enough to meet regulatory requirements and deliver strategic outcomes	Maintaining robust Governance arrangements is a key strategic risk for the Group. Non-executive directors with the right skills is fundamental to successful delivery of the Group's strategic objectives. 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 irst approach; 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.
Poor data quality and data integrity	A working group from across the business has been set up to consider the best approach to validating & quality assuring data captured within the core systems As part of this the group will look to rationalise the options for data capture. Additional resource has been identified for the business intelligence & performance team as part of a business assurance restructure.

The Strategic Report was approved by the Board on the 6th September 2017 and signed on its behalf by:

Helen White
Chair

Report of the Board

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

Principal Activities, Business Review and Future Developments

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

Board Members, Group Chief Executive and Executive Directors

The current Board members and Executive Directors, and those who served for part of the year, are set out on Pages 1-2.

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

The Executive Directors are the Group Chief Executive, the Strategic Director of Business Services, the Chief Operating Officer and the Executive Director of Business and Service Development

Collette King, Executive Director of Transformation, resigned on 19 October 2016. Anthony Barwise, Strategic Director of Business Services joined on 3 October 2016 and Claire Heaney, Chief Operating Officer joined on 18 April 2016. The other Executive Directors served throughout the year.

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 of the Chair of the First Ark Limited Board, the Chair of the Trust's Board, the Chair of the Vivark Limited Board, the Chair of the One Ark Board and two other independent Board members appointed from across the Group on the basis of skills and experience) 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 Executive Director's responsibilities and pay levels for comparable corporate positions.

The Trust's Board has determined that a member or members of the Remuneration Committee will be represented in the appointment process for all Executive Director posts, whilst either a sub-group of the First Ark Board or the First Ark Board itself 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 1st November 2012). The Group

Chief Executive and the Executive Directors' notice periods are three months.

Report of the Board (continued)

Pensions

The First Ark Group Chief Executive was a member of the Merseyside Pension Fund, a final salary pension scheme, up to 31st December 2015 when the scheme was closed. The Group Chief Executive participated in the scheme on the same basis as all other eligible staff. The Group contributed to the scheme on behalf of its employees.

The First Ark Group closed and exited from the Merseyside Pension Fund on 31st December 2015 to mitigate the future pension risk to the organisation. 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.

Other Benefits

In addition to their basic salary, the Group Chief Executive and the Executive Directors are entitled to a 10% car allowance. Full details of individual remuneration packages are included in Note 12 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 commitment 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, the Group's 'Framework for Success', has been in place for all staff for a number of years.

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 the 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, both in recruitment and in retention of employees who become disabled whilst employed by the Group. The Group ensures that staff recruitment, discipline and development issues are dealt with equally and that all employees are treated in the same way.

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

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:

Report of the Board (continued)

- 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.

Complaints

The Trust 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 Trust values all of the feedback that we received from our customers, and we endeavour to resolve all complaints within the target times.

Donations

There were no gift aid donations received in the year (2016: £Nil).

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 rental arrears and 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 £9million 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 Universal Credit and to closely monitor the arrears of self-paying customers. Welfare Reform, and the resulting changes to the benefits system, has been identified as a key risk to the Group and a project team is actively managing and monitoring the impact of these changes.

Report of the Board (continued)

National Housing Federation (NHF) Excellence in Governance 2015

We are pleased to report that the Group complies with the principal recommendations of the NHF guidance, Excellence in Governance 2015. The ways in which we seek to achieve good governance are outlined below:

Board	Members	Made up of
Knowsley Housing Trust	12 Members	• 6 independent members • 3 KMBC nominated representative • 3 tenant members
KHT Services Limited	Between 3 and 8 Members	Currently: • 4 Independent Members
KHTS Development Limited	Between 2 and 5 Members	Currently: • 3 Independent Members
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 experience	Currently 6 members • Vice Chair of parent • 3 Independent members KHT • 1 Independent member One Ark • 1 Independent member Vivark

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 2016/17 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.

Report of the Board (continued)

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 Trust's Business Plan was approved by the Board prior to the start of the 2016/17 financial year, and the Corporate Strategy has been reviewed during the year.

Audit & Risk Committee

The Audit & Risk Committee is 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 Audit & Risk 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.

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 1st 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 18th July 2017, which included 23 audit inspections during the year.

External Audit

A resolution to appoint the external auditors will be proposed to a meeting of the Board on 6th September 2017.

Report of the Board (continued)

Regulatory Reports

The Board recognisees 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 Financial Viability Standard. KHT is compliant with the Consumer Standards.

Fraud

The Trust 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.

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.

Public Benefit

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's aims and objectives and in planning future activities.

The Board confirms that KHT does not undertake any public fundraising, and does 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 Strategic Report. 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.

Report of the Board (continued)

Statement of the responsibilities of the Board for the report and financial statements

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

Company law requires the board to prepare financial statements for each financial year. Under that law the board have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. Under company law the board must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and surplus or deficit of the company and group for that period. In preparing these financial statements, the board are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice (SORP) Accounting by Registered Housing Providers 2014, 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.

