Financial statements 2020

Photo: Spacious balcony overlooking tree lined walkways at Ropemakers Yard in Limehouse.

Contents


Photo: Homes at Erith Baths overlooking the River Thames.

01

Highlights

Highlights 2019/20

Financials

Turnover
£915m (2019 - £937m)

Surplus
£414m (2019 - £202m)

Operating surplus
£279m (2019 - £305m)

EBITDA MRI[1]
£303m (2019 - £232m)

EBITDA MRI Margin
26% (2019 - 21%)

EBITDA MRI / Interest cover
193% (2019 - 162%)

Total assets less current liabilities
£13.2bn (2019 - £12.2bn)

Net Debt
£5.4bn (2019 - £4.8bn)

[1]EBITDA MRI – Earnings before interest, tax, depreciation and amortisation, major repairs expenditure included

Ratings

Moody's	A3/Stable	(2019 - A3/Stable)
Standard & Poor's	A-/Stable	(2019 - A/Negative)
Fitch	A+/Stable	(2019 - A+/Stable)
Governance grade	G1	(2019 - G1)
Viability grade	V1	(2019 - V1)

Operational

Customer satisfaction
71% (2019 - 70%)

CQC rating
100% of our care schemes as outstanding or good
(2019 - 100%)

Homes

Homes in management
105,262 (2019 - 95,665)

New homes developed
2,439 (2019 - 2,874)

New homes enabled
749 (2019 - 1,952)

Our people

Staff engagement
71% (2019 - 69%)

Gender pay gap
1.3% (2019 - 7.6%)

Chair's statement

Even before the coronavirus pandemic, L&Q was operating in an extremely challenging and uncertain environment.

The true scale of vital fire safety and building remediation works was becoming clear, while the housing market remained subdued, in part due to the political stalemate over Brexit. We took the difficult decision to pause new development work in September 2019, alongside other tough financial measures in order to preserve funds for essential services, but were still able to celebrate the successful acquisition of Trafford Housing Trust (THT) in October, building on a successful partnership that was first established in 2016.

The decisive General Election victory for the Conservative Party on 12 December 2019 ended the Brexit impasse and for a short while markets rallied and thoughts turned to other domestic priorities, including housing. But while people looked ahead to the new decade with optimism, coronavirus was spreading. This has the potential to decimate the global economy and cause fundamental changes to our whole way of life.

Despite the exceptional head winds of last year – and before the full scale of coronavirus became known – the difficult decisions taken in September 2019 have paid off with L&Q performing ahead of expectations and delivering a solid set of financial results for the year ended 31 March 2020.

We achieved turnover of £915 million and a surplus after tax of £414 million, which includes a credit of £235 million to represent the fair value of THT. This acquisition opens an exciting new chapter for L&Q, unlocking £4 billion investment for 20,000 much needed new homes across the North West of England, while enabling THT to accelerate investment in existing homes and community initiatives.

Our financial results show that EBITDA MRI[2] was £303 million and net debt was £5.4 billion, with better than expected performance on margins, interest cover and debt metrics. The year-on-year improvement in EBITDA MRI reflects the prudent financial stabilisation measures that L&Q implemented as we continued to focus on our priorities: the safety of our residents, the quality of the homes and services we provide, and delivering on our fundamental social purpose.

During the year we completed 2,439 (2019: 2,874) new homes of which 49% are for social housing tenures, invested £61m (2019: £92m) in our existing homes and spent £164m (2019: £149m) on planned and reactive maintenance on our social housing, including £37m (2019: £24m) implementing additional fire safety measures.

Despite the pause on new development in September 2019, we started on site with 3,945 new build homes last year, and approved an additional 2,947 homes. This brings the total number of homes in our approved development pipeline to 29,504, of which 20,769 are currently on site.

The future projected cost of the entire development pipeline (including work in progress and developments not yet committed or on site) that extends until the financial year ending 31 March 2040 is estimated at £5.3bn (2019: £6.7bn) of which £4.6bn (87%) is currently committed. L&Q holds a further potential 70,614 (2019: 67,289) strategic land plots.

Our commitment to transforming communities has also continued with another £7 million invested through the £250 million fund made available to the L&Q Foundation. For every £1 invested in the Foundation we have created £3 of social value - helping people lead independent lives, secure employment and transforming the fabric of our neighbourhoods to create thriving and sustainable communities.

Response to coronavirus

The health and safety of our customers and colleagues is our top priority.

As soon as the United Kingdom went into lockdown in March, we established a crisis response team and developed a pandemic plan to help us deal with the health and business threats caused by coronavirus. The aim of this plan was to keep residents, colleagues and stakeholders informed, reassured and safe.

We adapted our business and services in response to official advice from government and Public Health England, while making sure that emergency, business critical and health and safety related functions were maintained at all times.

In the interests of safety we closed all of our construction sites, shut our offices and moved to an emergency repairs only service. Our existing technological capabilities meant that we were able to support thousands of colleagues, including our entire customer contact centre and housing management team to work from home almost overnight.

We ensured that residents could always get a response from us, continued with essential fire safety works, and carried out vital cleaning and rubbish collection services on our estates. We also carried out robust risk assessments and introduced strict infection control measures at our care and support schemes.

We committed not to take legal action if people fell behind on their rent and service charge payments. However, we reminded people that they should continue to make payments as normal if they can because it helps to fund essential frontline services. Our specialist income teams supported customers by putting personal payment plans in place if needed, and provided enhanced support for those affected by coronavirus.

We have been proactively contacting and offering support to customers with arrears. We also continue to offer specialist debt and welfare advice to residents through our "Pound Advice" project. We have also repurposed the funding model for the L&Q Foundation, making £600,000 available to organisations supporting our communities through the crisis, as well as establishing three food banks.

L&Q staff made nearly 16,000 welfare calls to our most vulnerable residents, and we will be using the knowledge that we gained from these to improve our housing management offer for this group in future.

[2] EBITDA MRI – Earnings before interest, tax, depreciation and amortisation, major repairs expenditure included

Chair's statement (continued)

Behind the scenes colleagues volunteered to work in L&Q Living kitchens, held virtual fitness and art classes for older residents and delivered shopping to people who had no one else to do this for them.

The response of L&Q staff to this crisis has been phenomenal, and I would like to take this opportunity to thank them for everything they have done, and continue to do, often in challenging personal circumstances.

Diversity and Inclusion

While coronavirus has largely dominated the news this year, I want to mention the death of George Floyd in Minneapolis and the subsequent large-scale protests around the world. One of L&Q's five core values is inclusion: we draw strength from our differences and work collaboratively. We cannot succeed and grow as an organisation unless we value and nurture diversity and work together to make the most of the different experiences, skills, and points of view it brings.

We are proud to promote equality for people from all backgrounds, and you can read more about our work on diversity and inclusion on page 18 and 19.

The year ahead

During the pandemic we completed a variety of stress tests and contingency planning exercises. We have boosted our underlying financial strength by implementing a range of measures to steer us through the crisis and to protect critical frontline services.

- We increased our debt facilities by £300 million, taking our overall liquidity to £788 million as at 30 June 2020
- We removed £66 million of non-essential operating expenditure and postponed £300 million capital expenditure
- We implemented a recruitment freeze and froze a planned pay increase.

These mitigating measures, coupled with Government support initiatives, have helped to conserve cash flow, and mean we can now look ahead with confidence as we enact our recovery and remobilisation plans. The implementation of our interim corporate plan covering the remainder of this financial year will ensure that as part of this recovery we are laying the foundations for operational excellence across our services, homes, people and financial performance.

Our offices remain closed for the time being, but our construction sites and marketing suites have now reopened. We are carrying out full estate management services, and are continuing to provide critical repairs, while working hard to clear any backlog.

We will continue to work with partners to offer our residents all the financial advice and support they need, and we will do all we can to support the communities in which we work beyond the crisis. Our "Place Makers" community fund will continue to focus on vulnerable people and social welfare, projects tackling domestic violence and anti-social behaviour, as well as small, locally focussed charities and volunteer groups that may not have been eligible previously.

We have planned extensively for the inevitable material impact that the coronavirus pandemic will have on future trading performance, and the measures outlined above will help to mitigate this.

We remain confident that L&Q retains the financial flexibility to adapt to a changing economic outlook supported by our strong balance sheet, robust liquidity position and G1/V1 ratings, the highest possible ratings for governance and viability as reaffirmed by the Regulator of Social Housing in March 2020.

At L&Q we believe that risks are both threats and opportunities. This coronavirus pandemic has been devastating in so many ways, but it has also forced us to think, work and act differently. In many cases, we are doing things better and more efficiently than ever before.

The future of L&Q

In early September 2020, David Montague announced that he will be stepping down from his role as Chief Executive of L&Q by the end of the 2021 financial year in order to pursue new challenges.

David has been a leading light not just for L&Q but for the housing sector in general. His commitment to our residents, homes and communities has enabled L&Q to face some of the toughest economic and structural challenges in the company's history, and he has always done it with our social purpose firmly and passionately at his heart. We are thankful for everything he has championed.

David has chosen to leave L&Q at a time when our governance is more robust than ever. In addition to maintaining our G1/V1 ratings, the highest possible for governance and viability from the Regulator of Social Housing in March 2020, we have also recently completed a comprehensive governance review to further improve the alignment of executive and non-executive decision making, and increase the impact of the tenant's voice.

Changes in our leadership have added more strength to this position. In April 2020 Gerri Scott brought a further three decades of housing experience to our executive team when she joined as Group Director, Customer Services, and in July 2020 it was announced that Sean Anstee CBE, former leader of Trafford Council will replace outgoing Group Chair of Trafford Housing Trust Edna Robinson in September, taking over her position on the L&Q Group Board at the same time.

The coming year will also see more change at Board level. Further announcements will follow on this, but our recruitment to Board and of David's successor will be squarely focussed on enabling us to secure the skills and diversity needed to steer L&Q through our next chapter, and in the case of our future CEO, ensuring a smooth handover and transition by the start of the new financial year.

Amidst all this evolution, what will not change is L&Q's mission and values, nor will our commitment to safety, quality and putting our customers first. Everything else is up for discussion, and we will use this once in a generation opportunity to question what we do and how we do it, and create an organisation that is best placed to take on the housing challenges ahead.

Aubrey Adams
Group Chair

10 September 2020

About L&Q

L&Q is one of the UK's leading housing associations and residential developers, founded over 50 years ago. We have played a key part in shaping some of the most exciting, diverse and dynamic regions in the country.

Our vision is that everyone has a quality home they can afford. We believe that homes matter to everyone – our mission is to combine our social purpose and commercial drive to create homes and neighbourhoods residents can be proud of.

L&Q Housing Trust the parent of the L&Q Group is a regulated charitable housing association and one of the UK's most successful independent social businesses. As a charitable housing association, every penny of our surplus is invested back into providing more new homes and services for our residents.

Everything we do begins with social purpose. Our roots go back to the 'new wave' of housing associations created in the 1960's, born out of a growing social consciousness around housing and homelessness. In October 1963, a group of young professionals came together to create a housing association and L&Q was born. The initial investment saw 32 people each buy shares worth just £2. Combining a dream to end homelessness with the entrepreneurial flair of the city professionals has led us to where we are today. That £64 has become a multibillion social business. We set out to provide quality, affordable homes for the most vulnerable in society and it is that same fundamental mission that drives us today.

We focus on the needs of our existing social housing residents by investing in their homes, local communities and services. We also create high quality homes to suit a whole range of aspirations, incomes and stages of life, for private rent, shared ownership and outright sale.

L&Q is also a major residential and mixed-use developer and we are committed to working with like-minded partners to help solve the housing crisis and meet our vision to deliver 100,000 new homes.

L&Q invests in places for the long term. Our Community Foundation aims to build opportunity and confidence in each area and helps local people into sustainable careers.

As a charitable organisation, our role goes beyond providing homes and housing services. We are a long-term partner in the neighbourhoods where we work. We hope to build aspiration, opportunity and confidence in our communities through our £250 million L&Q Foundation and our skills academy. Our care and support subsidiary, L&Q Living, also offers housing and other assistance to meet the evolving needs of older and vulnerable people in our society.

Our purpose

To combine our social purpose and commercial drive to create homes and neighbourhoods you can be proud of

Our vision

Everyone has a quality home they can afford

Our values

People
We care about the happiness and well being of our customers and employees

Passion
We approach everything with energy, determination and enthusiasm

Inclusion
We draw strength from our differences and work collaboratively

Responsibility
We own problems and deliver effective lasting solutions

Impact
We measure what we do by the difference we make

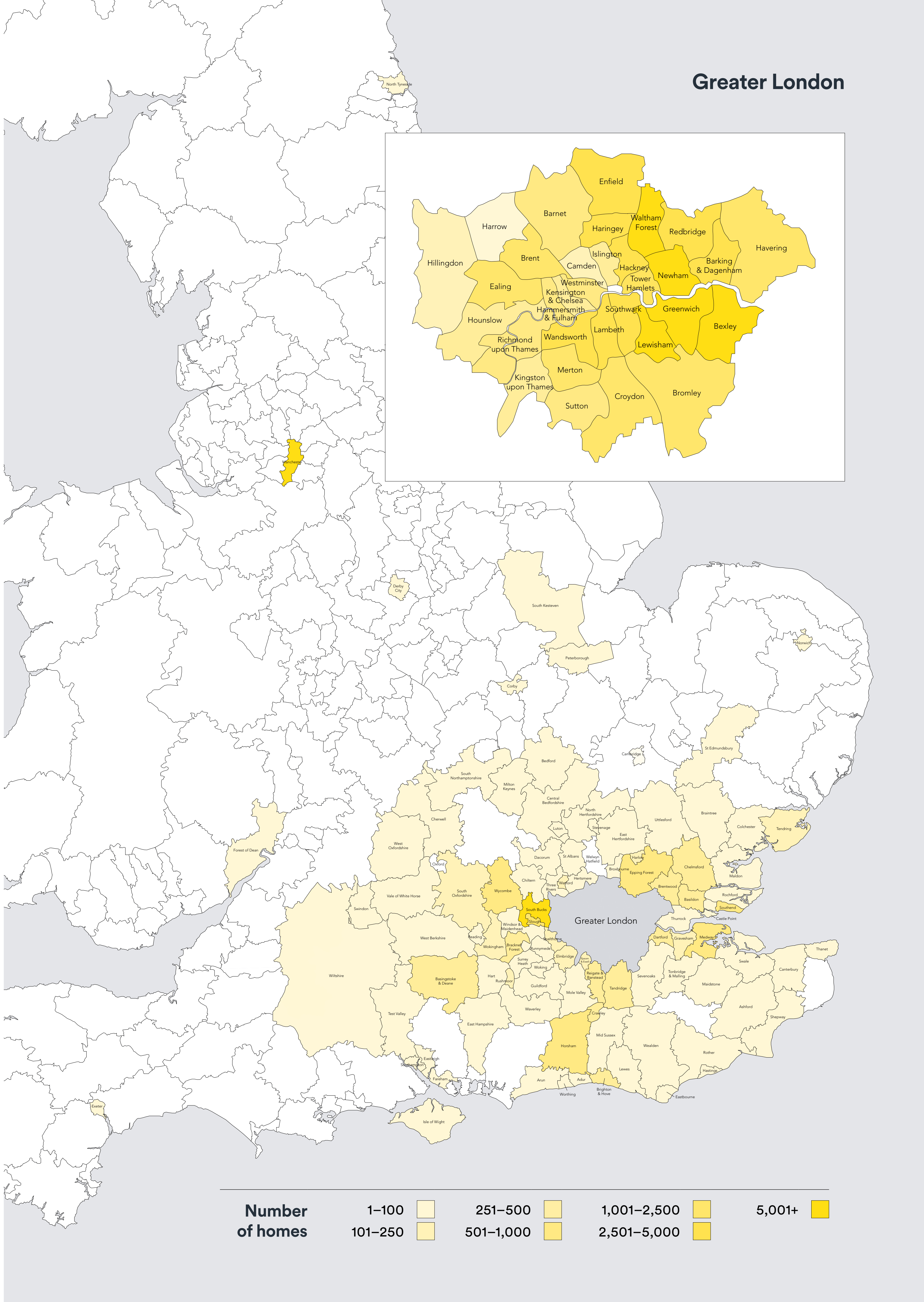
Our homes

The L&Q Group houses more than 250,000 people in more than 105,000 homes, primarily across London and the South East of England, and this financial year has further expanded into the North West of England following the acquisition of Trafford Housing Trust.

	2020	2019	2018	2017	2016
Number of homes managed	**105,300**	95,700	93,100	90,600	73,100

We provide homes and services across the UK for a wide range of tenures, available to residents of diverse incomes. Our largest resident group are those living in social rented housing. On average, our residents living in these homes pay less than 50% of market rents, making them genuinely affordable for people on lower incomes. We are absolutely committed to preserving social housing and building more of it.

	2020	2019
Social rent - general needs and affordable rent Primarily for low income tenants eligible through local authority nominations	**65,483**	59,468
Shared Ownership and shared equity Homeowners who own a proportion of their property and pay rent on the remaining	**11,678**	11,544
Intermediate market rent and key worker accommodation For tenants who pay less than 80% of the market rent	**3,180**	3,342
Supported housing, housing for older people and care homes For older persons or those with higher support needs	**8,250**	5,515
Market rent and student accommodation For tenants who pay the market rent for their homes	**3,210**	2,996
Leaseholders Homeowners who are provided services	**11,450**	10,458
Other landlords and other social homes Services provided to homes owned by other landlords and other social homes	**1,893**	2,216
Commercial Combined live and work homes	**118**	126
Total	**105,262**	**95,665**



L&Q expansion in the North West of England

On 1 October 2019, L&Q completed the acquisition of Trafford Housing Trust (THT). THT is based in Sale, Manchester with a reputation for quality and innovation alongside its local knowledge and relationships.

History

THT was formed in 2005, to receive the transfer of housing stock from Trafford Metropolitan Borough Council managing almost 9,000 homes.

L&Q have worked with THT since early 2016 – when we launched a highly successful joint venture partnership to develop and build 2,000 homes. From then, a strong relationship developed, and the acquisition was a strategic move intended to help us do more to tackle the national housing crisis. Together, we have a longer-term ambition to increase the housing supply in the North West.

Joining the L&Q Group

This strategic acquisition combines THT's local knowledge, relationships and reputation for quality and innovation with L&Q's more than 50 years' experience in planning and infrastructure delivery and as a developer of homes, places and communities. The terms of the agreement mean THT can retain and reinvest any profits made through new home sales into its own schemes and social programmes.

TRAFFORD HOUSING TRUST

Despite the differing geographies and scale, both our organisations are founded on similar values with aligned ambitions that guide our working cultures and our approach to customers. We are motivated by social purpose, are innovative and passionate in what we do, are accountable to our customers and we deeply care about the social impact that we create.

On completing the acquisition, THT Chief Executive Larry Gold said "Trafford Housing Trust has an outstanding reputation as a builder of communities. As a self-managed subsidiary of L&Q, we will be able to build more homes, improve more lives and invest in more communities at a vastly improved scale and pace. We will balance the need for new homes in our region with the ongoing requirement and commitment to our customers to provide the best possible social housing."

Financial Impact

THT joined the L&Q Group with no consideration paid, thereby creating a "gift on acquisition", which is calculated through fair valuing the assets and liabilities of THT. A one-off gain to the L&Q Group Consolidated Income Statement of £235m has been reported to reflect the additional value the acquisition of THT has brought to the L&Q Group.

More details on the financial impact of this business combination can be found within Note 14(g) of our Financial Statements.

Photo: Homes at Trafford Housing Trust's Earlsbrook scheme, in Delamere, Cheshire where they are building 166 family houses.

Our customers

L&Q serves a diverse customer base and we want to provide the best service possible. We measure ourselves against what we say we'll do. We want to learn from our mistakes, put things right and then ensure that we avoid the same issue reoccurring.

L&Q Customer Promise

Our customer promise is all about building trust with our customers and being much clearer about what they can expect from us. We worked with residents and key stakeholders across the business to shape and inform our customer promise to make sure it reflects what is most important to meet their needs.

We will keep you safe

We want you to feel safe and secure in your home and community, so we'll:

- Keep your home dry and safe
- Keep shared spaces clean and safe
- Help resolve issues causing concern to you and your community
- Offer support and work with our local partners to help ensure your wellbeing

That's why we carry out emergency repairs and regularly assess fire safety standards and why we check that our estates are up to standard. It's also why we monitor and manage any anti-social behaviour and train our people to help keep you safe.

We will provide good quality homes and services

We want you to be happy in your home and community, so we'll:

- Maintain your home to a good standard
- Complete everyday repairs as quick as possible at a time that suits you
- Look after shared spaces as if they were our own
- Build high quality, desirable homes
- Work with you and others to create vibrant, sustainable and happy communities

That's why we are focused on improving and maintaining the quality of your homes and estates and why we aim to get your repairs completed more quickly. It's also why part of our business (L&Q Foundation) will invest money every year to create opportunities to support the aspirations of our residents and communities.

We will listen and act

We want you to trust us to be there on your side, so we'll:

- Always be friendly and helpful
- Be straight with you and clear about timescales
- Aim to resolve your query on the same day when we can
- Be here to help if you need it
- Keep you informed about what's happening
- Be upfront with you about our performance and what we're doing to improve it

That's why we train our people to keep improving and giving the best customer care and why we have a range of support services you can access if needed. It's also why we regularly report our performance to resident groups and publish a Residents annual report.

We will put things right

We never want to let you down, but if we do we'll:

- Say sorry and sort it out as soon as we can
- Aim to fix things first time
- Check you are happy with the outcome
- Make it simple for you to complain
- Usually resolve complaints in 10 days
- Learn from what we do well and where we need to do better

That's why we are making improvements in the way we handle your complaints and why we have already invested in more resources to answer your queries quickly. It's also why we're investing to fix repairs better and faster.

We will make it easy for you to deal with us

We want you to have a great experience with us so we'll:

- Do our part to make settling into your home as easy as we can
- Make it easier for you to get in touch and find the information you need
- Make payment transactions easier
- Clearly explain any changes to your rent and service charges
- Make it easier to book a repair appointment

That's why we are making improvements to our services and why we are transforming our service to meet your needs and expectations. It's also why we are developing new ways and technology for you to have a choice in how you contact us.

Our people

Employee involvement

L&Q aims to attract, recruit, develop and retain employees who share our values, as well as having the required experience, skills and knowledge. There is a culture of shared leadership and collaborative learning across the Group. We pride ourselves on nurturing internal talent through our talent management programmes such as Aspiring Managers and Emerging Leaders as well as through a variety of developmental opportunities, not limited to learning and development activities. This ensures that employees remain engaged, motivated and are committed to providing excellent service for our customers.

Our Employee Promise, our brand and our work on diversity and inclusion have brought a number of benefits to the Group. It has allowed us to raise the profile of the social housing sector through social media and other avenues and partnerships as an employment proposition for talented people, and it enables us to grow our business.

L&Q has won numerous accolades, including Investors in People Gold status and as a "Great place to work."

L&Q has a number of initiatives to develop and support our employees. For example:

- We have introduced a more effective induction programme to help assimilate new staff quickly into the L&Q culture focusing on our values and behaviours, and with the express intention of putting our customers at the heart of everything we do.
- We continue to develop staff in service delivery, through our Customer Excellence programme.
- To sustain high levels of engagement we work through our Employee Engagement champion network situated in each area of the business to support managers and leaders with action planning on the back of employee engagement survey results.
- We continue to develop our offer on skills and talent development, in-line with the requirements of the business and ensure we provide a clear management and leadership pathway as well as opportunities such as apprenticeships, graduate training, mentoring and coaching.
- We have developed our digital learning offer including, e-learning training programmes, webinars and a digital personal development toolkit to deliver blended learning and development solutions to support our people in developing their skills.

Diversity and Inclusion

L&Q is committed to a holistic approach to Diversity and Inclusion throughout the career life-cycle, from recruitment and selection, through induction, training and development, appraisal and promotion to retirement. Equally important in this regard is our approach to service delivery. It is our policy to promote an environment free from discrimination, harassment and victimisation. All decisions relating to employment practices will be objective, free from bias and based solely on work criteria and individual merit. We are responsive to the needs of our employees, residents and the community at large.

The Group is a Disability Confident employer, offering an interview to disabled candidates who meet the minimum requirements of the role. We have and continue to support staff who may become disabled during their employment.

We are founding members of the Leadership 2025 programme, which seeks to promote BAME talent at the most senior levels within the sector. Furthermore, although we have seen significant reductions in our median corporate gender (7.6% down to 1.3% in 2019) and ethnicity pay gaps (3.1% down to 2.3% in 2019), we will continually strive to improve these.

Our Head of Diversity and Inclusion ensures that we meet all of the objectives identified within our Diversity and Inclusion Strategy and action plan. Our three network groups, Inspire, Spectrum and Kaleidoscope, are working in tandem with the business to make sure that we make improvements and raise our profile in these areas of work.

Wellbeing is firmly on our agenda and a working group plus a detailed strategy, action plan and dedicated communications, on this subject, along with the support of a team of Mental Health First Aiders ensures we support the health and wellbeing of our workforce.

Our people
L&Q staff networks

Diversity and inclusion is a key part of how we deliver our social mission at L&Q. In recognition of its importance in building successful organisations, inclusion is one of our five core values.

We're proud of our inclusive culture and we want to be a place where everyone can bring their whole selves to work, confident that difference is not only accepted but celebrated in our workplace.

We have three staff network groups at L&Q, each chaired by members of staff who are provided with an allowance of time away from their day job to perform their duties for their network.

Kaleidoscope

Our cultural diversity network aims to create an environment where everyone is treated fairly and with respect, regardless of what your cultural background is. We want to be a fully inclusive organisation where everyone can feel confident about bringing their whole self to work.

Spectrum

Our LGBT+ network aims to foster an inclusive work environment, where LGBT+ staff are respected and able to perform to their full potential, thereby helping L&Q to achieve its goals. Spectrum provides confidential support, advice and signposting on LGBT+ issues to all staff.

Inspire

Our gender equality network aims to produce a sustainable improvement in the gender balance across L&Q by challenging perceptions, building confidence and promoting ability. Inspire engages people in discussion about the benefits gender balance brings to organisations. It also helps staff expand their professional networks and gain the confidence and skills needed to progress their careers.

Together, our networks celebrate our diversity, provide support for our people and help to grow our inclusive culture.

Most importantly, the three networks help to bring people from across the organisation together, connecting them through their shared commitment to supporting diversity and inclusion.

> "Together, our networks celebrate our diversity, provide support for our people, and help to grow our inclusive culture."

Photo: Interior courtyard at Acton Gardens gives residents access to landscaped gardens. Acton Gardens is an award winning development built in partnership with Countryside Properties.

02

Strategic report

Corporate plan

Our two-year corporate plan that concentrated on three key themes "Invest, Grow, Transform", with quality the focus throughout, came to an end in 2020.

Below is an update on what we achieved in 2020:

Investment in assets

The safety and quality of our homes has continued to be our primary focus, requiring further investment in the maintenance of our existing properties, where we invested £233m (2019: £251m) of which £225m (2019: £241m) was on social housing. We spent £111m (2019: £83m) on reactive maintenance and a further £53m (2019: £66m) on the planned maintenance of the homes we own to provide social housing. In addition, capital improvements to these homes amounted to £61m (2019: £92m) in the year. A further £8m was spent on other existing properties in our portfolio.

We are committed to improving our service and this will continue to be a key area of focus for the business.

Investment in growth

During the year L&Q invested £882m (2019: £645m) in new affordable housing, as we make progress with our ambition to tackle the housing crisis. We also invested a further £86m (2019: £333m) in private housing we develop ourselves and £55m (2019: £84m) in partnerships through joint ventures, to generate profits to re-invest in the delivery of affordable housing.

Investment in transformation

Highlights from our 2020 Transformation programme include:

- We replaced our Customer Engagement (CE) solution, and embedded its use across the business; to enable better customer data and insight, improving our ability to respond to customer needs
- We overhauled our complaints policy and arrangements, and delivered workshop style training for over 500 colleagues, focused on delivering a positive customer experience when managing a customer complaint
- We introduced a new Home Sales website, providing better user experience and improved presentation of our properties for outright sale and shared ownership; aimed at facilitating more sales
- A full review of our service charge and 'sinking fund' arrangements was completed, and changes introduced, aimed at better transparency of charges and costs to customers, and more effective service delivery
- A new 'intelligent help and advice' technology was implemented in our contact centre, to provide better, faster responses to customer queries. This tool is also accessible through our Group website, meaning customers and others can self-serve and gain access to this source of intelligent help and advice
- We launched a new customer panel and recruited around 3,500 residents to provide insight; improving our ability to engage and obtain feedback from our residents, informing our service improvement focus
- As part of our 'modern workplace' programme, we issued new technology equipment to our colleagues; meaning that they can access our systems and applications easily and from anywhere.

In light of the coronavirus pandemic, this investment has proven to be a huge benefit. It has meant that we have been able to continue to operate as normal for the majority of our back-office business functions, and has enabled a strong front-office service for our customers, including a fully operational contact centre.

The year ahead

We want to be known for delivering operational excellence in all that we do. As we enter a new year, we have launched a new corporate plan initiative which focusses on four strategic priorities to achieve this.

Our strategic priorities

Our service
Efficient and reliable services

Our homes
Quality homes and sustainable communities

Our people
The right talent and right behaviours

Our financial performance
Financial strength and sustainability

Our focus for the year

1. Our people and culture

- Create agile workplaces and ways of working to help our people thrive and make us more efficient
- Introduce a new behavioural framework to help our people be the best they can be
- Introduce 'The Way we do L&Q' training to support reliable and consistent customer service

2. Building and asset information

- Pilot tools to shape our Building Information Management
- Begin to report our core building safety data through one digital platform

3. New finance systems and processes

- Upgrade our existing finance systems to the latest version to ensure they are supported and stable
- Complete the market tender to procure an implementation partner and new finance system to begin in 2021/2022

4. Maintenance transformation

- Improve the delivery and efficiency of our maintenance service
- Define and agree our long-term future maintenance offer and how we will deliver it

5. Online services

- Redesign the L&Q group website, enabling customers to increasingly self-serve
- Improve our website to enable better advertising of our sale and rental homes online
- Bring the full range of L&Q products and services under one brand

6. L&Q future shape

We are also using 2020-21 to work on our future shape:

- Develop our five year strategy, strategic objectives and our target operating model
- Use learnings and experiences from the pandemic crisis to improve the way we do things at L&Q

At the end of the next financial year we will launch a new five-year strategy to improve the way we do things at L&Q

Group financial performance

Key financial metrics

Summary of financial performance for the year	2020	2019
Turnover	**£915m**	£937m
EBITDA MRI[3]	**£303m**	£232m
EBITDA MRI margin overall	**26%**	21%
Operating margin overall	**31%**	33%
Operating margins – social housing lettings	**33%**	37%
Operating margins - sales	**14%**	9%
EBITDA MRI Interest cover %	**193%**	162%

Turnover

Of the £915m turnover in the year (2019: £937m), 62% was generated from our core social housing lettings activities (2019: 58%) with the growth in housing stock outstripping the effects of a continued period of rent reduction that applied from 1 April 2015 to 31 March 2020. A further 30% (2019: 37%) of turnover was from market sales activity and 5% (2019: 5%) from market rents. The £22m reduction in total turnover in the year is primarily due to a reduction in land sales turnover which was in line with our expectations for the year.

Operating margins and surplus

Operating surplus for the year was £279m (2019: £305m) consisting of a reduction in operating surplus from social housing activities to £207m (2019: £232m) while non-social housing activities fell by £1m to £72m (2019: £73m). Operating margins overall reduced to 31% from 33%, while operating margins from sales improved to 14% (2019: 9%). Our core business social lettings operating margin reduced to 33% (2019: 37%) with the decrease mainly attributable to the increased expenditure on maintenance and investment in the safety and quality of our existing homes.

Interest payable for the year increased by £8m to £119m (2019: £111m) as a result of increased borrowing in the year to fund our growth ambitions and the addition and refinancing of debt held in THT.

In addition to the above financial measurements we track our EBITDA MRI performance closely as a proxy for cash generation and an indication of profitability. We are pleased to report an increase of £71m in the year to £303m. Our EBITDA MRI interest cover was 193% (2019: 162%) comfortably above our lender covenants.

We closed the year with a surplus after tax of £414m (2019: £202m) which included the £235m gift on acquisition of THT.

Financial Position

The group continues to maintain a strong financial position with net assets increasing by £451m to £5,227m in the year (2019: £4,776m). Our housing properties portfolio grew by £1,086m to £10,555m (2019: £9,469m), mainly through the acquisition of THT fixed assets but also through continued growth from our own development programme.

Our investment in Private Rented portfolio increased by £84m in the year to £1,026m (2019: £942m).

Land, properties for sale and work in progress increased a further £50m to £1,100m (2019: £1,050m) mainly through the acquisition of THT.

Net debt[4] increased by £550m to £5,371m (2019: £4,821m) a result of capital expenditure to support growth through development and the acquisition of THT. Our long term loans are disclosed in more detail in the "Capital Structure and Treasury" section of the strategic report.

[3] EBITDA MRI – Earnings before interest, tax, depreciation and amortisation, major repairs expenditure included
[4] Net debt excludes loan fair value adjustments and net issue premium

Case study
Saxon Reach

Saxon Reach is a vibrant new community in Milton Keynes. Once completed, the scheme will deliver 225 new homes, including 70% affordable housing.

Set near picturesque Wavendon, Saxon Reach forms part of the wider Glebe Farm development area, which is set to deliver a collection of retail and commercial facilities, along with a new school – welcoming children from primary age up to the end of secondary school.

All 225 homes will be constructed with innovative modern methods of construction, using off site manufactured timber frames to ensure high quality and efficient build times.

Saxon Reach is the first L&Q led development to be brought forward in Milton Keynes. However, L&Q's strategic land division, L&Q Estates, has been part of Milton Keynes' growth story for the past 15 years, bringing forward land and infrastructure for development in the Western Expansion Area that will ultimately result in around 6,640 homes.

225 new homes

159 affordable homes

100% off-site construction

Financial review (5 year summary)

Consolidated income and expenditure (£m)	2020[5]	2019	2018	2017[6]	2016
Turnover	**915**	937	1,026	756	628
Operating costs and cost of sales	**(732)**	(739)	(724)	(457)	(371)
Surplus on disposal of assets	**64**	50	54	53	41
Share of profits from joint ventures	**25**	20	2	13	23
Change in valuation of investment properties	**7**	37	48	36	23
Operating surplus	**279**	**305**	**406**	**401**	**344**
Net interest charge and other finance costs	**(101)**	(119)	(66)	(69)	(65)
Taxation	**1**	16	10	(5)	(5)
Surplus for the year before exceptional items[7]	**179**	**202**	**350**	**327**	**274**
Exceptional items					
- Refinancing costs	**-**	-	-	(548)	-
- Gift on acquisition	**235**	-	-	441	-
Surplus for the year after tax	**414**	**202**	**350**	**220**	**274**

Consolidated statement of financial position (£m)	2020	2019	2018	2017	2016
Housing properties at cost less depreciation	**10,555**	9,469	9,089	8,671	7,024
Other fixed assets and investments	**1,703**	1,718	1,403	1,128	723
Net current assets	**926**	966	863	1,000	265
Loans due after one year	**(5,528)**	(5,011)	(4,367)	(4,530)	(2,110)
Unamortised grant	**(2,197)**	(2,137)	(2,145)	(1,777)	(1,744)
Other long-term liabilities and provisions	**(232)**	(229)	(259)	(261)	(302)
Net assets	**5,227**	**4,776**	**4,584**	**4,231**	**3,856**
Cash flow hedge reserve	**-**	-	-	-	(159)
Revenue reserves	**5,227**	4,776	4,584	4,231	4,015
Total reserves	**5,227**	**4,776**	**4,584**	**4,231**	**3,856**

Consolidated statement of cash flows (£m)	2020	2019	2018	2017	2016
Net cash generated from operating activities	**255**	189	252	150	194
Cash flow from investing activities	**(602)**	(885)	(96)	(1,537)	(391)
Cash flow from financing activities	**333**	645	(149)	1,492	161
Cash and cash equivalents at start of year	**171**	222	215	110	146
Cash and cash equivalents at end of year	**157**	**171**	**222**	**215**	**110**

[5] Includes Trafford Housing Trust Group results from 1 October 2019
[6] Includes East Thames Group results from 6 December 2016 and Gallagher Estates from 1 February 2017
[7] References made to 'exceptional items' are to highlight the impact of acquisitions in the Group and refinancing activity

Capital Structure and Treasury

The purpose of the treasury strategy is to support the delivery of Group strategic objectives and financial plan. It is approved semi-annually by the Executive Group and the Group Board and details how we mitigate and manage treasury related risk defined as liquidity risk, interest rate risk, covenant risk and counterparty risk.

The role of treasury is to ensure that the Group has sufficient liquidity to fund its operations for a minimum of 18 months, mitigating the impact of adverse movements in interest rates, ensuring that loan covenants are met and ranking the preservation of capital ahead of returns when making investment decisions.

The Group is financed by a combination of retained reserves, loan facilities and government grant for social and affordable housing.

At 31 March 2020, the Group had total loan facilities of £6,003m (2019: £5,728m) of which £5,528m (2019: £4,992m) were drawn and £475m (2019: £736m) were undrawn. All undrawn facilities are fully secured and committed revolving credit facilities available within 48 hours. The Group's exposure to drawn re-finance risk within one year was £59m (2019: £26m), representing 1% of debt facilities.

Cash equivalents held at the year-end totalled £157m (2019: £171m) leaving net debt (excluding any net issue premium, fair value adjustments and mark to market exposure on interest rate hedges) at £5,371m (2019: £4,821m).

Available liquidity (defined as available undrawn loan facilities and available cash that are not secured in held funds and debt service reserves) was £606m (2019: £851m).

The weighted average cost of the Group's drawn debt has decreased to 3.4% (2019: 3.5%). The weighted average duration of drawn loan facilities was 12.0 years (2019: 13.1 years).

The Group manages its exposure to fluctuations in interest rates with a view to achieving a level of certainty in its net interest costs. The Group's interest rate strategy is focused on achieving the prescribed balance between fixed and floating rate debt at an acceptable level of risk and cost. At 31 March 2020, 54% of the Group's drawn debt was fixed (2019: 57%).

Loan covenants are primarily based on interest cover, gearing ratios and asset cover. Covenants are monitored regularly in accordance with the governance framework and were met throughout the year and are forecasted to be continually met for all loan facilities across the Group.

The Group operates a conservative counterparty policy and aims to minimise the risk of financial loss, reputational loss or liquidity exposure linked to any counterparty. Short term investments are well diversified and are kept at a minimum by temporarily repaying revolving credit facilities in order to manage working capital and the interest budget.

As at 31 March 2020 all cash investments are held with Counterparties who meet the criteria of our Treasury Policy.

As at 31 March 2020, L&Q had the following long term credit ratings:

Credit rating agency	Credit rating	Rating outlook
Standard & Poor's	A-	Stable
Moody's Investors Service	A3	Stable
Fitch	A+	Stable

Changes in ratings since the reporting date are provided in Note 32.

Development and sales

The housing crisis remains a national issue within the UK, the spectrum of issues encompasses need, affordability, demand and quality. To help tackle the housing crisis, L&Q's aspiration remains to deliver 10,000 starts per annum and deliver 100,000 new homes over the next 10 years. However, growth will not be at the expense of our commitments to investing in our existing homes and services. Equally, we only have a mandate to develop if we can deliver the required standards of quality and customer service. We are committed to build trust, not just homes.

During the year, the Group completed and handed over 2,439 homes (2019: 2,874) comprising of 49% (2019: 55%) social housing tenures and 51% (2019: 45%) market tenures.

We commenced on another 3,945 residential homes (2018: 6,428), of which 71% (2019: 63%) were social housing tenures and 29% (2019: 37%) were market tenures. The Group achieved the sale of 1,463 (2019: 1,044) homes, of which 800 (2019: 459) were delivered through joint ventures.

Summary of performance (development and sales)	2020	2019
Homes handed over	**2,439**	2,874
Homes enabled (strategic land plots sold)	**749**	1,952
Homes started	**3,945**	6,428
Homes under development	**29,504**	29,911
Strategic land plots under control	**70,614**	67,289

We have approved a further 2,947 residential homes during the year bringing our total development pipeline to 29,504, of which 70% is currently on site, representing a significant investment in new supply and affordable output.

	2020			2019		
Summary of financial performance (development and sales)	Turnover (£m)	Operating Surplus (£m)	Margin	Turnover (£m)	Operating Surplus (£m)	Margin
Shared ownership first tranche sales	61	9	15%	69	16	23%
Outright sales	116	16	14%	116	(10)	(8%)
Property sales	**177**	**25**	**14%**	**185**	**6**	**3%**
Land sales	93	14	15%	155	25	16%
Total (excluding Joint Ventures)	**270**	**39**	**14%**	**340**	**32**	**9%**
Joint ventures	263	25	10%	167	20	12%
Total (including Joint Ventures)	**533**	**64**	**12%**	**507**	**52**	**10%**

Photo: Homes at The Quarry included a space suitable for a study or home office.

Development and sales (continued)

The Group's sales profit excluding JV's increased to £39m (2019: £32m), as a result of higher margins. Profit on open market sales from land and properties was £30m (2019: £15m), and shared ownership sales profit was £9m (2019: £16m) with shared owners purchasing an average of 34% first tranche (2019: 35%).

Bearing down on costs without compromising quality has been a key priority for this year and strong financial efficiency targets have been set for FY2021 and FY2022. There will also be changes to our resourcing plans that will see increased productivity within our construction and development teams over the next three years.

The need to control cost and to improve quality points us firmly at the off-site manufactured product. This year has seen us come to the end of our research and development phase and to firmly establish what the L&Q housing product standard is, so that we can confidently approach the market. We have set ourselves a target of having 65% of our new homes having an element of off-site manufacture within the next 5 years. On the back of agreeing a set of standard house types, we have placed an order for 1,000 homes with Stewart Milne. They have 40 years' experience in the off-site manufactured market and the first of their new homes was delivered to site in the Midlands in 2019.