The board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and company and enable it to ensure that 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 (April 2015). It is also responsible for safeguarding the assets of the association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The board is responsible for the maintenance and integrity of the corporate and financial information included on the association'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 the 6 September 2017, and signed on its behalf by:

P. Canning

Helen White
Chair of the Board

Patrick Canning
Vice Chair of the Board

Independent Auditor's Report to the Members of Knowsley Housing Trust

We have audited the financial statements of Knowsley Housing Trust for the year ended 31 March 2017 which comprise the consolidated and Trust Statement of Comprehensive Income, the consolidated and Trust Statement of Financial Position, the consolidated and Trust Statement of Changes in Reserves, the Consolidated 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 Statement of Board's Responsibilities set out on page x, the board is responsible for the preparation of the financial statements which 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.

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 and of the parent company's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the 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.

Independent Auditor's Report to the Members of Knowsley Housing Trust (continued)

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's 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
19th September 2017

Statement of Comprehensive Income

For year ended 31 March 2017

		2017	2016	2017	2016
		Group		Trust	
	Notes	£'000	£'000	£'000	£'000
Turnover	2	**62,139**	64,482	**62,098**	64,482
Operating expenditure	2	**(42,342)**	(49,345)	**(42,157)**	(49,345)
Discontinued activities		-	(16)	-	-
Operating surplus		**19,797**	**15,121**	**19,941**	**15,137**
Gain/(loss) on disposal of property, plant and equipment (fixed assets)	6	**3,493**	1,818	**3,493**	1,818
Share of operating (deficit) / surplus in joint venture	7	**(58)**	-	**(58)**	-
Interest receivable	8	**29**	73	**29**	73
Interest and financing costs	9	**(8,379)**	(9,373)	**(8,379)**	(9,373)
Movement in fair value of financial instruments		**(5,918)**	(4,057)	**(5,918)**	(4,057)
Exceptional interest costs	9	-	(11,954)	-	(11,954)
Surplus/(Deficit) before tax		**8,964**	(8,372)	**9,108**	(8,356)
Taxation	10	-	68	-	68
Surplus/(Deficit) for the year after tax		**8,964**	(8,304)	**9,108**	(8,288)
Remeasurement in respect of pension schemes	14	**(365)**	4,349	**(365)**	4,349
Total comprehensive income for the year		**8,599**	(3,955)	**8,743**	(3,939)

The financial statements were approved and authorised for issue by the Board on 6th September 2017 and were signed on its behalf by:

Helen White
Chair of the Board

P. Canning

Patrick Canning
Vice Chair of the Board

The notes on pages 33 to 65 form an integral part of these Financial Statements.

Statement of Financial Position

For year ended 31 March 2017

	Notes	2017 Group £'000	2016 Group £'000	2017 Trust £'000	2016 Trust £'000
Fixed assets					
Tangible fixed assets	15	**229,285**	225,683	**229,285**	225,683
Current assets					
Properties held for sale	17	**924**	2,793	**924**	2,793
Trade and other debtors	18	**2,904**	2,651	**2,902**	2,651
Cash and cash equivalents	19	**11,586**	5,859	**11,450**	5,566
		15,414	11,303	**15,277**	11,010
Less:					
Creditors: amounts falling due within one year	20a	**(8,470)**	(16,936)	**(8,473)**	(16,928)
Net current assets/(liabilities)		**6,945**	(5,633)	**6,804**	(5,918)
Total assets		**236,229**	220,050	**236,088**	219,765
Creditors: amounts falling due after more than one year	20b	**213,762**	206,508	**213,762**	206,508
Provisions for liabilities					
Pension provision	14	**2,407**	2,081	**2,407**	2,081
		216,169	208,589	**216,169**	208,589
Reserves					
Income and expenditure reserve		**20,060**	11,461	**19,919**	11,176
		236,229	220,050	**236,088**	219,765

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

Helen White
Chair of the Board

Patrick Canning
Vice Cahir of the Board

The notes on pages 33 to 65 form an integral part of these financial statements.
Company Registered Number: 4338798

Statement of Changes in Reserves

	£'000	£'000
Balance as at 31 March 2016	11,461	11,176
Total comprehensive surplus/(deficit)	8,599	8,743
Balance at 31 March 2017	20,060	19,919

The notes on pages 33 to 65 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For year ended 31 March 2017

Group	Notes	2017 £'000	2016 £'000
Net cash inflow from operating activities	1	27,582	16,138
Cash flow from investing activities			
Purchase of tangible assets		(10,135)	(14,929)
Grants received		737	958
Proceeds from sale of tangible fixed assets		5,716	3,493
Interest received		29	73
		(3,653)	(10,405)
Cash flow from financing activities			
Interest paid		(8,202)	(8,955)
Exceptional finance costs		-	(11,954)
(Decrease) / increase in loan finance		(10,000)	18,912
		(18,202)	(1,997)
Net Change in cash and cash equivalents		5,727	3,736
Cash and cash equivalents at beginning of the year		5,859	2,123
Cash and cash equivalents at end of the year		11,586	5,859

Note 1 Reconciliation of surplus (deficit) to net cash inflow from operating activities	2017 £'000	2016 £'000
Surplus / (deficit) for the year	8,964	(8,304)
Adjustments for non-cash items:		
Depreciation	7,916	7,800
Impairment	662	2,042
Loss on fair value of financial instruments	5,918	4,057
Profit on disposal of fixed assets	(3,493)	(1,818)
Adjustment for investing activities	2,330	-
Government grants utilised in year	(316)	(296)
Amortisation of loan arrangement fees	79	(179)
Decrease/(increase) in stock	1,869	398
Decrease/(increase) in trade and other debtors	(252)	1,838
Decrease/(increase) in trade and other creditors	(4,268)	1,015
Pension costs less contributions payable	-	(11,251)
Interest payable	8,202	8,955
Exceptional finance cost	-	11,954
Interest received	(29)	(73)
Net cash inflow from operating activities	27,582	16,138

The notes on pages 33 to 65 form an integral part of these accounts.