Our move to off-site manufacturing has the additional benefit of helping us to hedge against potential labour shortages and in helping to develop a more diverse workforce within the construction industry. The coming year will see us work with a number of other providers to commission or to develop joint ventures or equity investment models. We will work closely with Homes England on these ideas.

Joint ventures

L&Q works with a range of partners including the GLA and major housebuilders to deliver projects of various scale. At 31 March 2020 L&Q had 23 (2019: 22) active developing JVs, delivering 6,834 homes (2019: 7,077 homes). The majority of JVs are separate Limited Liability Partnerships (LLPs), set up to deliver a specific site or regeneration project. However, more recently the focus has been on larger scale initiatives where L&Q can maximise the social impact by delivering long term sustainable mixed tenure communities. The Group's sales profit from JV's increased to £25m (2019: £20m), with margins decreasing to 10% (2019: 12%).

Forging strong relationships with these and future partners, we will continue to work hard to be able to ensure investment in more homes, communities, apprenticeships, jobs and innovative methods of construction for years to come. This is also an attractive way for the Group to secure an affordable housing supply.

Land sales

In January 2019, Gallagher Estates, our strategic land division was consolidated under our development division and rebranded as L&Q Estates.

Within strategic land we secured outline planning consent on over 5 different sites and sold land to four housebuilders to enable the delivery of 749 new homes.

Over the last 12 months, we have continued to secure and promote new sites, securing planning consent and delivering infrastructure such as roads, schools and open space to create new communities.

The underlying land sales margins in the individual L&Q Estates entities were 29% (2019: 42%), compared to 15% (2019: 16%) at Group level due to the land having been fair valued on the acquisition of Gallagher Estates in February 2017. As new sites are acquired, we can expect land sales margins to increase and over time will re-align with the margins delivered by the individual entities engaged in strategic land promotion which are significantly higher.

There were 70,614 (2019: 67,289[8]) potential strategic land plots under our control as at 31 March 2020, of which 9,686 (2019: 8,216) had a resolution to grant or a full planning permission. These land interests are principally held in southern England, and other prime land areas of the south west, central and eastern regions where we continue to see strong demand for serviced land.

[8] Previously reported as 46,800 strategic land plots in 2019. In FY2020, 2 schemes have been re-assigned to strategic land. We have amended the 2019 figure to provide a like for like comparative.

Case study
Parklands at Barking Riverside

Parklands is the first phase of homes being delivered directly by L&Q at Barking Riverside in East London

Barking Riverside is a joint venture between L&Q and the Mayor of London, and is one of Europe's largest brownfield developments, covering an impressive 443 acres. The masterplan will deliver 10,800 new homes, the brand-new Barking Riverside Overground Station, as well as commercial, retail and leisure facilities. New schools, parks and river walkways will all become home to an estimated 30,000 people at this former 1920's power station site.

Parklands is located to the north of the masterplan and will deliver 300 homes with a mix of outright sale, shared ownership and London Living Rent – half of the homes will be provided as affordable housing. A minimum of just £28,500 in joint income is required to purchase a shared ownership home at the scheme, making it perfect for customers looking to get onto the housing ladder for the first time.

With one in every four properties a larger townhouse, there's something for professionals and families as well.

300 new homes

50% affordable housing

£28,500 joint income required for shared ownership

Social housing lettings

Summary of performance (Social housing lettings)	2020	2019
Revenues (£m)	**561**	529
Operating surplus (£m)	**185**	194
Surplus on disposals (£m)	**64**	50
Operating margins	**33%**	37%
Homes managed	**75,961**	67,468

Social housing lettings activities form the core of our business contributing £185m (2019: £194m) to the Group's operating surplus with operating margins of 33% (2019: 37%). The decline in margin was in line with expectations following increased maintenance expenditure as well as continued increased investment in the quality and safety of our homes. Rent losses across our general needs tenures were less than 1% (2019: 2%) and total arrears at the year end were 5.3% against a target of 4.6%.

The Group invested a total of £225m (2019: £241m) on our existing social housing homes of which £114m was on planned maintenance and capital works with the remaining £111m incurred on reactive maintenance. Much of this work was required to improve the safety and quality of our homes, whilst improving resident satisfaction through our improved void re-let standard initiative.

Our main social housing sub-tenures are:

- General Needs - regulated under a target rent regime
- Affordable rent - which ranges from 40% to 80% of the market rate under an L&Q policy
- Intermediate market rent - which is designed for those not on housing benefits
- Shared ownership with rent set at a maximum of 2.75% of the unsold equity
- A range of other Government introduced initiatives such as London Affordable Rent (LAR) introduced as part of the London Homes Programme 2016-21 and London Living Rent (LLR).

During 2019 we began a program to switch our residents with fixed-term tenancies onto lifetime assured tenancies. Open-ended tenancies will give our residents more security – and this means people can put down roots locally.

The Group is also committed to providing a range of supported housing accommodation and high-quality support services for older people, adults with learning disabilities, mental health issues and vulnerable young people.

Supported housing is traditionally a low margin activity, but one of vital importance for the provision of housing and services to those residents. In FY2020 supported housing activities made a loss of £1m (2019: £1m profit). This reduction is primarily as the result of increases in operating costs across management, service charges and maintenance outstripping any increases in revenue, compounded by the final year of the rent reduction regime. Supported housing primarily includes sheltered accommodation and a mix of agency and directly managed supported accommodation.

L&Q Foundation Scholarship programme

Supporting access to education for everyone is a vital part of enabling social mobility, which is why the L&Q Foundation helped nine students realise their dream of attending university through our scholarship programme.

The Turlogh O'Brien programme is named after our former chairman, who remains passionate about advocating higher education for our residents.

Each student received a significant annual contribution towards their tuition fees, as well as optional work experience with L&Q in the second year of their studies.

Che Scott, who is studying business and marketing at Roehampton University, said: "This scholarship has given me the opportunity to fast-forward into the career I want. I was afraid of being in debt, but this means I'm paying less money back. It's really important to me because without moving on with my studies I feel as though I would stagnate."

Another of the scholars, Adam Billings, had previously been told he would be unable to attend university after he was forced to miss a year of school for health reasons.

However, with support from the L&Q Foundation he is now studying for a photography degree in Norwich. He said: "I was worried about getting the money to do the course, and without the grant I would have had a lot more stress."

Mr O'Brien said: "I'm delighted that L&Q run this programme because it's a great opportunity for these young people. It's not luck that got them here, they have worked very hard to get to this point by achieving their A-Level results and securing their university places."

"I'm delighted that L&Q run this programme because it's a great opportunity for these young people."

Other social housing activities

L&Q Living

We care for the most vulnerable people living across a range of properties, tenures and communities through our subsidiary L&Q Living "LQL" with support tailored to their needs.

LQL provides housing to 5,966 people across 46 local authorities. This includes a mixture of Direct Housing Management, which accommodates 3,707 people, and Agency Managed Services, which provides accommodation to 2,259 people. We deliver these services to people with a range of needs.

LQL has continued to achieve a 'Good' Care Quality Commission rating across 100% of their services, with one scheme being rated 'Outstanding'.

In 2019 we transferred 286 units of rough sleeper accommodation from One Housing Group back into the management of LQL and launched our rough sleeper 'offer'.

In January 2020, a new strategy was launched by the LQL Board, continuing to focus on the follow broad areas:

- Growth: Meeting the future housing needs of vulnerable people in the regions that we work
- People: Providing high quality person-centred care and support to our customers and investing in our staff to ensure they have the skills and knowledge to deliver the care and support at the level that we expect
- Rough Sleeping and Homelessness: Working in partnership with government and local authorities to tackle this issue
- General Needs Offer: Creating an offer to our internal colleagues to meet the needs of vulnerable customers across L&Q neighbourhoods
- Investing in our stock Providing homes that are safe and we are proud of;
- Dementia Ensuring people with dementia residing in an L&Q Living property live well

We continue to offer a range of free activities to vulnerable people with an aim of reducing loneliness and isolation.

The L&Q Foundation

As a charitable housing association, we are a long-term partner in the neighbourhoods where we work. We create opportunities for people and strengthen communities we serve through the L&Q Foundation.

The L&Q Foundation's work is focussed around three strategic pillars:

- Independent lives – supporting our residents to live economically and socially independent lives
- Successful places – improving the quality of life and life chances of those who live in our homes and communities
- Social responsibility – supporting the business to be socially responsible in the way it manages its operations

During the year, we invested £7m to help drive outcomes that would make a difference to our residents and wider communities. The L&Q Foundation's key achievements were:

- 732 people into paid work (2019: 606 people)
- Over 1,600 residents accessed Pound Advice and £5m raised for residents as additional income through helping them access support and funding
- 467 of our most vulnerable residents supported to stabilise their tenancies (2019: 664 vulnerable people)
- £300k invested into grassroots organisations delivering 35 projects support our communities through our Place Makes Local fund
- £21m social value created – measured using the Housing Associations Charitable Trust (HACT) Wellbeing Valuation (2019: £17m).

During FY2021, we will launch a new L&Q Foundation strategy which has been informed through consultation with residents and other stakeholders to make sure it addresses the challenges faced by those living in our communities.

Our objectives are adaptable to make sure we can tailor our offer to changing needs, including how the Coronavirus pandemic has impacted our residents and communities.

The L&Q Academy

The L&Q Academy is now part of the Learning and Development team within Human Resources, and is currently being reshaped to facilitate the provision of all talent programmes including;

- Early talent programmes for Apprentices and Graduates
- Talent programmes for colleagues to develop leadership and management skills
- Targeted programmes to strengthen and embrace a high potential diverse workforce through targeted programmes for example, for BAME colleagues.

Currently we have a total of 58 apprentices and 30 graduates working within L&Q, many studying towards professional qualifications such as chartered accountancy or chartered surveying. We also offer accredited training and upskilling opportunities to our staff so they can progress their careers with 128 colleagues currently enrolled on upskilling programmes.

Last year, 24 new apprentices started at L&Q in different apprenticeship roles in vocational areas across the business. Of the Apprentices completing their programmes, 61% went on to secure permanent roles within L&Q or our supply chain.

Our residents
L&Q Foundation food bank

The fallout from the coronavirus pandemic has demonstrated that the work the L&Q Foundation does to support local communities is now more important than ever.

The L&Q Foundation acted quickly to identify and support the people who most needed help. One of the many ways they did this was by setting up a new food bank in London.

The food bank, which was set up at our Lewington Community Centre, distributed hundreds of food parcels to people in Lewisham, Southwark and Greenwich.

L&Q residents and staff, including CEO David Montague, were among the volunteers working with van drivers from Southwark Council, which worked in partnership with the Foundation, and the charity Fareshare to distribute the food.

Matt Corbett, Director of the L&Q Foundation, said: "We felt that it was essential to start this new food bank and support people during the coronavirus pandemic.

"Our duty to help the most vulnerable members of society became more important than ever, and it was wonderful to see how so many different people came together to make this happen."

The manager of Reclaim at the Lane, a furniture re-use project supported by the Foundation, also started a food bank to help people during lockdown.

Diye Wariebi, 49, repurposed the premises he used for his furniture re-use and volunteer upskilling project in Newham to receive and distribute deliveries of food instead.

He said: "It was obvious that people who need cheap furniture also need free food. Because of social distancing, it was only me in the Newham warehouse, so I decided to focus on the food bank instead of the furniture."

"We felt that it was essential to start this new food bank and support people during the coronavirus pandemic."

Non-social housing lettings

The Group's non-social housing lettings activities comprise private rented sector (PRS), student accommodation, commercial, leaseholder services and other non-habitable units.

Summary of performance (Non-social housing lettings)	2020	2019
Revenues (£m)	**63**	50
Operating profit (excluding change in revaluation) (£m)	**30**	23
Revaluation gains (£m)	**7**	37
Operating margin (excluding change in revaluation)	**48%**	46%
Units managed	**26,276**	23,694

Our L&Q PRS Co Limited subsidiary manages the majority of the Group's private rented properties and added a further 187 homes in the year to its portfolio (2019: 800 homes) taking the total to more than 2,500 homes. L&Q PRS Co Limited made revenues of £45m (2019: £34m) generating an operating margin of 71% (2019: 65%). Rental yields also compared positively to the target rates, with gross rental yield of 4.6% (2019: 3.7%) and net rental yield of 3.3% (2019: 2.4%).

The investment property portfolio benefited from a more modest revaluation gain of £7m (2019: £37m) which reflects the current external market sentiment alongside the Group's build–to-rent model where newly handed over homes will generally gain more substantial uplift from their initial build cost than homes already previously revalued or homes purchased. The PRS portfolio continues to achieve its strategic plan to expand the portfolio over the next few years. As a commercial portfolio, our intention is to maximise the income from this portfolio to support our focus on delivering social rented homes.

Our commercial property portfolio generated an operating margin of 66% (2019: 58%), while our leaseholder services incurred a £4m loss this year due to incurring additional costs relating to safety and quality on some schemes which we have made a conscious decision to absorb rather than seek to recover. Other smaller non-habitable lettings such as garages and parking spaces continue to perform in line with expectations contributing to a further £1m turnover in the year (2019: £1m).

Other non-social housing lettings

Other than our open market sales and joint venture activities reported earlier under "Development and sales activities", other non-social housing activities include the expansion of L&Q Energy which helped reduce our environmental impact by installing solar panels, offsetting carbon, fitting charging points for electric vehicles and sourcing energy from green suppliers. We also minimise the waste we generate from our offices and construction sites and monitor the outputs through annual environmental impact reporting.

Through a combination of energy saving advice for residents and practical improvements to make these homes more energy efficient, our EnergySave Plus programme is helping reduce energy bills. It should also help to reduce rent arrears and mould and damp problems while also improving comfort.

L&Q Energy's income generation in the year was £4m (2019: £3m). Our Energy team continues to be recognised for the size and scope of its energy efficiency work, impact on the local community and its expertise.

Value for money

Note:
The measures used in this Value for Money report are as defined by the Regulator of Social Housing.
They do not match our own internal measures or financial covenants quoted elsewhere in this Strategic report.

L&Q's mission is to combine our social purpose and commercial drive to create homes and neighbourhoods we can be proud of.

We are committed to providing and improving value for money as an integral part of the Group-wide corporate strategy and objective setting.

Our strategic goals and performance

One of the advantages housing associations have is to be able to use our financial strength to take a long-term view, to do what is best for our residents, their homes and their communities.

L&Q has been delivering the same long term strategy since 2015, although plans have been adjusted year on year as a result of important changes in our operating environment over that time period to take account of the rental reduction policy from 2016, a downturn in the property market and preparations for leaving the European Union and, most significantly, the consequences for stock investment in building safety following the tragic Grenfell fire in 2017. FY2020 was the second and final year of L&Q's "Invest, Grow, Transform" corporate plan to deliver this longer range strategy.

The strategy launched in 2015 was a step change for L&Q where it sought to significantly ramp up its delivery of new housing. Over the life of this strategy, the group has been pursuing the development of as many homes as possible to meet a range of housing needs, but particularly the delivery of homes at below market levels for people who would not otherwise be able to afford them. L&Q believes that this additional housing supply truly adds value - and we set an ambitious target to gear up towards with the delivery of 100,000 new homes.

Whilst the volume of new homes delivered is important, the group has also wanted to deliver value by providing good quality homes and services, and investing in its residents and communities. To meet these longer-term goals the group needed to invest carefully and operate efficiently. Value for money for L&Q is not necessarily about minimising cost, but instead from achieving efficiencies and achieving more from the resources we have and the investments we make.

Value for money targets are integrated into the corporate planning process to run the business strategically. The following are the relevant value for money targets from the many targets used to monitor and run the business, split between "value metrics" and "cost and efficiency metrics":

Value metric	Target for FY2020	Actual	Commentary
Customer Satisfaction with Service Delivery	86%	86%	We have met our service delivery target which measures how satisfied our customers are after they have engaged and received a service from us. This result is encouragingly high and gives us comfort that when we deliver a service to customers it is generally a positive experience and they are generally satisfied. However, we know from broader customer perception measurements that our customers get frustrated with several aspects of our service delivery, for example wait times and communications, or repairs jobs not fixed first time. Overall, we are not satisfied that we have yet met our longer-range strategic objectives of improving value to residents through our customer service. Maintenance is the service with the biggest impact on resident satisfaction. In order to achieve gains in the next year we have narrowed the focus to an intense programme - fixing the basics of the maintenance service.
New Build Handovers	3,301	2,439	Although continuing to contribute to the supply of new homes, we handed over 862 fewer homes than anticipated this year. Delays in handovers were as a result of our increased focus on quality and fire safety, which was prioritised ahead of handing over new homes where quality issues may have existed.
Financial gains for customers assisted	£8m	£5m	L&Q assisted 1,834 customers through its various tenancy sustainment programmes overseen by the L&Q Foundation, leading to a total financial gain of £5m over the year for those who were assisted. This was behind our target, primarily due to a reduction in the number of residents referred to our programme. We know there are more residents that we can help and will be focussing on ensuring we reach out further and refer them to our service which is proved to assist them in achieving financial savings. A focussed measure on this service will be monitored accordingly.

Cost and efficiency metric	Target for FY2020	Actual	Commentary
EBITDA MRI margin (excluding development sales)	50%	42%	The margin from our core business (excluding non-development sales activities), was below our budget. This was due to a combination of increased bad debt provision reflecting the impact of coronavirus, lower rent and service charges due to handover delays, increased fire safety costs and lower fixed asset disposals. Decisions taken in the year to continue investment in safety and quality of our homes also increased our operating costs, which although impacting financial performance, we still believe is the right thing to do.
EBITDA MRI net sales margin	11%	10%	Net sales margin was slightly above budget, however overall sales volumes and net profit was below our budget. Margins were improved on the previous year, yet below our 15% hurdle rate reflecting the impact of increased costs on schemes that were sold in the year.
EBITDA MRI interest cover	224%	193%	The primary driver of our performance dropping below our target was due to lower profit on sales in the year during a turbulent market caused by Brexit, alongside lower rents than budgeted and an increased service charge deficit. We also experienced increased expenditure on maintenance related to our strategy to invest in the quality and safety of our homes.

Our overall assessment on delivery of the strategic goals set in 2015 is mixed – the impact of external factors outside our control contributing to this outcome. However, we know we can and want to improve, particularly in relation to service delivery. Our operating environment has changed dramatically, and we are now in the process of resetting our strategic objectives for the next 5 year period – including the value we are seeking to achieve, alongside operating efficiencies.

During FY2021 we will be operating to a one-year plan with relatively narrow and specific goals which are focussed on formulating a revised service offering and improving service in targeted areas, alongside and improving building and asset information to prepare for potential future safety requirements.

We are continuing to measure ourselves against the targets that are relevant to the delivery of value for money.

We are measuring a greater number of value metrics this year focussed on the areas where we want to see improvement – primarily in relation to customer service and repairs. With improved performance in these areas, we anticipate fewer customer service contacts, leading to efficiency in the service we provide.

Value metric	Target for FY2021	Commentary
Customer satisfaction with service delivery	80%	We have changed the way in which this score is calculated to be a blended weighted service satisfaction score – this is likely to lead to a lower overall number than FY2020 but we feel is a more appropriate measure.
Customer satisfaction with "listen and act"	90%	A bespoke measure, derived from a range of transactional surveys about how well L&Q residents believe we listen to them and act upon what they are saying. This is an important perception measure and will enable us to monitor whether we are achieving our strategy to deliver excellent customer service.
Customer satisfaction with "easy to deal with us"	90%	A measure derived from a range of transactional surveys about how easy it was for the resident to transact with us. We are focussing on our digital offer to customers in order to improve our performance in this area.
New build handovers	3,323	In light of the current operating environment due to coronavirus, this is an ambitious target which we will strive to achieve. L&Q remains committed to developing affordable, quality and safe homes and we will take the time required to achieve this while working towards our ambition of increasing supply. While our construction sites were closed for a period during the lockdown, all are back on site and we are monitoring handover performance closely.

Cost and efficiency metric	Target for FY2021	Commentary
EBITDA MRI Interest Cover %	209%	This target measure is somewhat reliant on performance of sales during the year achieving our budgeted expectations. We monitor performance against this measure closely throughout the year.
EBITDA Margin (excluding development sales)	42%	This measures the margin achieved on our core business excluding development sales activities. This margin is a key contributor to our overall blended margin on all Group activities - a key performance measure we track, and a measure of focus from our investors and rating agencies. It includes asset sales and staircasing activities and therefore the impact of coronavirus on the sales market will impact on our ability to meet this target.
Reduce gross arrears	5.03%	Includes arrears on all rental and service charge income streams. This will be a challenge to achieve while managing the impact on rent arrears caused by coronavirus, however it remains a key target for the Group.
Improve re-let times	Minor voids 22 days	We want to reduce out re-let times across all housing tenures. These increased recently due to the implementation of our improved void property standard, however we want to ensure our housing is not inaccessible any longer than it needs to be.
	Major voids 42 days	This in turn will increase rental income and occupancy rates.

During FY2021 we are taking the opportunity to carry out a programme of work "reshaping L&Q" to identify our next longer-range set of strategic goals, including how we will assess value for money in that period.

Our focus for FY2021 is discussed in detail earlier in the Strategic Report under our Corporate Plan. We have set a fuller range of clear targets across the 4 strategic priorities to measure our success and progress against these, and through close budget management we will deliver better value for money metrics.

Comparative performance measures

L&Q participates in the annual Sector Scorecard which aims to benchmark housing associations' performance, demonstrates the sector's accountability to its tenants and stakeholders and includes a range of consistent and reliable measures from financial gearing ratios to customer satisfaction. This platform allows participants to learn from each other and as a sector improve financial and operational performance in a sustainable manner.

All 15 measures are reported below for the L&Q Group (including THT results for the 6 months of the year that they were part of the Group) and are set out compared to L&Q's prior year performance (2019), L&Q's targeted performance, and benchmarked against the G15[9] median and Housing sector median[10] using the most recent publicly available data. This enables us to identify areas of potential under performance and highlight where we might wish to focus on improving. These measures include the seven contained within the Value for Money Standard as set by the Regulator which are identified with an "*".

Note: As these measures are as defined by the Regulator of Social Housing in order to ensure consistency, they may not agree to our own internal measures or financial covenants quoted elsewhere in this Strategic report. Full calculations can be found in note 35 of our financial statements to show how these were derived.

Sector scorecard		L&Q 2020 actual	L&Q 2020 target	L&Q 2019 actual	G15 median 2019	Sector median 2019
Business health						
1.	*Operating margin (overall)[11]	**20%**	**28%**	**21%**	26%	26%
2.	*Operating margin (social housing lettings)	**33%**	**42%**	**37%**	33%	29%
3.	*EBITDA MRI (as % interest)[12]	**119%**	**163%**	**119%**	143%	184%

Key observations:

The calculation of these measures excludes surplus on disposal of fixed assets and our share of profits from joint ventures, both of which we deem to be a core part of our operating performance that drives efficient asset management and enables us to develop more through partnerships. This particular measure includes impairment, a non-cash accounting adjustment, which ordinarily and within our internal metrics and banking covenants is ignored. If these were adjusted for, our overall operating margin for the year would be a healthier 26% compared to the previous year and a target of 28%.

As defined in the Sector Scorecard, operating margin both overall and for social housing lettings decreased in the year and were below budget and our peers' performance in the previous year. L&Q has experienced similar trends in operating efficiency as most of the sector – with the impact of rent cuts and rising costs through increased investment in maintenance leading to squeezed margins. Operating margins should be viewed in the context of the diversity of activities the sector is now engaged in and can fluctuate at times when investments are planned. This is as a result of our planned investment in the safety and quality of our homes and non-cash impairment adjustments on some development schemes. We have also experienced increases in costs

[9] The G15 represents 12 of London's largest Housing Associations.
[10] Source: Sector Scorecard 2019 results.
[11] Excludes gain/(loss) on disposal of fixed asset, share of joint venture results and revaluation of investment properties.
[12] EBITDA MRI % interest calculated as EBITDA MRI ÷ Gross interest payable x 100 as prescribed in the current Sector Scorecard.

Value for money (continued)

relating to service charges, which due to the timing of recovery through income collection in future years has had a further negative impact on operating margins in the year.

Our core social housing lettings activities operating margin is in line with our G15 peer group but is lower than FY2019 and our target of 42% due an enhanced bad debt provision and decisions taken in the year to continue investment in safety and quality of our homes. Although this has impacted financial performance falling below our target, we still believe it is the right thing to do.

EBITDA MRI provides an approximation of the net cash generation by the Group, presenting it as a percentage of interest shows the level of headroom on meeting interest payments for outstanding debt. L&Q uses a similar measure aligned to our banking covenants, which includes surplus on disposal of fixed assets, our share of profits from joint ventures and excludes impairment. This forms part of our internal key metrics which we monitor closely throughout the year – ensuring we maintain sufficient headroom to pay our interest costs. As defined in the Sector Scorecard, our performance is below our target of 163% and the previous year performance. This reflects the difficult sales market which we faced in the year, impairment of our development pipeline, increased investment in our homes and an increased bad debt provision. L&Q's measure of EBITDA MRI interest cover was 193%, above last years figure of 162%, and this sits comfortably above our banking covenants.

L&Q has a significant development pipeline which is largely funded by debt with a proportionally higher interest cost than other housing associations in the sector which are not developing to the same extent.

Looking forward:

In response to performance in the year not quite being where we would want it to be, we have targeted further efficiencies that will positively impact operating margins and continue to carefully monitor expenditure. We are reviewing our approach to service charges and monitoring this deficit closely with an action plan for recovery. We expect the coronavirus pandemic to have a further impact, but have allowed for this in our future forecasts and financial planning.

While L&Q continues to deliver a large proportion of turnover from sales activities, which ordinarily generate lower margins than social housing letting activities, we would expect our overall operating margins to be below our peer group, who all generate a lower proportion of their total turnover from sales activities.

Sector scorecard		L&Q 2020 actual	L&Q 2020 target	L&Q 2019 actual	G15 median 2019	Sector median 2019
Development – capacity and supply						
4.	New supply delivered (absolute)					
	- Social housing homes	**1,188**	1,838	1,582	790	N/A
	- Non-social housing homes	**1,251**	1,463	1,292	133	N/A
5.	*New supply delivered %[13]					
	- Social housing homes	**1.3%**	2.1%	2.0%	1.5%	1.5%
	- Non-social housing homes	**1.2%**	1.4%	1.4%	0.5%	0.0%
6.	*Gearing[14]	**51%**	51%	51%	45%	43%

Key observations:

L&Q has delivered significantly higher numbers of new homes for both social and non-social housing than our G15 peers. This is however behind last year and our target performance due to completion delays experienced on a small number of schemes, where we focussed on ensuring build quality ahead of meeting handover targets.

L&Q is committed to developing affordable, high quality and safe homes and we will take the time required to achieve this while working towards our ambition of increasing supply.

The Groups gearing ratio remained the same as the previous year and in-line with our target. L&Q's gearing ratio exceeds that of our peer group because the gearing ratio used in the Sector Scorecard only includes housing property assets not total assets, and L&Q own a significant PRS portfolio as well as development assets including Joint Venture investments, which are not included in this ratio.

Looking forward:

L&Q remains committed to continue to contribute to solving the housing crisis through increasing the supply of new homes both for affordable rent and for non-social sale, with a pipeline of over 100,000 homes and land plots under our control. We have set ourselves ambitious targets to reach 10,000 home delivery each year in the next ten years, either through partnership working or through our own development.

Sector scorecard		L&Q 2020 actual	L&Q 2020 target	L&Q 2019 actual	G15 median 2019	Sector median 2019
Outcomes delivered						
7.	Customer satisfaction with services provided by landlord	**71%**	77%	70%	77%	-
8.	*Reinvestment %[15]	**10%**	10%	7%	6%	6%
9.	Investment in communities[16]	**£7m**	£7m	£6m	£2m	-

Key observations:

The level of customer satisfaction with services provided for the year marginally increased compared to FY2019 but fell behind our peers and where we want to be despite significant investment in transforming our services over the last two years. This is a measurement of perception – and therefore highly susceptible to change in response to changes made in our service. We have set a target of 80% for this perception measure next year, as we are re-organising our customer service function by bringing the core resident services into one team to increase accountability. This will enable better delivery of customer service and drive improvements for our services especially for repairs and estate services.

Reinvestment continued to increase in line with our target as we continue our commitment to improve the safety and quality of existing stock, as well as increasing the supply of quality new homes.

Our investment in communities of £7m is much higher than the G15 peer group and demonstrates our commitment to driving outcomes that support our residents and wider communities. The focus of this investment is across 3 strategic pillars of independent lives, successful places and social responsibility. This area is covered in more detail the section under L&Q Foundation of this report.

Looking forward:

It is clear to us that as a result of the coronavirus pandemic there will be more for us to do to support our customers and communities. The objectives of the Foundation are flexible to make sure we can adapt and offer support in the areas required. We are committed to this investment, and the social value that this will provide.

Similarly, we want to provide our residents with excellent customer service and are working to improve this area in line with our peers and our own targets through delivery of a new L&Q group website enabling customers to increasingly self-serve and introducing a new behavioural framework to help our people be the best they can be. This forms part of the 'our service' strand of our new corporate plan.

[13] As a % of social housing stock owned and total stock owned at end of year.
[14] Gearing calculated as net debt ÷ carrying value of housing properties x 100 as prescribed in the current Sector Scorecard, where net debt represents total bank and debenture loans less cash and cash equivalents.
[15] Investment in properties as a percentage of the value of total properties held at end of year.
[16] Actual spend in the year.

Value for money (continued)

Sector scorecard		L&Q 2020 actual	L&Q 2020 target	L&Q 2019 actual	G15 median 2019	Sector median 2019
Effective asset management						
10.	*Return on capital employed[17]	**2.1%**	**2.2%**	**2.2%**	2.9%	3.8%
11.	Occupancy	**98%**	**99%**	**100%**	99%	-
12.	Ratio of responsive repairs to planned maintenance[18]	**1.0**	**0.7**	**0.5**	0.6	-

Key observations:

Whilst overall return on capital employed (ROCE) gives an indication of how well the Group makes a financial return on the assets it owns, our asset management strategy focuses on improving how the asset base can perform better as well as the qualitative aspect of improving our homes. The Group's ROCE is lower than the G15 following the deemed cost revaluation exercise carried out on the transition to FRS102 which increased the book value of our housing properties. This year's ROCE is also affected by the acquisition of THT halfway through the year, where 100% of the capital employed is included in this metric, but only half the return.

Our occupancy rate at 98% is slightly below the target of 99%, and reflects the longer void times while we concentrated on delivering a higher standard of void works. Our performance still reflects our success in sustaining existing tenancies, and is a reflection of the overall quality of our homes across our social housing portfolio.

We have seen an increase in the ratio of responsive repairs to planned maintenance in the year, which was not unexpected following a strategic decision to focus on customer service in this area. We operate our own in-house maintenance function, which is not currently operating as efficiently as it could do, and will remain an area of focus for improvement.

Looking forward:

A key objective for the year ahead is to focus on our planned maintenance and procurement of contracts to complete required works in an efficient way. Through a more proactive approach and a focus on maintaining decent homes compliance, we aim to reduce the responsive maintenance repairs. This in turn should have a positive impact on operating margins and our ROCE.

Through careful management of void properties we aim to return to our previously high occupancy rate, despite the challenges coronavirus has presented us in the early part of FY2021.

[17] Return on capital employed calculated as operating surplus including gain/(loss) on disposal of fixed assets and share of operating surplus/(deficit) in joint venture or associates ÷ total fixed assets + total current assets less current liabilities at end of year

[18] Routine maintenance as a percentage of planned maintenance + major repairs expenditure + capitalised major repairs and re-improvements expenditure

Sector scorecard		L&Q 2020 actual	L&Q 2020 target	L&Q 2019 actual	G15 median 2019	Sector median 2019
Operating efficiencies						
13.	*Headline social housing cost per unit	**4,384**	**4,368**	4,838	4,839	3,695
•	Management cost per unit	**564**	**462**	588	1,332	1,068
•	Service charge cost per unit	**755**	**639**	745	767	416
•	Maintenance cost per unit	**1,848**	**1,741**	1,867	1,166	968
•	Major repairs cost per unit	**688**	**864**	1,133	1,077	96
•	Other social housing cost per unit	**530**	**463**	506	450	669
14.	Rent collected as % of rent due (General needs)	**99%**	**99%**	99%	100%	-
15.	Overheads as a % of turnover	**7%**	**6%**	6%	10%	-

Key observations:

In FY2019, we published both adjusted values and gross figures for our cost per unit metrics in order to clearly demonstrate the impact of the additional expenditure on fire safety. This year, although this expenditure has continued, we accept that it forms part of our 'business as usual' cost and will not separately identify them. We spent a further £37m on fire related safety in FY2020.

Headline social housing cost per unit is lower than FY2019, this is mainly as a result of lower major repair costs in the year due to large projects completing and decisions to delay other works in order to focus on a fire safety and improvement program. Headline social housing cost compared to the target was higher, primarily due to unforeseen additional waking watch costs in management cost. Our corporate plan of transformational change resulted in additional operating and capital costs in order to deliver the programme to help us provide better service at a lower cost in the future.

We have seen a widening of our service charge deficit in the year, and consequently our service charge cost per unit is higher than the target. This is partly due to a misalignment in the timing of chargeable works being carried out and the collection of the income related to this. Improving performance in this area is a key target for the Group in FY2021.

Maintenance is an area where we continue to have higher costs than our peers and the sector. We have experienced higher costs than our target due to higher demand for our services. We have embarked on a maintenance transformation plan to reduce maintenance costs and improve service levels in future.

Our overheads as a percentage of turnover have marginally increased to 7% from 6%, which is a reflection of the fall in turnover in the year at 2% coupled with an increase in overheads at 7%. We are committed to growing efficiently, and have maintained a far lower metric for this than our G15 peer group at 10%.

Looking forward:

The Group's headline operating cost per social housing unit is below the peer median and will remain a key focus in improving our operating margin target. Narrowing the service charge deficit and putting a plan in place to return this to as low as possible is one of our key objectives for the year ahead. This involves working closely with our partners that deliver the works and improving the way that we estimate and collect service charge income.

Maintenance cost per unit is expected to improve through a number of changes being made to the service we provide, and a shift in focus to planned rather than reactive maintenance. However, with our commitment to the continued investment in the quality and safety of our homes remaining a priority, this is still likely to remain higher than in past years.

We continue to closely monitor overhead budgets in line with our efficiency strategy, and will drive better value for money across these metrics by utilising the resources effectively across the Group and keeping these under close review.

Context and Scope

The L&Q Group's energy consumption and associated carbon emissions are reported below in line with the government's streamlined energy and carbon reporting (SECR) regulations. In accordance with the regulations, these figures reflect the carbon emissions associated with the Group's 2019/20 consumption of natural gas, electricity and transport fuel. Specifically, this includes:

- Gas and electricity used in our offices;
- Gas and electricity procured for use in our residential portfolio, e.g. for communal heating;
- Temporary gas and electricity supplies to void units in our residential portfolio;
- Mains gas and electricity used on our construction sites;
- Fuel used by our transport fleet; and
- Fuel used for business purposes by all employees within the L&Q Group.

Note: This is the first year of mandated reporting providing a baseline for future comparative reporting and assessment on our performance. Details on the methodology applied can be found in the glossary and alternative performance measures section at the end of our Financial Statements.

Energy efficiency measures

The L&Q Group has implemented a range of measures throughout FY2020 to improve energy efficiency and reduce carbon emissions. These measures are focussed on operational improvements to our homes and offices, and engagement with residents to influence behaviour in relation to energy consumption.

We have continued to invest in improving the energy efficiency of our homes and offices. At our head office on West Ham Lane, for example, we installed a new highly efficient boiler system and a 40-panel solar PV array on the roof to reduce energy consumption. At our second primary office (Cray House) we piloted a low energy lighting upgrade across an entire floor of the building, and at L&Q Estates office a comprehensive energy audit was undertaken to identify energy reduction opportunities.

We have continued to invest in improving the energy performance of our homes by installing cavity wall and loft insulation, upgrading boiler systems and trialling innovative energy-saving technologies. In FY2020, we installed approximately 3,500 highly efficient condensing boilers, and piloted the use of Mixergy hot water tanks at 20 homes reducing the energy required for hot water heating by up to 20%.

As part of our award-winning HomeSave programme we visited approximately 5,500 homes, providing residents with tailored energy savings assessments, free energy saving products, and on-going behavioural change advice via two-way communications channels. Crucially, having established that 46% of these homes are in fuel poverty, we have collectively saved our residents an estimated £900,000 through this programme in FY2020.

Energy Use and Carbon Emissions for 2019/20		
Total energy consumption:	**161.1**	GWh
Gas	**108,868**	MWh
Electricity	**41,966**	MWh
Transport fuel	**10,313**	MWh
Emissions from combustion of gas (Scope 1)	**20,015**	tCO2e
Emissions from purchased electricity (Scope 2, location-based)	**10,726**	tCO2e
Emissions from combustion of fuel for transport purposes (Scope 1)	**2,124**	tCO2e
Emissions from business travel in employee-owned vehicles where L&Q is responsible for purchasing the fuel (Scope 3)	**390**	tCO2e
Total gross CO2e	**33,255**	tCO2e
Carbon emissions intensity (tCO2e per residential unit owned, managed or under construction)	**0.27**	tCO2e / …

Case study
Wixams

Wixams is a new village located three miles to the south of Bedford. The site, which represents the largest development in Bedfordshire, is transforming a storage depot into 4,500 homes across four distinct neighbourhoods..

L&Q Estates have been acting as the master developer for this site, steering the complex project from inception to completion whilst delivering infrastructure to unlock development. To date we have invested over £40 million in infrastructure, including a realigned and dualled A6 and creation of a number of lakes around the site.

Wixams will also provide 300,000 sq. ft of employment space and 100,000 sq. ft of retail space, alongside five schools and 300 acres of parkland and play facilities.

Our sale of land to multiple housebuilders – all working to a strict design code – has resulted in the delivery of the first phase of the development, known as Lakeview Village. This consist of 950 quality homes alongside a primary school and local amenities.

4,500 new homes

300 acres of parkland and play facilities

300,000 square feet of employment space

Photo: Light and spacious living room at Chobham Manor in Stratford. Chobham Manor is built in partnership with Taylor Wimpey.

Photo: one of the modern, shared ownership apartments available at Erith Baths in Erith.

03

Governance

- Group Board
- Other statutory and regulatory information
- Internal control and risk management
- Audit and Risk Committee
- Viability statement
- Statement of responsibilities of the Board in respect of the Board's report and the financial statements

Group Board

Group Board

The L&Q group is governed by its Group Board (the Board) – Board member biographies are available on our website.

London & Quadrant Housing Trust (LQHT) is the parent of the L&Q Group and is an exempt charity and registered society under the Co-operative and Community Benefit Societies Act 2014. It has overall control of all of its subsidiaries.

Code of Governance

The Board is committed to achieving the highest standards of corporate governance in its oversight of the delivery of the Group's strategies, risk management, values and ethics.

LQHT has adopted the principles and provisions of the National Housing Federation's Excellence in Governance – Code for Members (2015 edition), an assessment of compliance with which is conducted annually. The only identified area of non-compliance relates to the size of the Board. The Board opted to retain a larger Board whilst this is in the best interests of the Group, however plans are in development to reduce the number of non-executives over time.

LQHT has also committed to adhere to the NHF Code of Conduct (2012 edition) by its adoption of an L&Q Code of Conduct. Its subsidiaries have adopted either the Group Governance Standing Orders or a tailored version of the Group Governance Standing Orders which acknowledge L&Q's power to intervene in their governance. A list of L&Q's direct and indirect subsidiaries can be found in note 33.

Leadership and control

The Board consists of a minimum of 5 and a maximum of 12 members (excluding co-optees), which includes the Group Chief Executive and the Group Finance Director.

The key management personnel of the Group consists of the Board and the Executive Group as listed in section 5 – other company information.

Board and Committee membership

The table overleaf sets out the Board membership and attendance, which is shown as the number of meetings attended out of the total number of meetings possible for the individual board member during the year.

If any board members are unable to attend a meeting, they are encouraged to communicate their opinions and comments on the matters to be considered via the Chair or the relevant committee.

The membership of the Governance & Remuneration Committee is made up of members of the Board. Membership of the other committees is drawn from both Board members of L&Q, Trafford Housing Trust and independent members.

Delegation

The focus of the Board is on L&Q's strategy and objectives, business plan and viability. It also has responsibility for overseeing the performance of L&Q and its activities to help L&Q deliver long-term success. In order that it can operate efficiently and give the right level of attention and consideration to relevant matters, the Board delegates certain responsibilities to Board committees.

Board committee agendas and schedules of items to be discussed at future meetings are prepared in accordance with the terms of reference of each committee and take account of a combination of standing, topical and ad hoc matters.

The four standing Board committees for the 2019/20 financial year were:

- **Audit and Risk Committee** – responsible for overseeing internal audit, external audit, the effectiveness of internal controls, monitoring and challenging management on its identification and mitigation of risk, and reviewing the financial statements and financial performance
- **Governance and Remuneration Committee** – responsible for advising the Board on governance, remuneration, and Board and committee succession planning and appointments
- **Development Committee** – responsible for appraising and reviewing major development and investment schemes
- **Customer Experience Committee** – has a focus on service improvement, customer insight and monitors the delivery of the Regulator of Social Housing's Consumer Standards.

At Board committee meetings, items are discussed and, as appropriate, may be endorsed, approved or recommended to the Board, by the committee. All committees report back to the Board at each board meeting.

Day-to-day management of L&Q and its subsidiaries and delivery of the Board approved strategies are delegated to the Executive Groups. Some members of the Board also sit on the board of individual subsidiaries where additional oversight is required by the Board.