Notes to the Financial Statements

1. Legal Status

Knowsley Housing Trust is incorporated in England under the Companies Act 2006 as a company limited by guarantee and is registered with the Homes and Communities Agency as a Private Registered Provider of Social Housing. The registered office is Lakeview, Kings Business Park, Prescot, Merseyside, L34 1PJ.

The Group comprises the following entities:

Name	Incorporation	Registered/Non-Registered
Knowsley Housing Trust	Companies Act 2006	Registered
KHT Services Limited	Companies Act 2006	Non-Registered
KHT Development Limited	Companies Act 2006	Non-Registered

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) the Statement of Recommended Practice for registered housing providers: Housing SORP 2014.

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 and rounded to the nearest £'000. They are prepared on the historical cost basis, other than as modified for the fair value of certain financial instruments as set out in the policies below.

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.

Basis of Consolidation

The consolidated financial statements incorporate the results of Knowsley Housing Trust and its subsidiary undertaking as at 31st March 2017 using the purchase method of accounting. The results of subsidiary undertakings are included from the date of acquisition, being the date the Group obtains control.

Notes to the Financial Statements (continued)

Going Concern

The Group's financial statements have been prepared on a going concern basis, which assumes an ability to continue operating for the foreseeable future, being a period of not less than 12 months from the date of approval of these financial statements. The Group has in place long-term debt facilities that provide adequate resources to finance committed reinvestment and development programmes along with the Group's day-to-day operations. The Government's announcements in July 2015 affecting the future income of the Group have led to a reassessment of the Group's business plan as well as an assessment of imminent or likely future breaches in borrowing covenants. No significant concerns have been noted and we consider it appropriate to continue to prepare the financial statements on a going concern basis.

Judgements and key sources of estimation uncertainty

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

a. **Development expenditure.** The Group capitalises development expenditure in accordance with the accounting policy described on page 35. 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.

b. **Categorisation of housing properties.** The Group has undertaken a detailed review of the intended use of all housing properties. In determining the intended use, the Group has considered if the asset is held for social benefit or to earn commercial rentals and reviewed the nature of the arrangements for intra group property.

The Group has determined that there are no investment properties.

c. **Bank loans.** The Group's 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.

Other key sources of estimation and assumptions:

a. **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.

Notes to the Financial Statements (continued)

b. **Impairment.** From 1st 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 value in use 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.

c. **Fair value measurement.** On the 1st 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. The currency risk upon redemption (in dollars) is negated by a swap that would protect against adverse currency movement as arranged by the group treasury advisors, TradeRisks. Therefore, the PP bond is recognised as a non-basic financial instrument and as a result, is measured at fair value through surplus or deficit.

As at 31st March 2017, the fair value of the £90m loan notes was £99.9m. 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 represents; rental income receivable, amortised capital grant, revenue grants from local authorities and the Homes and Communities Agency, income from the sale of shared ownership and other properties developed for outright sale, and other income, and are recognised in relation to the period when the goods or services have been supplied.

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

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

Support income and costs including Supporting People income and costs

Supporting People (SP) contract income received from Administering Authorities is accounted for as SP income in the Turnover as per note 3. The related support costs are matched against this income in the same note. Support charges included in the rent are included in the Statement of Comprehensive Income from social housing lettings (note 3) and matched against the relevant costs.

Notes to the Financial Statements (continued)

Loan interest costs

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

Loan finance issue costs

Loan finance 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. Tax is recognised in profit and loss, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated based on tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company's subsidiaries operate and generate taxable income.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

- 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 have been met; and
- Where timing differences relate to interests in subsidiaries, associates and joint ventures and the Group can control their reversal and such reversal is not considered probable 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

Notes to the Financial Statements (continued)

and the differences between the fair value of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

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 that commenced on the 15th 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 the Trust to the rest of the First Ark Group are outside the scope of VAT, as a VAT Group (of which the Trust, KHT Services Limited, First Ark, Vivark and One Ark are now all members) was set up on 1st April 2005.

Tangible fixed assets and depreciation

Housing properties

Housing properties are properties held for the provision of social housing or 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.

Notes to the Financial Statements (continued)

The UELs for identified components are as follows:

Component	Useful Economic Life
Structure	85 years
Kitchens	20 years (1)
Bathrooms	30 years (1)
Roofs	65 years (2)
Windows and doors	30 years (2)
Mechanical installation	40 years (2)
Boilers / Storage heaters	20 years (2)
Electrical installation	30 years (2)
Lift	20 years(2)
Shower	30 years (2)
Solar Panels	20 years (2)

(1) Or remaining life of the property, whichever is shorter
(2) Or remaining life of the property

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

Depreciation is charged on other tangible fixed assets on a straight-line basis over the expected useful economic lives that 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 based on the first tranche portion. The first tranche portion is accounted for as a current asset and the sale proceeds shown in turnover. The remaining element of the shared ownership property is accounted for as a fixed asset and subsequent sales treated as sales of fixed assets.