Board member	Board attendance	Audit & Risk Committee	Governance & Remuneration Committee	Development Committee	Customer Experience Committee
Aubrey Adams	9/9		•	•	
David Montague	8/9				
Waqar Ahmed	9/9				
Anne Elizabeth Bassis	5/9		•		•
Tracey Fletcher–Ray	9/9	•			
Samantha Hyde	9/9			•	
Rajiv Jaitly	9/9	•			
Larissa Joy	8/9		•		
Michael More	8/9	•			•
Trevor Moross	8/9		•	•	
Simon Rubinsohn	9/9			•	
Fayann Simpson	9/9	•			•
Edna Robinson (co-opted 1 Oct 2019)	6/6				
Other committee members					
Duncan Beardsley	n/a	•		•	
John Drew	n/a		•		
Paula Higson	n/a				•
Michael Verrier	n/a				•
Sanjay Patel	n/a	•			
Sean Anstee (THT)	n/a	•			
Matthew Hemmings (THT)	n/a			•	
Sarah Bundy	n/a			•	

Other statutory and regulatory information

Modern Slavery and human trafficking statement

The Group is committed to understanding modern slavery risks and ensuring that we comply with our legal and regulatory responsibilities, including the Modern Slavery Act 2015. We take care to ensure that slavery and human trafficking does not exist in any part the Group or supply chain.

L&Q's full statement on modern slavery is available on the L&Q website.

Stakeholders

Stakeholder engagement is mostly carried out on a group wide basis, to ensure that Director's understand the views of stakeholders when making decisions and setting strategy. This includes business relationships with suppliers, customers, communities and employees, amongst others. The values and behaviours upheld when engaging with stakeholders are consistent across the Group, whichever company is communicating with stakeholders.

More details can be found in the publicly available Financial Statements of the relevant subsidiary companies in the Group required to report under s172 of the Companies Act.

Photo: Contemporary furnishings at the Birnam Mews show home in Warwickshire.

Internal control and risk management

The Board has overall responsibility for the system of internal control and risk management across the Group and for reviewing its effectiveness. The Board also take steps to ensure the Group adheres to the regulator's Governance and Financial Viability standard and its associated code of practice that includes adhering to all relevant law. The Audit and Risk Committee is responsible to the Board for monitoring these arrangements and reporting on their effectiveness.

Review of internal controls

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

The key features of the Group's system of internal control include:

- An established management structure operating across the Group, with clearly defined levels of responsibility and delegated authorities
- A Group-wide risk management system (including health and safety) – the Board has established a process for identifying, evaluating, and managing the significant risks faced by the Group
- Adopting and complying with the principal recommendations of the National Housing Federation's 2015 Code of Governance and accepting this as the Group's code of good practice
- Audit and Risk Committee assurance – the Audit and Risk Committee meets regularly with members of the Executive Group and the internal and external auditors to review specific reporting and internal control matters, and to satisfy themselves that the internal control systems are operating effectively. The Audit and Risk Committee also reviews any follow up action to correct identified weaknesses. All Board members receive the minutes of all Audit and Risk Committee meetings
- Internal audit assurance – the Group's internal audit function is managed through an internal audit unit, which has a direct reporting line to the Audit and Risk Committee. The internal audit programme is designed to review key areas of risk; adherence to relevant laws; and is agreed formally by the Audit and Risk Committee. The Director of Internal Audit meets regularly with Executive and Board members including the L&Q Chair; Chair of the Audit and Risk Committee; and the Chief Executive.
- External audit assurance – the work of the external auditors provides some further independent assurance of the internal control environment, as described in their audit report. The Group also receives a letter from the external auditors identifying any internal control weaknesses. In accordance with best practice guidance, the Audit and Risk Committee and the Board consider this letter
- The preparation and monitoring of budgets and long-term business plans – the Board, Audit and Risk Committee and the Executive Directors review Group and subsidiary performance throughout the year. The reports ensure variances are investigated and acted upon
- Procedures to ensure the employment, retention, training and development of suitably qualified staff to manage activities and risk
- A process for approving all investment decisions – all major investment decisions are subject to appraisal and approval by the Development Committee, the Executive Group, and, where appropriate, the Board
- Treasury activity and strategy are subject to regular Board review and approval
- Whistleblowing – The Group's Whistleblowing policy enables issues to be raised on a confidential basis. Procedures exist to ensure any whistleblowing incidents are independently investigated promptly.

The Board confirms it has an approved anti fraud, bribery and corruption (FBC) policy that has been distributed to all staff. The policy covers the prevention, detection and reporting of FBC. Details of identified cases are maintained in the FBC register, which is reviewed annually by the Audit and Risk Committee on behalf of the Board. The Group has also appointed a Money Laundering Reporting Officer as part of its compliance with anti-money laundering legislation.

The Board has delegated authority to the Audit and Risk Committee to regularly review the effectiveness of internal control, including risk management, and has received regular reports from this committee throughout the year under review. The Audit and Risk Committee has received the Chief Executive's annual report on the effectiveness of internal control systems, together with the annual report from the head of internal audit, and reported its findings to the Board.

The Board has reviewed the effectiveness of the system of internal control, including risk management, for the year to 31 March 2020, and up to the date of signing these financial statements. It has not identified any weaknesses sufficient to cause material misstatement or loss, which require disclosure in the financial statements.

Risk management

Risk Management is fundamental to the achievement of our corporate objectives. We have an enterprise risk management approach based upon the principles of ISO 31000, the recognised international standard for risk management. Risk management is embedded across all operational functions and projects supported by a leading risk software system to provide oversight across the entire business. We have a suite of key risk indicators (KRIs) which provide intelligence on the key areas of risk facing our business and act as early warning indicators. Our key financial ratios are also monitored on a monthly basis with Group Board oversight to ensure we remain within risk appetite and tolerance levels.

Our objective in embedding an ISO 31000 compliant risk management framework is to ensure that we become a more resilient organisation. The incentive to become resilient goes beyond merely avoiding disaster. Leading research commissioned by Airmic (Association of Insurance & Risk Managers in Commerce) and prepared by Cranfield School of Management has shown that organisations that are confident in their risk management have the ability to be more enterprising and entrepreneurial, thereby not only identifying risks but also seizing opportunities. The qualities we will embed by being a resilient organisation will enable us to succeed in other respects. We will be more responsive to our customers and the markets we serve, our staff and suppliers will remain motivated and loyal, we will gain trust by being more dependable and achieve better results. As we develop resilience at the heart of strategy and part of the overall vision of the organisation, this will enable us to deal more effectively with both expected risks and the unexpected ones.

There are five main principles of resilience set out in the research which we have adopted:

- **Risk radar**: the ability to anticipate problems and see things in a different way will help us develop an early warning system and be able to seize new opportunities
- **Resources and assets:** well diversified resources and assets provide the flexibility to respond to opportunities as well as adverse or changing circumstances
- **Relationships and networks:** risk information flows freely throughout the organisation up to directors to prevent the "risk blindness" that affects many boards
- **Rapid response:** capability that prevents an incident escalating into a crisis or disaster because people and processes are in place to quickly restore things to normal
- **Review and adapt:** learn from experience, including near-misses and make the necessary changes and improvements to strategy, tactics, processes and capabilities.

Internal control and risk management (continued)

We must demonstrate all five principles to achieve resilience. These five principles do not just happen – they reflect the fact that we have nurtured a resilient environment through our business enablers of Customers, Operations, Financial Health & Growth and Organisation and Culture as monitored through our balanced scorecard. Whilst business enablers are present in all organisations, they are far more developed in resilient organisations than in others. In developing a resilient culture in order to protect our business, brand and reputation L&Q will be characterised by having the five resilience principles in place in a way that enhances our business enablers.

Response to Coronavirus pandemic

The health and safety and wellbeing of our customers, employees and subcontractors are L&Q's top priority and were the initial focus of our response to the crisis. We invoked our Business Continuity arrangements and formed a Pandemic Crisis Response Team (PCRT) operating under a Gold/Silver/Bronze crisis command structure. As a result of recent investment in remote working technologies we were able to swiftly move to home working for the vast majority of our employees and took the difficult decision to close our construction sites in the interests of customer and employee safety.

We have undertaken a detailed assessment of risks across all of our business functions overseen by our PCRT. Our PCRT continue to meet at least weekly to monitor service delivery and key trends across all business activities with a weekly summary dashboard reported to our Executive Group and Group Board. We are also doing everything in our power to support our people and the most vulnerable during these difficult times.

Actions to date include:

- Established a home-working approach for our customer contact centre to ensure that customers can always get a response from us.
- Enacted tried and tested Direct Maintenance plans. This involves prioritising requests so that emergency demand remains well-serviced.
- Introduced screening for repairs, and personal protective equipment for our operatives to reduce the risk of coronavirus spreading during repairs visits.
- Developed procedures to ensure that emergency repairs can be carried out, even if there is an infected person in the property.
- Maintained caretaking and estate services to ensure health and safety compliance on our estates.
- Completed coronavirus risk assessments at all of our care and support schemes, and introduced increased infection control measures including additional cleaning and hand washing requirements.
- We will not take legal action for arrears at this time, but we are reminding people that they should continue to pay their rent as normal because it helps to fund essential frontline services.
- We have instructed our specialist income teams to support customers who may be struggling to pay their rent by putting personal payment plans in place if needed, and providing enhanced support for those affected by coronavirus. We are also putting in place arrangements to help people access the emergency support that has been put in place by the government.
- Established robust finance procedures to ensure that contractors and suppliers continue to receive payment for goods and services.

Following the Government announcement on 10 May 2020 regarding its roadmap towards the gradual easing of the lockdown, our teams have been working around the clock to digest the detail of the announcements and plan accordingly. Our PCRT are progressing recovery planning focussing on eight core areas of our business, which are:

- Inspecting, managing, maintaining estate conditions (Inspection, Maintenance, Services)
- Customer support (ASB, Domestic Violence support, Queries, Complaints)
- Development sites re-start
- Managing Repairs Backlog
- Managing Home Moves
- Returning of Resourcing Levels (and returning colleagues from Furlough)
- Income recovery/payment support
- Returning to/reinstating offices

Detailed recovery plans have been produced for each area which continue to evolve to take account of changing Government advice and releasing of lockdown measures.

Whilst we recognise the benefits of remobilising certain areas of work and service provision, such as construction and non-emergency planned maintenance, we will only do so once we are completely satisfied that we can do so safely.

As ever, the safety of our residents and colleagues remains absolutely paramount and we continue to ensure that what we do is in line with Government advice and guidance.

We have remobilised all construction sites with plans also developed to remobilise all of our sales suites and aftercare service.

A detailed and thorough assessment of the repairs backlog is also ongoing to fully inform our approach to, and the impact of, this significant piece of work.

Key Risks

The Group risk map details the key risks that impact upon our strategic objectives. It is prepared by the Executive Group, reviewed quarterly by the Audit and Risk Committee and approved annually by the Group Board.

There are numerous other risks managed at an operational level as part of our enterprise risk management approach which can be escalated to the Group risk map as necessary.

Like many organisations a no deal Brexit is of considerable concern to us and this impacts upon numerous risks faced by our business including those detailed here.

Internal control and risk management (continued)

The Executive Group and Group Board considered the risks described here as the group's key risks for this financial year linked to our Corporate Plan strands: 1-Invest 2-Grow 3-Transform

Risk	Comments and risk mitigation
Coronavirus Pandemic 1 2 3	We have planned extensively for the inevitable material impact that Coronavirus will have on future trading performance and have put in place a number of mitigating measures in order to conserve cash flows. We remain confident that L&Q retains the financial flexibility to adapt to a changing economic outlook supported by our strong balance sheet, robust liquidity position and G1/V1 ratings, the highest possible ratings for governance and viability as reaffirmed by the Regulator of Social Housing in March 2020. Detailed mitigating actions that have been implemented to date are set out below: • Completion of multivariate stress-tests and contingency planning; • £300m increase in debt facilities, materially increasing available liquidity which stands at over £788m as at 30 June 2020; • Removal of £66m of non-essential operating expenditure for the financial year ending 31 March 2021; • Postponement of £300m net capital expenditure during 2019/20 and 2021/22. • Maintenance spend restricted to priority repairs and fire safety; • Recruitment restrictions and a freeze on pay increases; • Successful launch of virtual property tours; and • Phased remobilisation of construction and planned maintenance work sites smoothly and safely.
Economic uncertainty leads to reduction in expected income and inability to provide investment in affordable housing 1	We closely monitor macro-economic data as well as house price indices and mortgage approval rates as part of our suite of key risk indicators. We regularly stress test our business plan against a wide range of scenarios in order to inform our decision-making process around the implementation of key risk mitigation, such as switching tenure and scaling back on market activity. Our key financial ratios and risk indicators are monitored on a monthly basis with Group Board oversight. Whilst Brexit uncertainty remains, we saw positive movement in the housing market in the final months of the financial year thanks to robust labour market conditions, continued low borrowing costs and a more stable political environment following the General Election. That said, the lockdown measures imposed by the Government in late March to control the spread of the Coronavirus has led to a significant downturn in activity, the effects of which are beginning to be seen in the 2020/21 period. We have stress tested against a range of scenarios in order to inform our risk mitigations and are keeping the position under constant review in order to fully assess the impact on our sales and rental income. The range of interventions implemented by the Government to support the economy should help limit long-term damage. We continue to lobby Government to ensure it deploys the resources that have already been allocated for housing delivery at a much greater pace. Geopolitical events may also lead to further economic uncertainty which would require additional Government support to maintain housing supply in order to tackle the housing crisis.

Risk	Comments and risk mitigation
Major or Series of Health & Safety or Safeguarding Incident(s) causing injury or death event(s) 1 2 3	The health and safety of our customers, staff, partners and members of the public who may be affected by our activities is an essential part of our risk management approach. We have invested in developing a specialist in-house Health & Safety team who continue to embed and monitor a robust Health & Safety management system. We also have established procedures and inspection regimes covering estate management, critical incident management and construction site safety management. In addition, we have embedded specialist Health & Safety advisors within our in-house construction and maintenance teams to provide additional support and guidance in these key areas of our operations. We undertake a range of audits to ensure compliance and have a suite of KPIs to monitor performance which are overseen by our Health & Safety Board and reported to our Group Board. On safeguarding, we have robust policies and procedures in place which are strictly enforced, safeguarding forms part of our recruitment and selection process in L&Q Living and we undertake DBS checks. We have a cross departmental safeguarding committee which is held on a quarterly basis and report regularly to the L&Q Living Board. We also have robust whistleblowing arrangements in place with confidential reporting.
Complexities of fire safety management 1	We continue to work with the Ministry of Housing, Communities and Local Government (MHCLG) to trial ways of working in line with the recommendations of Dame Judith Hackitt's review of building regulations. We have invested significantly in fire safety in previous years and have committed additional resources to ensure that all our homes are safe. We have completed the replacement of all identified ACM cladding and a range of fire risk assessments including intrusive surveys and investigation of external wall systems with the support of chartered fire engineers continues. We have strengthened our professional in-house fire safety team and remain committed to driving a best practice approach to fire safety, not just compliance.
Liquidity shortfall 1 2 3	The ability of L&Q to operate its business depends in part on it being able to raise funds. Any material systematic and/or business specific risk, any increase in the cost, or lack of availability, of finance could impact the Group's ability to progress its business objects, deliver the expected rates of return on investments and the day-to-day financing (or refinancing) requirements of the Group's business over the longer term. Any material increase in the cost of financing or any decrease in the availability of financing on reasonable terms could have a material adverse effect on the Group's business, operations, financial condition and/or prospects. In addition, the Group is subject to the risk that it will be unable to generate sufficient cash flows, or be unable to obtain sufficient funding, to satisfy its obligations to service and/or refinance its indebtedness. Further, any covenants contained in the Group's borrowing arrangements, may limit or prohibit the Group's operational and financial flexibility. Any event of default, cross default, breach of a covenant or the inability to vary or waive any covenants could generally have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects. To manage liquidity risk, the Group maintains a policy to retain sufficient liquidity in the form of committed yet undrawn loans plus available cash to cover projected net cash outflow for the then proceeding eighteen months. This is reported to and monitored by Group Board on a monthly basis. L&Q's investment grade credit ratings, its strong relationship with its banking group, covenant headroom, financial flexibility and the value of our unencumbered property pool mitigate L&Q's ability to raise capital at an appropriate cost.

Internal control and risk management (continued)

Risk	Comments and risk mitigation
Serious loss of sensitive/ personal data 1 2 3	We have data loss prevention controls in place to prevent a breach of sensitive data and have disabled file sharing in collaboration tools to prevent inadvertent data breaches. We have invested significantly in innovative technologies and built in the necessary levels of security protection to ensure that our data is safe. A detailed training and awareness programme with refresher modules is also in place overseen by our dedicated Data Protection Officer, who also conducts compliance audits across the business on an ongoing basis.
Impact of political change and uncertainty on housing 1 2 3	Brexit continues to be a concern with a 'no deal Brexit' at the end of this calendar year still very much a possibility. We began the year facing unprecedented levels of political uncertainty but, following the General Election, should now see a more stable political backdrop. We continue to lobby government both directly and through the NHF and G15 to promote our social enterprise model and to ensure that housing remains a key government priority.
Quality & sustainability 1 2 3	Our corporate plan maintained a clear focus on good quality homes across all of our schemes. We have launched a maintenance transformation project looking at every aspect of our maintenance service aimed at ensuring we deliver the quality and efficient service we aspire to and our customers demand. We have invested in smart technologies to support our drive for more efficient and effective maintenance of our existing homes and have maintained an absolute focus on quality for all newbuild homes. We have also invested in remote modern working capabilities and other innovative technologies to support our drive to deliver better, faster and lower cost services to our customers. We have reduced our impact on the environment through exploring the use of modern methods of construction and delivering other initiatives to reduce our carbon footprint. Through the L&Q Foundation we have developed a new corporate approach to place making to support the creation of sustainable communities.
Impact of Brexit on housing market, care, construction and supply chain 2	Brexit remains very much on our risk radar with trade negotiations between the EU and UK due to end in December 2020. We have stress tested our business plan against a range of Brexit related economic scenarios and have a suite of financial metrics and key risk indicators in place. We have a number of effective mitigating actions in place but in a worst-case scenario the importance of government support will be key in terms of maintaining housing supply. On the operational side we have undertaken detailed assessments of supply chain and labour risk across our construction, maintenance and care operations and have plans in place to address any disruption, including the threat of a no deal Brexit.

Risk	Comments and risk mitigation
Ability to attract and retain the best staff within L&Q 1 2 3	We aim to be an employer of choice and create opportunities for our people to realise their full potential. We have introduced a new pay and reward strategy and have implemented a new skills and personal development strategy to support our future leaders with a focus on the values and behaviours that are required to enable us to succeed. This will ensure that we keep all of our people motivated and engaged to promote L&Q's culture. We actively conduct benchmarking and seek to achieve external accreditation including Great Places to Work 'Best Workplaces' and Investors in People.
Cyber crime 1 2 3	We continue to embed an Information Security Standard based upon ISO27001/02 to inform our work around information security. We have implemented Cyber Essentials, a Government backed cyber security certification scheme, and have a dedicated Information Security Team led by our Chief Information Security Officer (CISO) to focus specifically on the security of our systems. We have also set up an Information Security Panel to manage cross discipline day to day corporate operational information compliance & security. A range of monitoring and protection tools are in place to assess the threat landscape and protect our systems. Awareness training has been rolled out across our business with annual refreshers to ensure our people are aware of the threat landscape and what they need to do to help protect our business.

Audit and Risk Committee

Throughout the financial year, the Audit and Risk Committee members met 5 times as part of the work of the committee in discharging its responsibilities.

The committee discussed with the external auditors the adequacy, nature and scope of the annual financial audit plan, including reviewing and agreeing the engagement letter issued by the external auditor at the outset of the Group audit, assuring itself that the external auditor has the fullest co-operation of staff and to oversee the satisfactory completion of the annual external audit process. The committee has also considered all relevant reports by the external auditor and by regulatory authorities and the findings of the external auditor in the course of its work, and the adequacy of management's responses.

The committee has reviewed and monitored the external auditor's independence, judgement and robustness in handling key decisions, objectivity and the effectiveness of the audit process and particularly in respect of safeguards established to mitigate threats to its independence.

Significant financial statement areas considered during the year

In respect of significant issues that the committee considered in relation to the financial statements, and to monitor the integrity of the financial statements, a detailed report was presented to the committee and discussions were held to ensure members understanding of the issues, and the potential impact on the presentation of the financial statements. These were discussed in sufficient detail with our external auditors to ensure resolution of any issues was in line with auditing standards and accounting requirements. Matters of significant importance and risk to the Group financial statements audit were agreed by the committee.

Land and properties for sale, work in progress in current assets and joint ventures

The committee has considered the risk of impairment of land and properties for sale as well as work in progress in current assets and gains confidence from the supporting work of the Development Committee which oversees all major development and investment schemes including joint ventures undertaken by the Group.

Land available for sale is most susceptible to changes in circumstances that could lead to the net realisable value falling below carrying value at a Group level given these are currently held at fair value on acquisition. The committee is provided regular updates on land sales performance separate from property sales and joint ventures. This ensures that these asset classes are treated and assessed separately in terms of performance and for impairment testing purposes.

For work in progress and current assets, a report was presented to the committee detailing the approach and methodology, sensitivities to the assumptions applied and the outcome of the assessment of impairment detailing specific schemes that were considered to be impaired.

Accuracy of development costs

The committee can confirm that there has been no change in methodology for the capitalisation of internal development costs in the year. Staff costs and overheads which are directly attributable to bringing housing properties into working condition for their intended use are capitalised. Other central overheads attributable to development and marketing but not considered directly attributable to housing properties are expensed as set out in note 3 of these financial statements. In 2020 these amounted to £20m (2019: £15m).

The committee has delegated to management the regular review of the basis of calculation and apportionment used in capitalising staff costs and overheads to ensure they remain appropriate and in line with FRS102.

Valuation of investment properties

The committee is aware of the judgement involved in valuing investment property. The committee received a report detailing the approach that management intended to take to ascertain the fair value for these assets and has delegated to management to engage a third-party expert to provide a report in line with FRS102 requirements.

The committee were made aware of the "material uncertainty" clause contained within these valuation reports due to uncertainties in markets caused by the Coronavirus pandemic and accepted this to remain the best available information considering the valuers continue to exercise professional judgement in accordance with their professional standards.

Acquisition of Trafford Housing Trust

The committee was kept informed of the business combination progress in the year through to completion. A review by management of all accounting policies was undertaken and any areas where alignment was required to Group policies has been adjusted for in the year by THT. A report was provided to the committee outlining these accounting changes, although they were very limited in nature and impact. A further report was presented to the committee detailed the accounting treatment appropriate for this transaction under FRS 102 PBE, and the approach that management proposed to take in order to calculate the required fair value of net assets and take this as a gift on acquisition in the statement of comprehensive income.

The impact of uncertainties due to the UK exiting the European Union and Coronavirus, and the potential impact on Going Concern

The committee has considered the possible impact across multiple risk areas throughout the process of 'Brexit', and more recently in light of the coronavirus pandemic as set out in the key risk section of this report.

The committee received a comprehensive report covering going concern assessment of the Group which included multivariate stress testing scenarios, and key information in relation to the Group's liquidity position which is monitored monthly. The committee have been kept informed of sensitivity analysis performed on key items including sales turnover forecasts and on balance sheet items to ascertain recoverability of current assets and impairment of fixed assets.

The committee received a report covering estimates and disclosures in respect of judgemental areas affecting the financial statements, which are also considered when taking into account any uncertainty.

The basis of preparation of these accounts has been updated in Note 2 to reflect the current uncertain economic conditions.

Viability statement

The Group retained its top-tier rating G1/V1 ratings for governance and financial viability following a thorough in depth assessment by the Regulator in January 2020. This judgement is confirmation to residents, investors, partners and other stakeholders that the Group's growth ambition remains anchored by sound financial management and a robust approach to risk management, business planning and stress testing. The ratings are also an external validation that our Board has an integral role to the business and that a highly effective governance structure is in place across the organisation.

The Board has assessed the viability of the Group over a five-year period. The Board's assessment is also supported by the longer 30 year financial forecast shared annually with the regulator and the annual review of the adequacy of resources available to the Group to prepare the financial statements on a going concern basis.

The Board approves the Group financial plan twice a year and its output which is submitted annually to the Regulator in the form of a Financial Forecast Return. The Board is, to the best of its knowledge, satisfied that covenant compliance is maintained throughout the life of the plan on the basis that the financial plan has been stress tested to withstand significant composite risks materialising without breaching lender covenants, thus confirming the future viability of the Group.

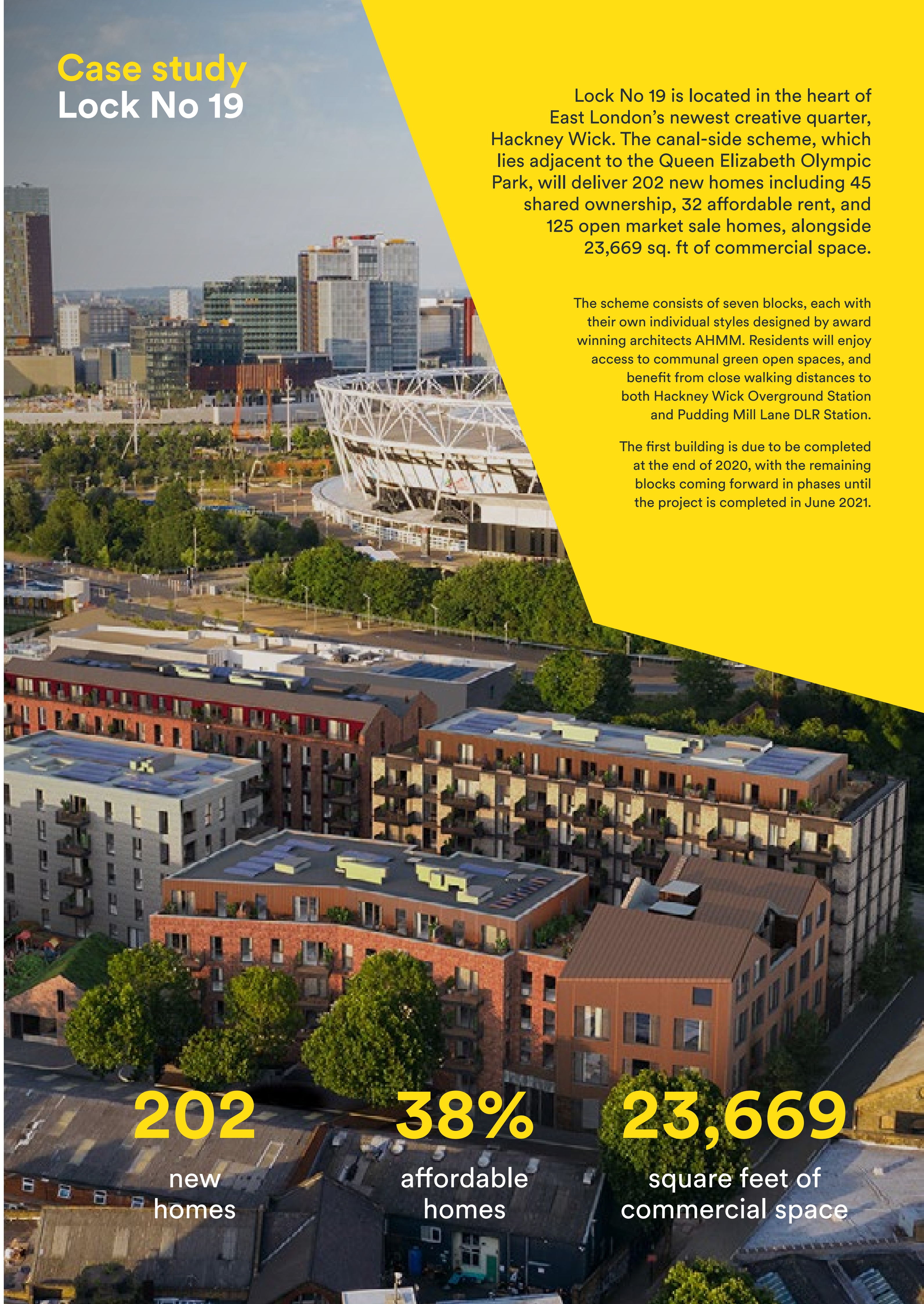
After making enquiries, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. The Group has considerable financial resources together with long-term cash generating assets. As a consequence, the Board believe that the Group is well placed to manage its business risks successfully. For this reason they continue to adopt the going concern basis in preparing the Group's financial statements.

No material uncertainties related to events or conditions that may cause significant doubt about the ability of the L&Q Group (defined as London & Quadrant Housing Trust and its subsidiaries) to continue as a going concern have been identified by key management personnel after taking into account the relevant facts and circumstances.

Our positive viability statement is supported by documented evidence in the form of a Board approved Treasury Strategy that addresses liquidity risk, refinancing risk, projected covenant performance, credit and regulatory ratings, viability review and access to funding. L&Q's Group insurance policy covers full reinstatement value of £14 billion. Our forecasting and budgeting processes are long established and proven techniques where critical assumptions are subject to independent challenge and stringent sensitivity analysis. In addition, the Group has put in place a stress test recovery planning process in the event where there is a forecast covenant breach.

The Board has considered L&Q's exposure to contingent liabilities and the potential source of cash outflows during the review period relating to legal proceedings, guarantees, margin or other credit support provisions under derivative contracts and product liability.

The Board can also confirm that it has complied with the Governance and Financial Viability Standard set out by the Regulator of Social Housing. Throughout our recent in-depth assessment by our Regulator, the Group provided evidence of clear strategic direction with targets set which are challenging and stretching and monitored on an ongoing basis. Governance oversight is clear through our reporting framework and covers risk around financial investment and protection of social housing assets.



Case study
Lock No 19

Lock No 19 is located in the heart of East London's newest creative quarter, Hackney Wick. The canal-side scheme, which lies adjacent to the Queen Elizabeth Olympic Park, will deliver 202 new homes including 45 shared ownership, 32 affordable rent, and 125 open market sale homes, alongside 23,669 sq. ft of commercial space.

The scheme consists of seven blocks, each with their own individual styles designed by award winning architects AHMM. Residents will enjoy access to communal green open spaces, and benefit from close walking distances to both Hackney Wick Overground Station and Pudding Mill Lane DLR Station.

The first building is due to be completed at the end of 2020, with the remaining blocks coming forward in phases until the project is completed in June 2021.

202 new homes

38% affordable homes

23,669 square feet of commercial space

Statement of responsibilities of the Board in respect of the Board's report and the financial statements

The Board is responsible for preparing the report of the Board and the Group and Parent association financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

The financial statements are required by law to give a true and fair view of the state of affairs and the income and expenditure of the Group and the Parent association for that period.

In preparing each of the Group and Parent association financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements
- assess the Group and Parent association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless they either intend to liquidate the Group or Parent Association or to cease operations, or have no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and Parent association and to prevent and detect fraud and other irregularities.

Financial statements are published on L&Q's website in accordance with UK legislation governing the preparation and dissemination of financial statements. The Board is responsible for the maintenance and integrity of the corporate and financial information included on the association's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

As referred to in the Viability Statement, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements, and for this reason has continued to adopt the going concern basis in preparing the Group's financial statements.

Statement of compliance

The Strategic Report has been prepared in accordance with applicable reporting standards and legislation. The Board can also confirm that the Group has complied with the Regulator of Social Housing's Governance and Financial Viability Standard.

Provision of information to the Auditor

All of the current Board members have taken the steps that they ought to have taken to ensure they are aware of any information needed by the Group's auditor for the purposes of their audit, and to establish that the auditor is aware of that information. The Board members are not aware of any relevant audit information of which the auditor is not aware.

By order of the Board

Aubrey Adams

Aubrey Adams
Group Chair

10 September 2020

Photo: The Beaulieu Square Neighbourhood Centre in Essex, provides local shops and services for the residents of Beaulieu. Beaulieu is developed in partnership with Countryside Properties.

04

Financial statements 2019/20

Independent auditor's report

1. Our opinion is unmodified

We have audited the financial statements of London & Quadrant Housing Trust ("the Association") for the year ended 31 March 2020 which comprise the Group and Association Statements of Comprehensive Income, Group and Association Statements of Financial Position, Group and Association Statements of Changes in Equity, the Group Statement of Cash Flows and related notes, including the accounting policies in note 2 of the financial statements.

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the state of affairs of the Group and of the Association as at 31 March 2020 and of the income and expenditure of the Group and the Association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2019.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit and risk committee.

We were first appointed as auditor for the year ended 31 March 2013 by the Board. The period of total uninterrupted engagement is for the 8 financial years ended 31 March 2020.

We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to listed public interest entities. No non-audit services prohibited by that standard were provided

Overview		
Materiality: Group financial statements as a whole		£9.7m (2019: £14.8m) 5% (2019: 5%) of 2 year average normalised group surplus before tax
Coverage		96% (2019: 87%) of group surplus before tax
Key audit matters		**vs 2019**
Recurring risks	**New:** Impairment of Land and properties for sale, work in progress in current assets and joint ventures	▲
	Accuracy of development costs	▼
	Valuation of Defined Benefit pensions	▲

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. In the prior year, we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. As a result of developments since the prior year report, including the Group's own preparation, the relative significance of this matter on our audit work, including in relation to going concern and impairment of land and properties for sale and work in progress in current assets, which remains a key audit matter, has reduced. Accordingly, we no longer consider this a key audit matter. The key audit matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Group risk **Land and properties for sale, work in progress in current assets and joint ventures** (**Group:** Land and properties for sale and work in progress £1,100m (2019: £1,050m) (**Group:** Equity investment in jointly controlled entities £371m (2019: £478m) Refer to page 62 (Audit and Risk Committee), note 2, 14a and 15 (accounting policy) and notes 14a and 15 (financial disclosures)	**Impairment of land and properties for sale and work in progress in current assets and joint ventures** Inventory needs to be held at the lower of cost and net realisable value. Joint ventures need to be written down to recoverable amount if their carrying value exceeds recoverable amount. Given the increased uncertainty arising from the current economic climate including the Covid 19 pandemic resulting in potential reduced sales activity, there is an increased risk over impairment of inventory both at a group level and also over the inventory held in jointly controlled entities that are equity accounted for. The Group has the option, subject to planning, to use the land to construct and then operate social housing, construct and operate investment properties, to construct and sell properties on the open market or to sell the land for development by third parties. The different scenarios will drive different accounting classifications in the financial statements and different impairment approaches especially in the case of properties held for social benefit.	Our procedures included: Inspection of the group's impairment assessments and cash flow forecasts and performing the following procedures: • **Re-performance:** Checking the mathematical accuracy of certain valuation models; • **Enquiry and Board paper review:** Reviewing Board papers and where relevant making enquires with directors and managers to assess any potential site impairment indicators such as increased planning restrictions, identification of contaminated land and changes to forecast site completion dates. Where potential site impairment indicators existed we performed more detailed testing on the recoverable value of these sites and investments to determine if the level of impairment taken by the Group was reasonable, including: • **Sensitivity analysis:** Performing sensitivity analyses over the key assumptions and considering the outcomes with reference to events after the year end; • **Data comparisons:** Comparing initial forecast costs and selling prices with the actual outturn for completed developments. **Our results** We found the carrying value of land and properties for sale and work in progress and joint ventures to be acceptable. (2019: Acceptable).

	The risk	Our response
Group and parent risk **Properties under construction – additions** **Group:** Properties under construction additions: Social housing lettings additions £548m (2019: £294m), Low-cost home ownership additions £235m (2019: £246m) and non-social housing lettings £32m (2019: £77m). **Parent:** Properties under construction additions: Social housing lettings £469m (2019: £268m), Low-cost home ownership £276m (2019: £199m) and non-social housing lettings £1m (2019: £19m). **Group:** Land and properties for sale under construction additions: Low cost home ownership £99m (2019: £105m), open market sales £69m (2019: £263m). **Parent:** Land and properties for sale under construction additions: Low cost home ownership £144m (2019: £113m), open market sales £6m (2019: £8m). Refer to page 62 (Audit and Risk Committee), note 2, 12 and 15 (accounting policy) and notes 12 and 15 (financial disclosures)	**Accuracy of capitalised development costs** Development is a significant activity for the Group and the parent. There is a degree of judgement involved in what is permissible to capitalise, including salaries, which gives rise to a significant risk of misstatement in the Group and the parent over the accuracy of those capitalised costs.	Our procedures included: • **Controls testing:** Testing controls in place over the on-going monitoring of contracts and costs including capitalised development costs; • **Assessing principles:** Assessed that amounts capitalised comply with FRS102 including inspection and assessment of the Group and parent's assumptions. • **Tests of detail:** agreeing a sample of costs back to source documentation including internally generated costs; **Our results** • We found the capitalisation of developments costs in assets in course of construction to be acceptable. (2019: Acceptable)

	The risk	Our response
Group and parent risk **Defined Benefit Pensions – The L&Q Staff Benefits Plan, the Social Housing Pension Scheme ('SHPS') and Local Government Pension Schemes ('LGPS') defined benefit schemes** **Group:** L&Q Staff Benefits Plan net assets £4m (2019: net liability: £12m) **Group:** SHPS pension deficit £15m (2019: £30m) **Group:** LGPSs net pension liability £10m (2019: £2m) **Parent:** L&Q Staff Benefits Plan net assets £4m (2019: net liability: £12m) **Parent:** SHPS pension net liability £13m (2019: £27m) **Parent:** LGPSs net pension liability £2m (2019: £2m) Refer to page 62 (Audit and Risk Committee) and note 9 (financial disclosures and accounting policy).	**Valuation of Defined Benefit pensions net assets and liabilities** The Group operates a number of defined benefit pension schemes, the position for which is included in the balance sheet at the net actuarial valuation. The valuation of defined benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Group and Association's pension liability could have a significant effect on the financial position of the Group and Association. The effect of these matters is that, as part of our risk assessment, we determined that post-retirement benefits obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole, based on unobservable inputs and is inherently volatile and judgemental. Management are able to exert significant influence over the setting of pension assumptions across the schemes. With the liabilities of the scheme highly sensitive to changes in assumptions, we believe there to be an additional risk of fraud over the valuation of this scheme.	We performed the following procedures: • **Benchmarking assumptions:** Challenging, with the support of our own actuarial specialists, the key assumptions applied in the valuation of the year end liability, being the discount rate, inflation rate and mortality/ life expectancy against externally derived data. • **Test of detail:** Testing contributions made during the year have been accurately reflected in calculating the pension liability • **Assessing transparency:** Considered the adequacy and accuracy of the Group's disclosures in respect of the sensitivity of the liabilities to these assumptions. **Our results** • We found the net assets and the liabilities for the L&Q Staff Benefits Plan, Social Housing Pension Scheme and Local Government Pension Schemes to be acceptable. (2019: Acceptable).

Independent auditor's report (continued)

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £9.7m (2019: £14.8m), determined with reference to a benchmark of group surplus before tax, normalised to exclude this year's exceptional gift arising from the Trafford Housing Trust acquisition as disclosed in note 14g and impairments to fixed assets housing properties as disclosed in note 12 and by averaging over the last two years due to fluctuations in the business cycle.

Materiality for the Association financial statements as a whole was set at £6.6m (2019: £11.1m), determined with reference to a benchmark of the Association surplus before tax, normalised to exclude gift aid and by averaging over the last two years due to fluctuations in the business cycle.

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £0.48m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 36 (2019: 32) reporting components, we subjected five of the Group's (2019: seven) reporting components to full scope audits for group purposes.

We subjected two (2019: nil) components to specified risk-focused audit procedures, one for net pension liabilities (2019: nil) and one for land and properties for sale and work in progress (2019: nil).

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £970,000 to £6,790,000, having regard to the mix of size and risk profile of the Group across the components. The work on six of the seven reporting components (2019: six of the seven reporting components) was performed by component auditors and the audit of the parent and one other component was performed by the Group team.

The group team performed procedures on the items excluded from normalised group profit before tax.

The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 2% of total group revenue, 4% of group surplus before tax and 2% of total group assets is represented by 29 reporting components, none of which individually represented more than 2% of any of total group revenue, group profit before tax or total group assets. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

4. We have nothing to report on going concern

The Association's Board have prepared the financial statements on the going concern basis as they do not intend to liquidate the Association or the Group or to cease their operations, and as they have concluded that the Association's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the accounts ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Board's conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Association will continue in operation.

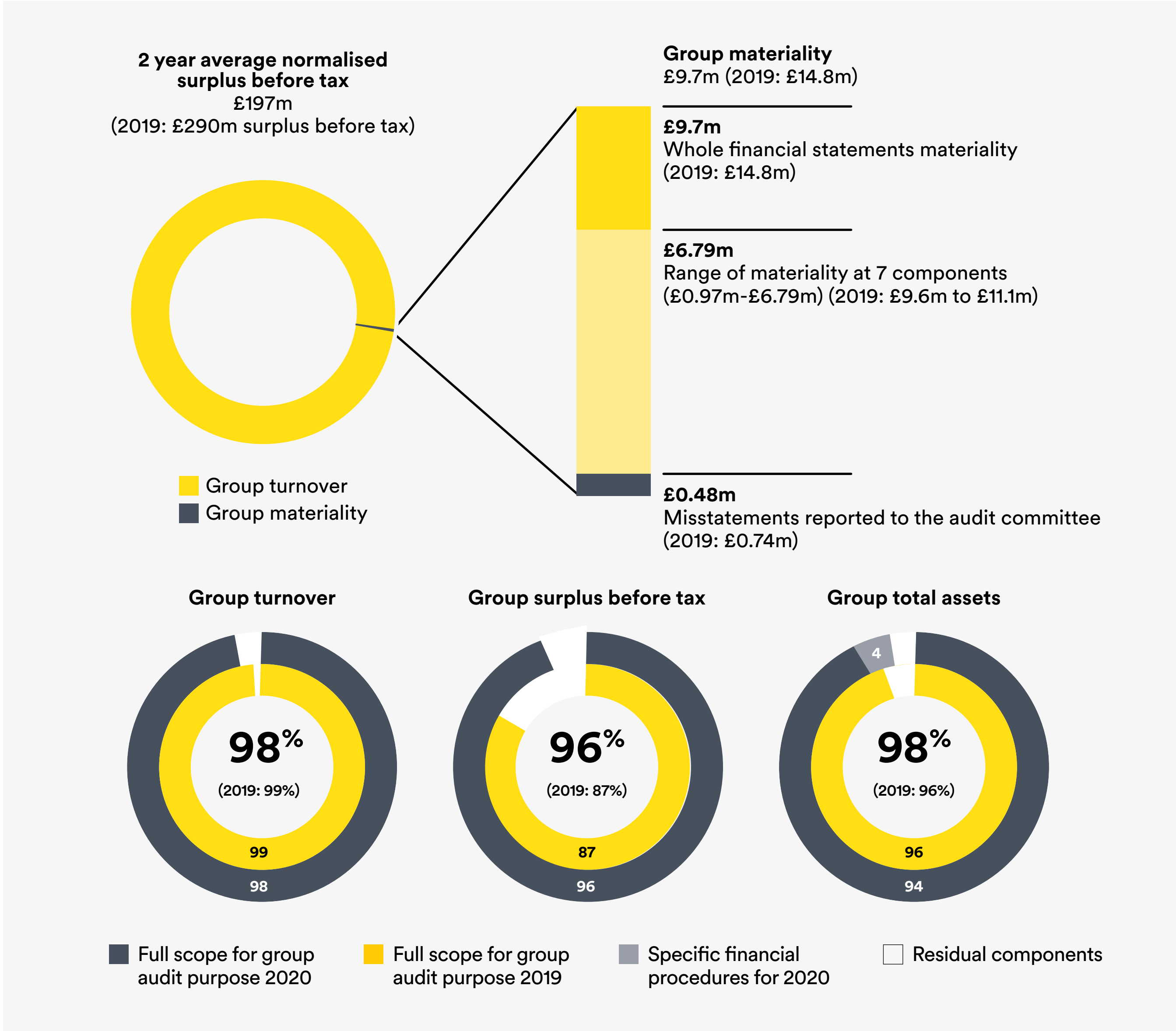
In our evaluation of the Board's conclusions, we considered the inherent risks to the Group's and Association's business model and analysed how those risks might affect the Group's and Association's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Association's available financial resources over this period, including risks arising from COVID 19, were :

- A significant downturn in the economy, including a property market crash;
- Changes in funding streams, political agenda or ability to develop successful partnerships.