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.

Notes to the Financial Statements (continued)

Impairment

Housing properties and other fixed assets are assessed for impairment indicators annually. Where indicators are identified an assessment for impairment is undertaken comparing the property's carrying amount to its recoverable amount. Where the carrying amount of a property is deemed to exceed its recoverable amount, the property 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.

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

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

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.

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.

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.

Notes to the Financial Statements (continued)

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 Account is included as part of Turnover.

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

SHG must be recycled by the Group, under certain conditions, if a property is sold or if another relevant event takes place. In these cases the SHG can be used for projects approved by the Homes and Communities Agency and Greater London Authority. 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. In that event, it is a subordinated unsecured repayable debt.

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

Reserves
It is the policy of the Group to hold reserves to accumulate income in order to set aside funds for special purposes or as reserves against future expenditure.

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 that has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

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

KHT participated in a multi-employer funded defined benefit scheme, the Merseyside Pension Fund (MPF) however; KHT exited the fund on 31st 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

Notes to the Financial Statements (continued)

it is recoverable by the Group through reduced contributions or 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.

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 KHT having surplus funds, consideration will be given firstly to supporting its capital investment programmes and the subsequently to repay its debt.

Financial Instruments

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

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

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

Financial instruments held by the Group are classified as follows:

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

Notes to the Financial Statements (continued)

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, on the following instruments measured at cost or amortised cost:

(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.

Notes to the Financial Statements (continued)

3(a). Turnover, operating expenditure and operating surplus

Group	2017 Turnover £'000	2017 Operating expenditure £'000	2017 Operating surplus £'000
Social housing lettings (Notes 4a and 4b)	61,071	(40,768)	20,303
Other social housing activities			
Supporting people contract income	72	(21)	51
Other supporting people income	160	(236)	(76)
Current asset property sales	511	(348)	163
Community investment	-	(500)	(500)
Other KHT Services (1)	41	(185)	(144)
Total from social housing activities	61,855	(42,058)	19,797
Activities other than social housing (2)			
Lettings (Note 4c)	284	(284)	-
Total	62,139	(42,342)	19,797

Group	2016 Turnover £'000	2016 Operating expenditure £'000	2016 Operating surplus £'000
Social housing lettings (Notes 4a and 4b)	63,302	(47,550)	15,752
Other social housing activities			
Supporting people contrat income	86	(61)	25
Other supporting people income	167	(237)	(70)
Current asset property sales	781	(578)	203
Comminity investment	-	(773)	(773)
Other KHT Services (1)	-	(16)	(16)
Total from social housing activities	64,336	(49,215)	15,121
Activities other than social housing (2)			
Lettings (Note 4c)	146	(146)	-
Total	64,482	(49,361)	15,121

Notes

Notes to the Financial Statements (continued)

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.

3(b). Turnover, cost of sales, operating expenditure and operating surplus

	2017		
Trust	**Turnover £'000**	**Operating expenditure £'000**	**Operating surplus £'000**
Social housing lettings (Notes 4a and 4b)	61,071	(40,768)	20,303
Other social housing activities			
Supporting people contract income	72	(21)	51
Other supporting people income	160	(236)	(76)
Current asset property sales	511	(348)	163
Community investment	-	(500)	(500)
Total from social housing activities	61,814	(41,873)	19,941
Activities other than social housing (2)			
Lettings (Note 4c)	284	(284)	-
Total	62,098	(42,157)	19,941

	2016		
Trust	**Turnover £'000**	**Operating expenditure £'000**	**Operating surplus £'000**
Social housing lettings (Notes 3a and 3b)	63,302	(47,550)	15,752
Other social housing activities			
Supporting people contrat income	86	(61)	25
Other supporting people income	167	(237)	(70)
Current asset property sales	781	(578)	203
Comminity investment	-	(773)	(773)
Total from social housing activities	64,336	(49,199)	15,137
Activities other than social housing (2)			
Lettings (Note 4c)	146	(146)	-
Total	64,482	(49,345)	15,137

Notes to the Financial Statements (continued)

Notes
2 Activities other than social housing – includes contract management activities.

4(a). Social Housing & lettings

Group	General housing £'000	Supported housing & housing for older people £'000	Total 2017 £'000	Total 2016 £'000
Income				
Rent receivable net of empty homes	54,930	3,044	57,974	59,691
Services 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
Turnover from social housing lettings	57,497	3,574	61,071	63,302
Operating expenditure				
Management	(11,810)	(23)	(11,833)	(14,799)
Service charge costs	(1,529)	(499)	(2,028)	(3)
Routine maintenance	(11,402)	-	(11,402)	(14,697)
Major repairs expenditure	(3,373)	-	(3,373)	(6,597)
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)
Operating expenditure on social housing lettings	(40,246)	(522)	(40,768)	(47,550)
Operating surplus on social housing lettings	17,251	3,052	20,303	15,752
Void losses (being rental income lost as a result of property not being let, although it is available for letting)	1,870	216	2,086	1,776

Notes to the Financial Statements (continued)

4(b). Social Housing & lettings

Trust	General housing £'000	Supported housing & housing for older people £'000	Total 2017 £'000	Total 2016 £'000
Income				
Rent receivable net of empty homes	54,930	3,044	57,974	59,691
Services 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
Turnover from social housing lettings	57,497	3,574	61,071	63,302
Operating expenditure				
Management	(11,810)	(23)	(11,833)	(14,799)
Service charge costs	(1,529)	(499)	(2,028)	(3)
Routine maintenance	(11,402)	-	(11,402)	(14,697)
Major repairs expenditure	(3,373)	-	(3,373)	(6,597)
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)
Operating expenditure on social housing lettings	(40,246)	(522)	(40,768)	(47,550)
Operating surplus on social housing lettings	17,251	3,052	20,303	15,752
Void losses (being rental income lost as a result of property not being let, although it is available for letting)	1,870	216	2,086	1,776

4(c). Turnover from activities other than social housing

	Group 2017 £'000	Group 2016 £'000	Trust 2017 £'000	Trust 2016 £'000
Garages	**284**	146	**284**	146

Notes to the Financial Statements (continued)

5. Accommodation owned, managed and in development

	Group No. of properties		Trust No. of properties	
	2017	2016 Restated	**2017**	2016 Restated
Social Housing				
Under management at end of year:				
General needs housing - social rent	**11,895**	12,116	**11,895**	12,116
General needs housing - affordable rent	**639**	624	**639**	624
Supported housing	**679**	708	**679**	708
LCHO Units	**53**	47	**53**	47
Total owned properties	**13,266**	13,495	**13,266**	13,495
Managed on behalf of others	**18**	2	**18**	2
Total Owned and Managed	**13,284**	13,497	**13,284**	13,497
Of which:				
Held for demolition	**94**	233	**94**	233

6. Gain on disposal of fixed assets (Group and Trust)

	Property development for other PRPs £'000	**Shared ownership staircasing sales £'000**	**Others £'000**	**Total 2017 £'000**	**Total 2016 £'000**
Proceeds of sales	0	105	5,611	5,716	3,092
Carrying value	0	(49)	(1,499)	(1,548)	(978)
Surplus	0	56	4,112	4,168	2,114
Recycled capital grants fund (Note 23)			(140)	(140)	-
Disposal proceeds funds (Note 24)			(535)	(535)	(296)
	0	**56**	**3,437**	**3,493**	1,818

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.

Notes to the Financial Statements (continued)

8. Interest receivable and other income

	Group		Trust	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Interest receivable	**29**	73	**29**	73

9. Interest and financing costs

	Group		Trust	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Loans and bank overdrafts	**8,281**	8,955	**8,281**	8,955
Pension interest cost	**98**	418	**98**	418
	8,379	9,373	**8,379**	9,373

10. Surplus on ordinary activities

	Group		Trust	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
The operating surplus is stated after charging/(crediting):-				
Auditors remuneration (exclduing VAT):				
Audit of the group financial statements	30	30	26	29
Fees payable to the company's auditor and its associates for other services to the group:				
Taxation compliance services	2	4	2	3
Other (1)	28	86	26	86
Operating lease rentals:				
Land and buildings	-	76	-	76
Impairment losses of housing properties	662	2,042	662	2,042
Depreciation of housing properties	7,643	7,500	7,643	7,500
Depreciation of other assets	273	300	273	300

(1) In addition to the general tax advice, the Trust also procured from Grant Thornton UK LLP specific tax advice relating to the North Huyton New Deal for Communities scheme, and advice on the set up of KHT Services Limited as a Development Company

(2) . Grant Thornton are also acting as advisors on the recovery of historic VAT reclaims through finalising the Group's partial exemption methodology.

Notes to the Financial Statements (continued)

11. Tax on Surplus on ordinary activities

	Group		Trust	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Current tax				
UK corporation tax on surplus for the year	-	-	-	-
Adjustments in respect of prior years	-	(68)	-	(68)
	-	(68)	-	(68)
Deferred tax				
Origination and reversal of timing differences	**(2)**	-	**(2)**	-
Adjustment in respect of prior periods	**2**	-	**2**	-
	-	(68)	-	(68)

The tax assessed in the year is lower than the standard rate of corporation tax in the United Kingdom at 20% (2016: 20%). The differences are explained as follows:

	Group		Trust	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Surplus/(Deficit) on ordinary activities	**8,964**	(8,372)	**9,108**	(8,356)
Theoretical tax at UK corporation tax rate 20% (2016: 20%)	**1,793**	(1,674)	**1,822**	(1,671)
Surplus/(Deficit) in relation to charitable activity	**36**	1,643	**36**	1,640
Income not taxable for tax purposes	**(1,840)**	-	**(1,840)**	-
Depreciation in excess of capital allowances	-	-	-	-
Tax adjustments to tax charge in respect of prior periods	**11**	(37)	**(18)**	(37)
	-	(68)	-	(68)

The prior period adjustment relates to an enquiry settlement agreed by HMRC in relation to a Corporation Tax claim in respect of the 2003/04 financial year.

Notes to the Financial Statements (continued)

12. Key management personnel and directors' remuneration

All of the Executive Directors of Knowsley Housing Trust and KHT Services are paid from First Ark Limited which is the Ultimate Parent Undertaking.