As these were risks that could potentially cast significant doubt on the Group's and the Association's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Board consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least 12 months from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.



5. We have nothing to report on the other information in the Annual Report

The Association's Board are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- the Association has not kept proper books of account; or
- the Association has not maintained a satisfactory system of control over transactions; or
- the Financial Statements are not in agreement with the association's books of account; or
- we have not received all the information and explanations we need for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Board's responsibilities

As explained more fully in their statement set out on pages 66-67, the Association's Board is responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Board and other management (as required by auditing standards), and discussed with the Board and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related legislation for registered providers of social housing) and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: laws related to the construction and provision of private and social housing, including health and safety, recognising the nature of the Group's activities and the regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Board and other management and inspection of regulatory and legal correspondence, if any.

Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the Association those matters we are required to state to it 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 Association as a body, for our audit work, for this report, or for the opinions we have formed.

Harry Mears
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

17 September 2020

Statement of comprehensive income for the year ended 31 March 2020

	Note	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Turnover	3a	**915**	937	**636**	665
Cost of sales	3a	**(216)**	(297)	**(67)**	(91)
Operating costs	3a	**(516)**	(442)	**(436)**	(402)
Surplus on disposal of fixed assets and investments	6	**64**	50	**65**	49
Share of profits from joint ventures	14a	**25**	20	**-**	-
Change in value of investment property	14c	**7**	37	**-**	-
Operating surplus	5	**279**	305	**198**	221
Gift aid received		**-**	-	**154**	143
Interest receivable and similar income	7	**2**	1	**42**	44
Interest payable and similar charges	8a	**(119)**	(111)	**(123)**	(119)
Other finance income/(costs)	8b	**16**	(9)	**(1)**	(7)
Gift on acquisition of subsidiary	14g	**235**	-	**-**	-
Surplus on ordinary activities before tax		**413**	186	**270**	282
Tax on surplus on ordinary activities	11	**1**	16	**1**	(1)
Surplus for the year		**414**	202	**271**	281
Other comprehensive income					
Initial recognition of multi-employer defined benefit scheme	9	**-**	(9)	**-**	(8)
Actuarial gain/(loss) on pension schemes	9	**37**	(1)	**27**	(1)
Total comprehensive income for the year		**451**	192	**298**	272

All amounts relate to continuing activities.
The accompanying notes form part of these financial statements.

L&Q Foundation Place Makers Fund

A former LA Lakers superstar is coaching children in south-east London to help keep them off the streets, with help from a grant from the L&Q Foundation Place Makers Fund.

Steve Bucknall, who has represented England in the Commonwealth Games, was the first Englishman to play in the NBA. He set up basketball club London Thunder after returning from his LA Lakers stint to find there was nowhere for children in Lewisham to play.

With the help of L&Q, the club was able to move to the Thunderdome, a venue which has been converted from an empty warehouse into a sports facility with two full-sized courts and spectator seating.

After £50,000 grant from the L&Q Place Makers fund earlier this year, the premises also had its flooring replaced.

The Place Makers Fund awards grants to local groups, organisations and charities which share our passion and commitment to changing lives and enhancing communities.

Steve, who also works as the performance technical manager for Basketball England, is the head coach of London Thunder, which now has six national league teams and over 200 registered players.

He said: "In 2013, L&Q came in and said: 'What can we do?' They gave us money to get the changing rooms, toilets and storage rooms done.

"Since then it's developed with years of support. We've built the club from the bottom up.

"When I first came back and saw there was no basketball facility around, I thought 'What are these kids doing? If there aren't any of these clubs, they're on the streets. It's idle time.

"The parents are chuffed to be able to come down here, drop their kids off and know they are in a safe environment, with lots of mentors around looking after them.

"Basketball teaches you disciplines like working with a team, having to take orders, and we're trying to instil those values throughout the club as the kids are growing up."

"Since then it's developed with years of support. We've built the club from the bottom up."

Statement of financial position at 31 March 2020

	Note	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Fixed assets					
Housing properties	12	**10,555**	9,469	**9,748**	9,088
Other tangible fixed assets	13a	**64**	57	**51**	51
Intangible assets	13b	**17**	12	**16**	12
Goodwill	14f	**11**	16	**-**	-
Equity investment in subsidiaries	14e	**-**	-	**1,164**	1,164
Investments - jointly controlled entities	14a	**371**	478	**38**	24
Investments - HomeBuy equity loans	14b	**104**	111	**105**	111
Investment properties	14c	**1,026**	942	**-**	6
Investments - Real Lettings property fund	14d	**10**	10	**10**	10
		12,158	11,095	**11,132**	10,466
Net pension assets		**4**	-	**4**	-
Debtors due after more than one year	16a	**96**	92	**1,198**	1,011
Current assets					
Land and properties for sale and work in progress	15	**1,100**	1,050	**228**	131
Debtors	16b	**209**	207	**155**	90
Cash and cash equivalents	17	**157**	171	**103**	86
		1,466	1,428	**486**	307
Creditors: amounts falling due within one year	18	**(540)**	(462)	**(309)**	(242)
Net current assets		**926**	966	**177**	65
Total assets less current liabilities		**13,184**	12,153	**12,511**	11,542

	Note	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Creditors: amounts falling due after more than one year	19	**(5,677)**	(5,141)	**(5,268)**	(4,626)
Deferred social housing grant	20	**(2,105)**	(2,039)	**(2,124)**	(2,068)
Grant on HomeBuy equity loans	14b	**(92)**	(98)	**(92)**	(98)
Derivative financial liabilities	30	**-**	-	**-**	-
Provisions for liabilities	23	**(58)**	(55)	**(30)**	(25)
Net pension liability	9	**(25)**	(44)	**(15)**	(41)
Net assets		**5,227**	4,776	**4,982**	4,684
Capital and reserves					
Share capital	25	**-**	-	**-**	-
Revenue reserve		**3,347**	2,892	**2,920**	2,619
Cash flow hedge reserve		**-**	-	**-**	-
Revaluation reserve		**1,880**	1,884	**2,062**	2,065
		5,227	4,776	**4,982**	4,684

The accompanying notes form part of these financial statements.
These financial statements were approved and authorised for issue by the Board and signed on its behalf by:

Aubrey Adams
Group Chair

Michael More
Chair of Audit and Risk Committee

Waqar Ahmed
Group Finance Director

Date of approval: 10 September 2020

Statement of changes in equity for the year ended 31 March 2020

Group	Called up share capital £m	Revaluation reserve £m	Cash flow hedge reserve £m	Revenue reserve £m	Total equity £m
Balance at 1 April 2018	-	1,884	-	2,700	4,584
Surplus for the year	-	-	-	202	202
Initial recognition of multi-employer defined benefit	-	-	-	(9)	(9)
Reserves transfer	-	-	-	-	-
Actuarial (losses)	-	-	-	(1)	(1)
Balance at 31 March 2019	-	1,884	-	2,892	4,776
Surplus for the year	**-**	**-**	**-**	**414**	**414**
Reserves transfer	**-**	**(4)**	**-**	**4**	**-**
Actuarial gains	**-**	**-**	**-**	**37**	**37**
Balance at 31 March 2020	**-**	**1,880**	**-**	**3,347**	**5,227**

LQHT	Called up share capital £m	Revaluation reserve £m	Cash flow hedge reserve £m	Revenue reserve £m	Total equity £m
Balance at 1 April 2018	-	2,065	-	2,347	4,412
Surplus for the year	-	-	-	281	281
Initial recognition of multi-employer defined benefit	-	-	-	(8)	(8)
Reserves transfer	-	-	-	-	-
Actuarial (losses)	-	-	-	(1)	(1)
Balance at 31 March 2019	-	2,065	-	2,619	4,684
Surplus for the year	**-**	**-**	**-**	**271**	**271**
Reserves transfer	**-**	**(3)**	**-**	**3**	**-**
Actuarial gains	**-**	**-**	**-**	**27**	**27**
Balance at 31 March 2020	**-**	**2,062**	**-**	**2,920**	**4,982**

Consolidated statement of cash flows for the year ended 31 March 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Surplus for the year		**414**	202
Adjustments for non-cash items:			
Depreciation, amortisation and impairment		**112**	91
Deferred government grant		**(24)**	(23)
		88	68
Adjustments for investing or financing activities:			
Change in value of investment property		**(7)**	(37)
Interest receivable and similar income		**(2)**	(1)
Interest payable and similar charges (including capitalised interest)		**119**	111
Other finance costs		**(16)**	9
Gain on sale of fixed assets		**(64)**	(50)
Share of profit from joint ventures		**(25)**	(20)
Gift on acquisition of subsidiary		**(235)**	-
Taxation		**(1)**	(16)
		(231)	(4)
Adjustment for working capital movement:			
Decrease/(increase) in trade and other debtors		**24**	(75)
(Increase) in stocks		**(2)**	(92)
Increase/(decrease) in trade and other creditors		**(34)**	82
Increase/(decrease) in provisions and employee benefits		**(3)**	5
		(15)	(80)
Tax paid		**(1)**	3
Net cash flow from operating activities		**255**	189

	Note	2020 £m	2019 £m
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets		**119**	87
Proceeds from sale of investments		**3**	-
Purchase of other fixed assets		**(15)**	(12)
Interest received		**2**	1
Interest paid		**(159)**	(144)
Other finance (costs)/income		**16**	(18)
Investments in jointly controlled entities		**135**	(27)
Acquisition of investment property		**(42)**	(60)
Proceeds from the receipt of government grant		**80**	10
Capitalised development expenditure		**(685)**	(631)
Capital expenditure on existing properties		**(61)**	(91)
Acquisition of subsidiaries net of cash acquired		**5**	-
Net cash from investing activities		**(602)**	(885)
Cash flows from financing activities			
Loans received		**968**	1,171
Loans repaid		**(635)**	(526)
Net cash from financing activities		**333**	645
Net (decrease)/increase in cash and cash equivalents		**(14)**	(51)
Cash and cash equivalents at 1 April		**171**	222
Cash and cash equivalents at 31 March	17	**157**	171

1. Legal status

London and Quadrant Housing Trust (LQHT) is a housing association registered under the Cooperative and Community Benefit Societies Act 2014 and is registered with Homes England and Regulator of Social Housing as a social landlord and public benefit entity. LQHT is the ultimate parent of the Group.

2. Principal accounting policies

Basis of preparation

The financial statements of the Group and association are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102) and the Housing SORP 2018 "Statement of Recommended Practice for Registered Social Housing Providers" and comply with the Accounting Direction for Private Registered Providers of Social Housing from April 2019.

The financial statements are presented in Million Sterling (£m) to the nearest million except where specifically stated otherwise.

We have chosen to adopt the following disclosure exemptions in respect of the individual accounts of the LQHT:

- The requirement to present a statement of cash flows and related notes
- financial instrument disclosures, including:
  - A. categories of financial instruments,
  - B. items of income, expenses, gains or losses relating to financial instruments and Impairment
  - C. exposure to and management of financial risks.

The principal accounting policies adopted in the preparation of these financial statements are set out in the relevant notes to these financial statements.
Accounting policies not specifically attributed to a note are set out below.

Segmental reporting

For the purpose of segmental reporting, the chief operating decision maker (CODM) is considered to be the Board.

In line with the segments reported to the CODM, the presentation of these financial statements and accompanied notes are in accordance with the Accounting Direction for Private Registered Providers of Social Housing from April 2019 and is considered appropriate. Information about income, expenditure and assets attributable to material operating segments are presented on the basis of the nature and function of housing assets held by the Group.

This is appropriate on the basis of the similarity of the services provided, the nature of the risks associated, the type and class of customer and the nature of the regulatory environment across all of the geographical locations in which the Group operates. The CODM do not review disaggregated financial information of assets and liabilities at this level of operating segment. Refer to Note 3b for further disclosed information.

Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Group prepares a 30 year business plan which is updated monthly and approved on a semi-annual basis. The most recent business plan was approved in March 2020 by the Board. As well as considering the impact of a number of scenarios on the business plan the Board also adopted a stress testing framework against the base plan. The stress testing impacts were measured against loan covenants and peak borrowing levels compared to agreed facilities, with potential mitigating actions identified to reduce expenditure. Following the outbreak of the coronavirus pandemic the Group has undertaken a series of further scenario testing including severe but plausible downsides in the worst case assessment.

The board, after reviewing the group and association budgets for 2020/21 and the Group's medium term financial position as detailed in the 30-year business plan, including changes arising from the coronavirus pandemic, is of the opinion that, taking account of severe but plausible downsides, the Group and Association have adequate resources to continue to meet their liabilities over the period of 12 months from the date of approval of the financial statements (the going concern assessment period).

In order to reach this conclusion, the Board has considered the following factors:

The property market – budget and business plan scenarios have taken account of delays in handovers, lower numbers of property sales, reductions in sales values and potential conversion of market sale to social homes;

Maintenance costs – budget and business plan scenarios have been modelled to take account of cost increases and delays in maintenance expenditure, with major works being phased into future years;

Rent and service charge receivable – arrears and bad debts have been increased to allow for customer difficulties in making payments and budget and business plan scenarios to take account of potential future reductions in rents;

Liquidity – current available cash and unutilised loan facilities of £788m as at 30 June 2020 which gives significant headroom for committed expenditure and other forecast cash flows over the going concern assessment period;

The group's ability to withstand other adverse scenarios such as higher interest rates and increases in the number of void properties.

The board believe the Group and association have sufficient funding in place and expect the Group to be in compliance with its debt covenants even in severe but plausible downside scenarios.

Consequently, the Directors are confident that the Group and Association will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Significant judgements and estimates

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made are set out below.

Significant management judgements

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

- The indicators of impairment of the Group's fixed assets and the assumptions made in:
  - A. determining the cash-generating unit (CGU) level at which recoverable amount is to be assessed
  - B. estimating the recoverable amount of the cash-generating unit
  - C. calculating the carrying amount of the cash-generating unit and
  - D. comparing the carrying amount to the recoverable amount to determine if an impairment loss has occurred.
- The appropriate point at which a development project is more likely than not to continue, allowing capitalisation of associated development costs and borrowing costs.
- The appropriate allocation of costs for mixed tenure developments, and furthermore the allocation of costs relating to shared ownership between current and fixed assets.

Other estimation uncertainty

- Management is required to determine the finite useful life over which purchase goodwill is to be amortised on a systematic basis. If, in exceptional cases, a reliable estimate of the useful life of goodwill cannot be determined, the life will not exceed 10 years. (Refer to note 14(f)).
- Management reviews its estimate of the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment and changes to circumstances which may require more frequent replacement of key components.

The key judgements and estimates applied in respect of housing properties and property components are disclosed in note 12 and include:

- A. the useful economic life of property structure is set to 100 years; and
- B. that properties have no residual values at the end of their useful life.

These are conservative assumptions that have been aligned with general practice followed by registered housing providers.

- The critical selection of financial and actuarial assumptions in relation to defined benefit scheme obligation (DBO) based on best estimates derived from the Group's policies and practices and their applications across all pension schemes operated by the Group where appropriate and confirmed with actuaries where these are beyond management expertise, e.g. Mortality tables have been chosen based on published research by the Continuous Mortality Investigation Bureau (supported by the Actuarial Profession). Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses (as analysed in note 9).

- Management is required to determine the fair value of asset and liabilities of any entities acquired and reflect these fair values as part of the process of preparing consolidated financial statements. Where the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, management estimates the fair value by using a valuation technique and engages qualified external valuer where such techniques are beyond management expertise. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations and will necessarily include management judgement applied to assumptions provided to the valuer. The determination of fair values is also a key determinant of goodwill calculation and the exceptional gains on business combinations where purchase consideration is nil.

- Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices. Fair value measurements applied to fixed rate and hedged debt carry a significant mark-to-market exposure year on year, the accounting for which can impact on the presentation of the financial statements depending on whether hedge accounting is applicable and whether management opts to apply hedge accounting.

- Management perform estimates for receivables relating to the recoverability of outstanding balances (rental and other trade debtors, see note 16). A review is performed each year end on an individual debtor basis to consider whether each debt is recoverable.

Basis of consolidation

The Group has prepared consolidated financial statements as required by the Housing SORP 2018 "Statement of Recommended Practice for Registered Social Housing Providers" under the purchase method in which the financial statements of LQHT and its subsidiaries are presented as those of a single economic entity. Intercompany transactions and balances between group companies are therefore eliminated in full on consolidation.

The consolidated accounts comprise the financial statements of London & Quadrant Housing Trust, the parent company and its subsidiary undertakings, control of which are achieved where LQHT has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements of the parent LQHT. A list of all subsidiaries is provided in note 33.

Business combinations that are gifts

Where there is a business combination that is in substance a gift, any excess of fair value of the assets received over the fair value of the liabilities assumed is recognised as a gain in the statement of comprehensive income. This gain represents the gift of the value of one entity to another and shall be recognised as income. Where the fair value of the liabilities exceeds the fair value of the assets, the loss represents net obligations assumed and shall be recognised as an expense. Full details of acquisitions in the year are included in note 14(g).

Jointly controlled entities

The Group participates in a number of joint ventures that involves the establishment of a corporation, partnership or other entity. As such, these are jointly controlled entities and accounted for using the equity method of accounting under which the equity investment is initially recognised at the transaction price and is subsequently adjusted to reflect the Group's share of the profit or loss.

Value added tax

The Group charges Value Added Tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT on expenditure to the extent that it is suffered by the Group and not recoverable from HM Revenue and Customs. Recoverable VAT arises from partially exempt activities and is credited to the Statement of Comprehensive Income.

Turnover

Turnover represents rental and service charge income receivable (net of void losses), fees receivable, proceeds from first tranche sales of low-cost home ownership properties, from properties developed for open market sales and from land sales at the point of sale completion and includes, in accordance with FRS 102, the amortisation of Social Housing Grant (SHG). By applying the accrual model, deferred grant income is released as an income over the life of the asset structure. Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of any voids. Income from first tranche sales, sales of properties built for sale and land sales is recognised at the point of legal completion of the sale.

Income from sale of strategic land and infrastructure can be recognised in one of two ways depending on the agreed contract. Sale of strategic land is recognised when the benefits of ownership and related planning consents are passed to the purchaser. Long term infrastructure contracts are included in revenue on the basis of the sales value of work performed during the year by reference to the total sales value and stage of completion of these contracts.

Where a contract consists of a single price for both the strategic land and the infrastructure contract after completion, total income is recognised on transfer of benefits of ownership and related planning consents of the site, while a provision for future contractual costs to complete the infrastructure works are included as a liability to the accounts. Any deferred consideration is discounted using an appropriate effective interest rate.

Other income is recognised as receivable on the delivery of services provided.

Cost of sales

Cost of sales represents those costs including capitalised interest, direct overheads incurred during the course of development of those properties and marketing and other incidental costs incurred during the course of sale of those properties.

In addition to the land costs originally stocked under construction attributable to each sales transaction, included within cost of sales are expenses relating to fees expended in promoting developments through the planning system which are written off to the statement of comprehensive income until the viability of such a development is reasonably secure, after which such costs are capitalised in accordance with the accounting policy in respect of land and properties held for sale. At the date a sale is recognised all costs, including planning and infrastructure costs attributable to that sale, are taken to cost of sales.