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

	Group		Trust	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Basic salary	**109**	140	**109**	140
Benefits in kind		-	**0**	-
Pension contributions	**2**	7	**2**	7
National Insurance Contributions	**13**	19	**13**	19
	124	166	**124**	166

The aggregate emoluments paid to or receivable by non-executive Board Members in the year is:

	Group		Trust	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Basic salary	**45**	15	**45**	15

In detail:

	2017	2016
	£	£
Helen White	**12,996**	10,974
Jonathan Webster	**4,240**	2,316
Ian Foy	**4,240**	2,316
Nicholas Gerrard	**5,755**	-
Susan Giles	**5,804**	-
Paul Deehan	**2,348**	-
Barbara White	-	-
Patrick Canning	-	-
Edward Connor	-	-
Terence Byron	-	-
Brian O'Hare	-	-
Stephanie O'Keeffe	-	-
Shelley Powell	-	-
Joanna Embling *	**1,662**	-
John Spencer *	**1,662**	-
Phil Summers *	**6,528**	-
	45,235	15,606

Notes to the Financial Statements (continued)

*These Board Members serve on both the KHT Services Limited and KHTS Development Limited Board, but payment is made by Knowsley Housing Trust Limited.

Board members are paid for their primary role, and so receive no remuneration for additional board roles within the First Ark Group.

There were expenses paid to Board members in the year of £1,228 (2016: £2,436).

13. Employee information

	Group		Trust	
	2017	2016	**2017**	2016
	No.	No.	**No.**	No.
The average number of persons including Executive Directors employed during the year expressed in full time equivalents (35 hours per week) was:				
Customer and communities	**85**	86	**85**	86
Asset management	**23**	36	**23**	36
	108	122	**108**	122
	£'000	£'000	**£'000**	£'000
Staff costs				
Wages and salaries	**2,766**	3,407	**2,766**	3,407
Redundancy costs	**12**	187	**12**	187
Social Security costs	**238**	286	**238**	286
Other pension costs – defined contribution or defined benefit	**101**	255	**101**	255
	3,117	4,135	**3,117**	4,135

The full time equivalent number of staff who received remuneration exceeding £60,000 in the year:

	No.	No.	**No.**	No.
£60,000 - £70,000	**1**	-	**1**	-
£70,000 - £80,000	**1**	3	**1**	3
£80,000 - £90,000	**-**	1	**-**	1
	2	4	**2**	4

The Group Chief Executive is paid by First Ark Limited and 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

Notes to the Financial Statements (continued)

14. 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 31st 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 Knowsley Housing Trust independently of the Fund. There is a provision under Section 21 of FRS102 for the unfunded benefit to certain employees.

Contributions

The contributions to the MPF for the year ended 31st March 2017 were nil as Knowsley Housing Trust terminated its participation in the fund in the prior year.

Principal Actuarial Assumptions

The following information is based upon a full actuarial valuation of the fund at 31st March 2013 updated to 31st March 2017 by a qualified independent actuary.

	At 31st March 2017	At 31st March 2016
	%	%
Rate of increase in pensions in payment	N/A	2.1
Rate of increase in salaries	2.3	3.6
Inflation assumption	2.5	2.1
Discount rate	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 31st March 2017	At 31st March 2016
	Years	Years
Retiring in 20 years		
Males	24.9	24.8
Females	27.7	28.1
Retiring today		
Males	21.9	22.4
Females	24.7	25.3

Notes to the Financial Statements (continued)

The financial actuarial assumptions for FRS102 calculations for the 31st 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 variation 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. 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 that 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).

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
	% per annum						
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:	Scheme and employer-specific						
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

Notes to the Financial Statements (continued)

14. Pension obligations (continued)

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

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

The cumulative actuarial deficit at 31 March 2017 was £23.712m (2016: £23.347m).

Asset and Liability Reconciliation	**2017 £'000**	**2016 £'000**
Reconciliation of liabilities	**£'000**	£'000
Liabilities at start of period	(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
Liabilities at end of period	(2,407)	(2,081)
Reconciliation of assets	**£'000**	£'000
Assets at start of period	-	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)
Assets at end of period	-	-

Notes to the Financial Statements (continued)

15(a). Tangible assets – Group & Trust

	Social housing properties for letting completed £'000	Asset under constructio n £'000	Total housing properties £'000	Land held for development £'000	Offices £'000	Furniture fixtures and fittings £'000	Computers and office equipment £'000	Plant and machinery	Total other tangible fixed assets	Total tangible fixed assts
Cost										
At start of the year	286,033	8,801	294,834	5,620	3,550	886	3,941	105	14,102	308,936
Works to existing properties	4,769	9,625	14,394	1,132	-	4	108	-	1,244	15,638
Schemes completed	298	(298)	0	-	-	-	-	-	-	-
Disposals	(4,438)	-	(4,438)	(1,569)	-	-	-	-	(1,569)	(6,007)
Transfers to/from assets held for sale	1,203	-	1,203	-	-	-	-	-	-	1,203
At the end of the year	287,865	18,128	305,993	5,183	3,550	890	4,049	105	13,777	319,770
Depreciation										
At start of the year	(75,234)	-	(75,234)	(1,566)	(2,210)	(318)	(3,822)	(103)	(8,019)	(83,253)
Charge for the year	(7,643)	-	(7,643)	-	(167)	(41)	(64)	(2)	(273)	(7,916)
Impairment losses	(181)	-	(181)	(481)	-	-	-	-	(481)	(662)
Disposals	1,346	-	1,346	-	-	-	-	-	-	1,346
At the end of the year	(81,712)	0	(81,712)	(2,047)	(2,377)	(359)	(3,886)	(105)	(8,773)	(90,485)
Net book value at the end of the year	206,153	18,128	224,281	3,136	1,173	531	163	0	5,004	229,285
Net book value at the start of the year	210,799	8,801	219,600	4,054	1,339	569	119	2	6,083	225,683

During the year, the Group continued to participate in the North Huyton New Deal for Communities Development (NDC). As a consequence, a number of properties have been demolished, with the land ready for development. This remaining land is held within Land Held or Development and at 31st March 2017 was valued at £3,136k.

The Group considers impairment at property level in accordance with the requirement of FRS 102 and SORP 2014.

The provision against housing properties subject to long term voids or approved for demolition has been increased by £181k in the year to £2,223k (2016: £2,042k)

Notes to the Financial Statements (continued)

15(b).Tangible assets

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

Housing properties net book value and offices net book value comprises:

	Group		Trust	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Freehold land and buildings	**225,454**	220,939	**225,454**	220,939

Expenditure on works to existing properties:

	Group		Trust	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Amounts capitalised	**4,769**	4,870	**4,769**	4,870
Amounts charged to income and expenditure account	**3,373**	6,597	**3,373**	6,597
	8,142	11,467	**8,142**	11,467

15(c).Impairment

The impairment provision at 31st March 2017 is £2,223k (2016: £2,042k), this reflects potential losses arising from long term voids and properties that have been approved for demolition. In addition, a £481k impairment charge has been accounted for in relation to the remaining NDC plots reported with Land Held for Development.

16. 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
KHT Services Limited	Company – 100%	Non-regulated	Combined facilities support activities
KHTS Development Limited	Company – 100%	Non-regulated	Combined facilities support activities

The authorised Share Capital of 1 Ordinary £1 share has been allotted for each company, called up and fully paid and owned by Knowsley Housing Trust, who is the ultimate parent undertaking.

Notes to the Financial Statements (continued)

17. Properties held for sale

	Group		Trust	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Completed properties	212	424	212	424
Properties held for outright sale	712	1,914	712	1,914
Land held for outright sale	-	455	-	455
	924	2,793	924	2,793

18. Trade and other debtors

	Group		Trust	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Rent arrears	**4,142**	4,348	**4,142**	4,348
Less: Provision for bad debts	**(3,531)**	(3,403)	**(3,531)**	(3,403)
Less: adjustment for net present value for arrears with repayment schedules	**(415)**	(271)	**(415)**	(271)
Amounts owed by group undertakings	**487**	989	**487**	989
Other debtors	**82**	-	**66**	-
Prepayment and accrued income	**1,642**	482	**1,642**	482
Corporation tax	-	-	-	-
Debtors due within one year	**2,407**	2,145	**2,391**	2,145
Debtors due more than one year	**497**	506	**497**	506
	2,904	2,651	**2,888**	2,651

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.

19. Cash and cash equivalents

	Group		Trust	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Cash at bank	11,586	5,859	11,450	5,566

Notes to the Financial Statements (continued)

20(a). Creditors: amounts falling due within one year

	Group		Trust	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Trade creditors	**694**	338	**683**	338
Rents and service charges received in advance	**1,140**	1,093	**1,140**	1,093
Other creditors	**97**	252	**97**	252
Loans due for repayment in less than one year (20c)	**1,000**	11,000	**1,000**	11,000
Finance costs (20c)	**(55)**	-	**(55)**	-
Grants received in advance	**218**	6	**218**	6
Accruals and deferred income	**5,057**	3,839	**5,057**	3,831
Deferred capital grant (note 22)	**319**	301	**319**	301
Amounts owed to group undertakings	**(0)**	107	**15**	107
	8,470	16,936	**8,473**	16,928

20(b). Creditors: amounts falling due after more than one year

	Group		Trust	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Loans (Note 20c)	**184,974**	179,057	**184,974**	179,057
Finance costs	**(624)**	(755)	**(624)**	(755)
Deferred capital grant (Note 22)	**28,041**	27,510	**28,041**	27,510
Recycled capital grant fund (Note 23)	**234**	94	**234**	94
Disposal proceeds fund (Note 24)	**1,137**	602	**1,137**	602
	213,762	206,508	**213,762**	206,508

20(c). Debt analysis

	Group		Trust	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Loans repayable:				
Within one year	**1,000**	11,000	**1,000**	11,000
In one year or more but less than two years	-	6,667	-	6,667
In two years or more and less than five years	-	4,000	-	4,000
In five years or more	**184,974**	168,390	**184,974**	168,390
Less: loan issue costs	**(679)**	(755)	**(679)**	(755)
Total loans	**185,295**	189,302	**185,295**	189,302

Notes to the Financial Statements (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 (£94.1m 2016)

The long term loans totalling £175 m 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 31st March 2017 (£11m 2015/16).

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	169,598	4.54%
	176,000	6,402	169,598	4.54%

At 31st March 2017 the Group has the following borrowing facilities:	£'000
Undrawn committed facilities	-
Undrawn facilities	19,000
	19,000

The total loans £176m, includes the rolling credit facility payable in less than 1 year (£1m), excludes the mark to market valuation of KHT's private placement loan (£9.974m) and finance costs payable (£0.679m). The additional £9.974m represents the liability to lenders that would crystallise in the event of First Ark Group choosing to exercise an early redemption of the loan. It is a theoretical revaluation that reflects the increased market value of this debt to the lenders, when compared with the interest rates that could currently be achieved when issuing this level of debt over the long term. This adjustment does not impact the total amount repayable by the Group if the loan runs to the original term. It would only need to be paid in the event of a financial covenant breach, which caused the loan to be called in, or a First Ark Group decision to refinance the loan in advance of the full term. This adjustment has been made in accordance with FRS 102 accounting requirements. The Group borrowing covenants are measured under UK GAAP i.e. actual values, not fair market values; the covenants are not impacted by this adjustment.

Notes to the Financial Statements (continued)

21. Revenue Reserve

	2017 £'000
Balance as at 1 April 2015	15,416
Surplus / (deficit) for the year	(8,304)
Other comprehensive income for the year	4,349
Balance at 31 March 2016	11,461
Surplus / (deficit) for the year	8,964
Other comprehensive income for the year	(365)
Balance at 31 March 2017	**20,060**

22. Stock Transfer Obligations

Immediately prior to entering into the Stock Transfer Agreement between Knowsley Metropolitan Borough Council ('the Council') and the Trust, the Council contracted with the Trust to perform the refurbishment works required to bring the properties into an agreed state. The contract was for a fixed sum equal to the expected cost of the works i.e. £174million. At transfer, the Trust contracted with the Council to acquire the benefit of the agreed refurbishment works (£174million) plus the housing properties at a price equal to the agreed value of the property in its unenhanced condition (£30.66million). The nature of the works under the initial agreement has not been specified and a right of set off exists between the contracts. These contracts have enabled the Trust to recover VAT on repair/improvement costs that would otherwise have been expensed.

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 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

Notes to the Financial Statements (continued)

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 sheet.

With reference to note 15b, at 31st March 2017 refurbishment works to the value of £290.1m (2016: £282.0m) 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

23. Deferred capital grant

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

24. Recycled capital grant fund

	Group		Trust	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
At start of the year	94	94	94	94
Grant received in the year	140	-	140	-
	234	94	234	94

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.

Notes to the Financial Statements (continued)

25. Disposal proceeds fund

	Group		Trust	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
At start of the year	602	306	602	306
Inputs to DPF - Funds recycled	535	296	535	296
Use/allocation of funds - New build	-	-	-	-
	1,137	602	1,137	602

Withdrawals from the disposal proceeds fund were used for approved works to new build housing properties.

26. Capital commitments

	Group		Trust	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Expenditure contracted for but not provided in the accounts	18,903	9,370	15,179	9,370
Expenditure authorised by the Board but not contracted for	-	10,886	-	10,886
	18,903	20,256	15,179	20,256

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

27. Operating leases

There are no operating leases (2016: £nil)

28. Contingent liability

There are no contingent liabilities (2016: £nil)

Notes to the Financial Statements (continued)

29. Grant and financial assistance

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

30. Related parties

First Ark Limited is the immediate and ultimate parent controlling party of the Knowsley Housing Trust.

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

Board members Edward Connor, Terence Byron, Brian O'Hare and Stephanie O'Keeffe who are members of the KHT Board are also elected members of Knowsley Metropolitan Borough Council (KMBC).

Two tenants served the on Board during the year (Patrick Canning and Barbara White). Their tenancies are on normal commercial terms, and they are not able to use their position to their advantage. As at 31st March 2017, there were no balances owed to KHT in relation to the tenants rent accounts (2016: £nil).

At the 31st March 2017, the Group owed £13k to First Ark Limited (2016: £107k), £19k to One Ark Limited (2016: £7k debtor), and was owed £k (2016: £982K) by Vivark Limited.

Net payment to / (from) related parties

	2017 £'000	2016 £'000
First Ark Limited	8,309	7,119
Vivark Limited	17,949	21,369
One Ark	500	773
KHT Services Limited		-
KHTS Development Limtied	-	-
First Ark Social Investment Limited	-	-
	26,758	29,261

During the year the Trust paid £1,334k (2016: £1,044k) to KMBC for the provision of services including property leasing, IT and telephony services.

Notes to the Financial Statements (continued)

31. Financial instruments

The Group's financial instruments may be analysed as follows:

	2017 £'000	2016 £'000
Financial assets that are debt instruments measured at amortised cost	**12,139**	11,196
Financial liabilities measured at amortised cost	**91,168**	99,773
Financial liabilities measured at fair value through profit or loss	**99,975**	94,057

Financial assets measured at amortised cost comprise cash at bank and in hand, trade debtors, other debtors, and amounts owed by group undertakings.

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.

The fair value of the financial liability as ta 31st 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 brough forward	**94,057**	-
Drawndown	-	90,000
Change in fair values:		
Other market factors	**5,918**	4,057
Carrying amount carried forward	**99,975**	94,057

Notes to the Financial Statements (continued)

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 £9.98m.

32. Post balance sheet events

There were no significant post Balance Sheet events requiring adjustment to the financial statements.