Joint ventures

The Group has entered into various property development and land enabling activities conducted through joint ventures, the majority of which are jointly controlled entities. These are represented in Statement of Comprehensive Income by applying the equity accounting method as set out in note 14a.

For those which are jointly controlled assets the results are proportionally consolidated within the Statement of Comprehensive Income, while L&Q recognises its share of assets and liabilities within the Statement of Financial Position.

Reserves

There are no restricted or designated reserves held. The revaluation reserve was established on transition to FRS 102 on application of the deemed cost model, which allowed first time adopters to elect to measure an item of fixed assets at its fair value at the date of transition and use that fair value as its deemed cost at that date. Movements in the revaluation reserve relate to disposals in the year of homes held at deemed cost.

3a. Particulars of turnover, cost of sales, operating costs and operating surplus – Group

Group	2020 Turnover £m	2020 Cost of sales £m	2020 Operating costs £m	2020 Other operating items £m	2020 Operating surplus £m	2019 Turnover £m	2019 Cost of sales £m	2019 Operating costs £m	2019 Other operating items £m	2019 Operating surplus £m
Social housing lettings										
General needs	**382**	**-**	**(272)**	**-**	**110**	371	-	(254)	-	117
Supported housing	**41**	**-**	**(42)**	**-**	**(1)**	34	-	(33)	-	1
Intermediate market rent	**27**	**-**	**(16)**	**-**	**11**	27	-	(14)	-	13
Low-cost home ownership	**60**	**-**	**(24)**	**-**	**36**	56	-	(20)	-	36
Affordable rent	**51**	**-**	**(22)**	**-**	**29**	41	-	(14)	-	27
	561	**-**	**(376)**	**-**	**185**	529	-	(335)	-	194
Other social housing activities										
Care and support	**9**	**-**	**(9)**	**-**	**-**	9	-	(8)	-	1
First tranche low-cost home ownership sales	**61**	**(51)**	**(1)**	**-**	**9**	69	(53)	-	-	16
Development	**5**	**-**	**(48)**	**-**	**(43)**	3	-	(25)	-	(22)
Community investment	**-**	**-**	**(7)**	**-**	**(7)**	-	-	(6)	-	(6)
Other	**1**	**-**	**(2)**	**-**	**(1)**	-	-	(1)	-	(1)
Surplus on disposal of fixed assets	**-**	**-**	**-**	**64**	**64**	-	-	-	50	50
	76	**(51)**	**(67)**	**64**	**22**	81	(53)	(40)	50	38
Non-social housing lettings										
Student accommodation	**2**	**-**	**(3)**	**-**	**(1)**	1	-	(2)	-	(1)
Market rent	**45**	**-**	**(13)**	**7**	**39**	35	-	(12)	37	60
Non-social homeowners	**11**	**-**	**(15)**	**-**	**(4)**	11	-	(11)	-	-
Commercial	**4**	**-**	**(1)**	**-**	**3**	2	-	(1)	-	1
Garages, sheds, parking spaces	**1**	**-**	**(1)**	**-**	**-**	1	-	(1)	-	-
	63	**-**	**(33)**	**7**	**37**	50	-	(27)	37	60

Group	2020 Turnover £m	2020 Cost of sales £m	2020 Operating costs £m	2020 Other operating items £m	2020 Operating surplus £m	2019 Turnover £m	2019 Cost of sales £m	2019 Operating costs £m	2019 Other operating items £m	2019 Operating surplus £m
Non-social housing activities										
Open market sales	**116**	**(98)**	**(2)**	**-**	**16**	117	(126)	-	-	(9)
Land sales	**93**	**(67)**	**(12)**	**-**	**14**	155	(118)	(12)	-	25
Resales	**1**	**-**	**-**	**-**	**1**	2	-	-	-	2
Other non-social housing activity	**5**	**-**	**(26)**	**-**	**(21)**	3	-	(28)	-	(25)
Share of profits from joint ventures	**-**	**-**	**-**	**25**	**25**	-	-	-	20	20
	215	**(165)**	**(40)**	**25**	**35**	277	(244)	(40)	20	13
	915	**(216)**	**(516)**	**96**	**279**	937	(297)	(442)	107	305
Interest receivable					**2**					1
Interest payable					**(119)**					(111)
Other finance income/(costs)					**16**					(9)
Gift on acquisition of subsidiary					**235**					-
Tax on surplus on ordinary activities					**1**					16
Surplus for year					**414**					202

Notes:
Development operating costs includes £16m impairment charge (2019: £4m), £3m abortive site costs (2019: £1m) and £20m overheads (2019: £15m).

Market rent "other operating items" represents the change in valuation of investment property which forms part of operating income.

3a. Particulars of turnover, cost of sales, operating costs and operating surplus – LQHT

LQHT	2020 Turnover £m	2020 Cost of sales £m	2020 Operating costs £m	2020 Other operating items £m	2020 Operating surplus £m	2019 Turnover £m	2019 Cost of sales £m	2019 Operating costs £m	2019 Other operating items £m	2019 Operating surplus £m
Social housing lettings										
General needs	370	-	(260)	-	110	370	-	(252)	-	118
Supported housing	33	-	(34)	-	(1)	34	-	(32)	-	2
Intermediate market rent	27	-	(15)	-	12	27	-	(14)	-	13
Low-cost home ownership	60	-	(24)	-	36	56	-	(21)	-	35
Affordable rent	47	-	(19)	-	28	41	-	(14)	-	27
	537	-	(352)	-	185	528	-	(333)	-	195
Other social housing activities										
Care and support	-	-	-	-	-	-	-	-	-	-
First tranche low-cost home ownership sales	59	(49)	-	-	10	69	(55)	-	-	14
Development	1	-	(32)	-	(31)	-	-	(18)	-	(18)
Community investment	-	-	(7)	-	(7)	-	-	(6)	-	(6)
Other	-	-	(1)	-	(1)	1	-	(1)	-	-
Surplus on disposal of fixed assets	-	-	-	65	65	-	-	-	49	49
	60	(49)	(40)	65	36	70	(55)	(25)	49	39
Non-social housing lettings										
Student accommodation	2	-	(3)	-	(1)	1	-	(3)	-	(2)
Market rent	-	-	-	-	-	-	-	-	-	-
Non-social homeowners	11	-	(15)	-	(4)	11	-	(11)	-	-
Commercial	3	-	(1)	-	2	2	-	(1)	-	1
Garages, sheds, parking spaces	1	-	(1)	-	-	1	-	(1)	-	-
	17	-	(20)	-	(3)	15	-	(16)	-	(1)

LQHT	2020 Turnover £m	2020 Cost of sales £m	2020 Operating costs £m	2020 Other operating items £m	2020 Operating surplus £m	2019 Turnover £m	2019 Cost of sales £m	2019 Operating costs £m	2019 Other operating items £m	2019 Operating surplus £m
Non-social housing activities										
Open market sales	17	(18)	-	-	(1)	47	(36)	-	-	11
Resales	1	-	-	-	1	2	-	-	-	2
Other non-social housing activity	4	-	(24)	-	(20)	3	-	(28)	-	(25)
	22	(18)	(24)	-	(20)	52	(36)	(28)	-	(12)
	636	(67)	(436)	65	198	665	(91)	(402)	49	221
Interest receivable					42					44
Interest payable					(123)					(119)
Other finance income/(costs)					(1)					(7)
Gift aid					154					143
Tax on surplus on ordinary activities					1					(1)
Surplus for year					271					281

Notes:
Development operating costs includes £8m impairment charge (2019: £4m), £3m abortive site costs (2019: £1m) and £18m overheads (2019: £14m).

3b. Particulars of income and expenditure from social housing lettings - Group

Group	General needs £m	Supported housing £m	Intermediate market rent £m	Low-cost home ownership £m	Affordable rent £m	2020 Total £m	2019 Total £m
Rent receivable net of identifiable service charges	339	31	22	42	45	479	453
Service charges receivable	23	8	4	11	5	51	48
Net rents receivable	362	39	26	53	50	530	501
Amortised government grant	13	2	1	7	1	24	24
Government grants taken to income	3	-	-	-	-	3	-
Other income	4	-	-	-	-	4	4
Total income from lettings	382	41	27	60	51	561	529
Expenditure on letting activities:							
Management	34	6	3	5	2	50	47
Services	34	12	4	12	5	67	60
Routine maintenance	90	9	3	3	6	111	83
Planned maintenance and major repairs	40	5	2	3	3	53	66
Bad debts	6	1	-	-	1	8	-
Depreciation of housing properties	65	9	3	-	5	82	78
Impairment of housing properties	2	-	1	1	-	4	-
Other costs	1	-	-	-	-	1	1
Total expenditure on lettings	272	42	16	24	22	376	335
Operating surplus on lettings	110	(1)	11	36	29	185	194
Voids losses	2	2	2	-	1	7	8

3b. Particulars of income and expenditure from social housing lettings - LQHT

LQHT	General needs £m	Supported housing £m	Intermediate market rent £m	Low-cost home ownership £m	Affordable rent £m	2020 Total £m	2019 Total £m
Rent receivable net of identifiable service charges	328	25	23	42	41	459	453
Service charges receivable	22	6	3	11	5	47	48
Net rents receivable	350	31	26	53	46	506	501
Amortised government grant	13	2	1	7	1	24	24
Government grants taken to income	3	-	-	-	-	3	-
Other income	4	-	-	-	-	4	3
Total income from lettings	370	33	27	60	47	537	528
Expenditure on letting activities:							
Management	31	4	3	5	1	44	45
Services	34	10	4	12	4	64	60
Routine maintenance	87	7	3	3	5	105	83
Planned maintenance and major repairs	38	5	2	3	3	51	66
Bad debts	5	1	-	-	1	7	-
Depreciation of housing properties	62	7	3	-	5	77	78
Impairment of housing properties	2	-	-	1	-	3	-
Other costs	1	-	-	-	-	1	1
Total expenditure on lettings	260	34	15	24	19	352	333
Operating surplus on lettings	110	(1)	12	36	28	185	195
Voids losses	2	2	2	-	1	7	8

Notes to the financial statements for the year ended 31 March 2020

4. Group housing stock

Social housing accommodation	Owned and directly managed	Owned but managed by other organisations	Managed on behalf of other organisations	2020 Total	Owned and directly managed	Owned but managed by other organisations	Managed on behalf of other organisations	2019 Total
General needs	58,264	255	219	58,738	53,502	207	909	54,618
Affordable rent	6,735	-	10	6,745	4,835	4	11	4,850
Intermediate rent	2,228	-	-	2,228	2,191	-	294	2,485
Housing for older people	5,088	20	11	5,119	2,539	20	11	2,570
Supported housing	1,086	1,723	39	2,848	814	1,700	60	2,574
Care homes	50	233	-	283	88	283	-	371
Total social housing	73,451	2,231	279	75,961	63,969	2,214	1,285	67,468

In addition to the above, L&Q Group owns or manages the following homes and units:

	2020	2019
Other social housing accommodation		
Key worker accommodation	952	857
Low-cost home ownership	9,076	9,058
Shared equity	2,602	2,486
Other social homes	136	354
Total other social housing	12,766	12,755
Non-social housing accommodation		
Leaseholders	11,450	10,458
Market rent	2,542	2,364
Student accommodation	668	632
Other landlords	1,757	1,862
Commercial	118	126
Total non-social housing	16,535	15,442
Total homes owned or managed	105,262	95,665
Garages, parking spaces and other non-habitable units	9,741	8,252
Total homes and units owned or managed	115,003	103,917
Homes in development pipeline	29,504	29,911
Strategic land plots[19]	70,614	67,289

[19] Previously reported as 46,800 strategic land plots in 2019. In FY2020, 2 schemes have been re-assigned to strategic land. We have amended the 2019 figure to provide a like for like comparative.

5. Operating surplus on ordinary activities before tax

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Operating surplus is stated after charging/(crediting):				
Depreciation on social housing properties	82	78	77	78
Depreciation on other non-social housing	1	1	1	1
Depreciation and amortisation on other fixed assets	8	8	8	8
Impairment charge on fixed assets housing properties	26	4	19	4
Impairment release on fixed assets housing properties	(7)	-	(7)	-
Impairment charge on current assets under development	5	-	1	-
Impairment in Joint Venture schemes	-	(12)	-	-
Surplus on sale of fixed assets	(64)	(50)	(65)	(49)
Operating lease rentals - land and buildings	2	1	2	1
Change in valuation of investment property	(7)	(37)	-	-

During the year, the following services were provided by the Group auditor:

	Group 2020 £'000	Group 2019 £'000	LQHT 2020 £'000	LQHT 2019 £'000
Auditor's remuneration (excluding VAT):				
• In their capacity as auditor	575	410	311	259
• In respect of other services	155	152	155	152

An additional fee in respect of 2018/2019 of £200,000 was also charged in the year.

6. Surplus on disposal of fixed assets and other investments

Disposals
Surplus on disposal of fixed assets and investments is recognised on legal sale completion.

Group	Housing properties £m	Investment disposals £m	HomeBuy £m	Other £m	2020 Total £m	2019 Total £m
Sales proceeds	118	3	12	5	138	98
Cost of sales	(53)	(3)	(7)	(5)	(68)	(44)
Grant recovered	(4)	-	-	-	(4)	(1)
Grant abated	-	-	-	-	-	-
Depreciation on sales	1	-	-	-	1	
Incidental sale expense and write downs	(3)	-	-	-	(3)	(3)
Total	59	-	5	-	64	50

LQHT	Housing properties £m	Investment disposals £m	HomeBuy £m	Other £m	2020 Total £m	2019 Total £m
Sales proceeds	119	-	12	-	131	98
Cost of sale	(53)	-	(7)	-	(60)	(45)
Grant recovered	(4)	-	-	-	(4)	(1)
Grant abated	-	-	-	-	-	-
Depreciation on sales	1	-	-	-	1	
Incidental sale expense and write downs	(3)	-	-	-	(3)	(3)
Total	60	-	5	-	65	49

7. Interest receivable and similar income

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Bank interest receivable	1	1	1	1
Other interest receivable	1	-	41	43
	2	1	42	44

8a. Interest payable and similar charges

Interest payable
Interest expense on liabilities at amortised cost is calculated using the effective interest method.
The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount of the financial liability.

Interest capitalised
Interest on borrowings is capitalised to housing properties during the course of construction up to the date of completion of each scheme. The interest capitalised is either on borrowings specifically taken to finance a scheme or on net borrowings to the extent that they are deemed to be financing a scheme. This treatment applies irrespective of the original purpose for which the loan was raised. For the year ending 31 March 2020, interest has been capitalised at an average rate of 3.4% (2019: 3.4%) that reflects the weighted average effective interest rate on the Group's borrowings required to finance housing property developments.

Interest is not capitalised on strategic land developments.

Release of loan fair values
Where loans have been fair valued on acquisition of another entity, the difference on fair value at the time of acquisition is released to the statement of comprehensive income in line with the repayment profile of the specific loans. Where the loan is fully repaid, the full amount of fair value remaining is released.

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Interest expense on liabilities at amortised cost	161	144	145	133
Less: interest capitalised in housing properties	(42)	(33)	(22)	(14)
	119	111	123	119

8b. Other finance income and costs

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Movements in financial instruments relating to deferred land payments	4	(10)	(2)	(4)
Release of loan fair values on repayment and refinancing	15	4	4	-
Other charges	(3)	(3)	(3)	(3)
	16	(9)	(1)	(7)

9. Employee information

	Group 2020 No.	Group 2019 No.	LQHT 2020 No.	LQHT 2019 No.
The average full-time equivalent employees based on their individual contracted hours:				
Chief executive department	**19**	10	**10**	10
Contact centre and income management	**359**	240	**307**	240
Development, Sales, Asset Management and Procurement	**648**	493	**572**	463
Finance, Treasury and Insurance	**167**	136	**135**	128
Governance, Strategy and Communications	**93**	94	**76**	93
Human resources, Learning and Development and Facilities	**95**	80	**84**	80
L&Q foundation	**56**	51	**55**	51
Care and Support	**447**	303	**9**	8
Maintenance and L&Q Energy	**896**	530	**735**	530
Neighbourhoods	**450**	370	**417**	370
Private Rented and Commercial Lettings	**58**	41	**47**	41
Technology and digital	**148**	93	**129**	93
	3,436	2,441	**2,576**	2,107

Due to internal restructure of directorates the above aggregated teams have been represented since 2019 to provide an accurate comparison. A further 512 FTE joined the Group during the year on the acquisition of THT.

	Group 2020	Group 2019	LQHT 2020	LQHT 2019
Staff costs (for the above persons)	**£m**	£m	**£m**	£m
Wages and salaries	**135**	97	**117**	94
Social security costs	**15**	11	**13**	11
Other pension costs	**16**	9	**14**	9
	166	117	**144**	114

The above disclosure includes staff costs for persons employed at Trafford Housing Trust for the six months of the year after acquisition on 1 October 2019.

Holiday pay accrual

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

L&Q Staff Benefits Plan

The Group operates the London & Quadrant Housing Trust staff benefits plan (the LQHT scheme), providing benefits based on final pensionable pay. The LQHT scheme has 13 active members (2019: 15). The assets of the scheme are held separately from those of the Group. This scheme has been closed to new entrants since 2001.

The pension cost is assessed in accordance with the advice of an independent professionally qualified actuary using the projected unit method and is not materially different from that arising from the current employer's contribution rate.

The pension contributions payable by the Group to the LQHT scheme during the accounting period were equal to 24.5% (2019: 24.5%) of pensionable salary as recommended by the actuary. Surpluses and deficits are reviewed at each triennial actuarial valuation, and the pensions charge recorded by the Group during the accounting period was equal to the contributions payable.

The Group also participates in four defined benefit pension schemes ("LGPS") which are administered by:

- London Borough of Waltham Forest with one active member (2019: 1)
- Buckinghamshire County Council with no active members (2019: nil);
- London Borough of Bexley with one active member (2019: 2); and
- Tameside Metropolitan Borough Council with 135 active members.

The pension contributions paid during the year for these schemes were:

- London Borough of Waltham Forest scheme 16.7% (2019: 16.7%);
- Buckinghamshire County Council scheme nil (2019: 27.6%);
- London Borough of Bexley Scheme 26.5% (2019: 26.5%); and
- Greater Manchester Pension Fund 22.5%.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Pension scheme surpluses (to the extent that they are recoverable) or deficits are recognised in full. The results of the schemes as set out below have been based on assumptions prepared by the LQHT actuary using the best estimate chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The movement in the scheme surpluses/deficits other than cash contributed by the Group are split between operating charges, finance items and actuarial gains or losses in the statement of other comprehensive income.

The carrying value of any resulting pension scheme asset is restricted to the extent that the Group is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

The Social Housing Pension Scheme

SHPS is a multi-employer scheme which provides benefits to non-associated employers. The scheme is classified as a defined benefit scheme. At 31 March 2019 as a result of additional information, a full FRS 102 valuation was adopted for the first time.

The Group has three employers participating in SHPS LQHT, L&Q Living Limited and Trafford Housing Trust.

9. Employee information (continued)

NHS Pension Scheme

The NHS pension scheme is a statutory multi-employer scheme, with benefits fully guaranteed by the government. Contributions from both members and employers are paid to the exchequer, which meets the cost of the scheme benefits. The exchequer also pays for the costs of increasing benefits each year by the rate of inflation. This cost is not met by contributions from scheme members or employers and consequently the scheme is accounted for as a defined contribution scheme. This scheme relates to employees of L&Q Living Limited only and has been closed to new and existing employees not already in the scheme since 1 April 2008.

Money purchase scheme

The Group also participates in defined contribution schemes where the amount charged to the statement of consolidated income represents the contributions payable to the scheme in respect of the accounting period.

GMP Equalisation

In October 2018 the High Court published its judgement on the case of Lloyds Banking Group and the equalisation of Guaranteed Minimum Pensions ('GMP'). Where applicable, the potential estimated impact of GMP equalisation on the Group's defined benefit pension schemes has been included in the net pension liability.

In December 2018 the Court of Appeal ruled against the Government in two linked cases (the Sergeant and McCloud cases). In essence, the Court held that the transitional protections which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful discrimination. We are aware that a consultation has been announced by the Ministry of Housing, Communities and Local Government's on proposals to remove age discrimination from the LGPS in England and Wales. At the time of signing directors assessed that:

- There is likely to be a change to the pension liability following the completion of the consultation;
- There is currently insufficient information available to base any calculations of the impact on;
- A reliable estimate cannot therefore be made of the impact; and
- The timing of the consultation means that any resulting changes will be reflected in the pension liability at 31 March 2021.

a) L&Q Staff Benefits Plan and LGPS - Group and LQHT

	2020	2019
Financial assumptions	**2.5%**	2.4%
Discount rate	**2.5%**	3.3%
Inflation (RPI)	**1.8%**	2.5%
Inflation (CPI)	**2.5%**	3.3%
Salary growth		
Mortality assumptions		
• Base table	**S2PA**	S2PA
• Improvement method	**CMI 2019 with 1.25% LTR 7**	CMI 2018 with 1.25% LTR 7
• Projection	**Year of birth**	Year of birth

Mortality tables have been chosen based on published research by the Continuous Mortality Investigation Bureau of the Institute of Actuaries and Faculty of Actuaries.

b) Social Housing Pension Scheme Plan - Group and LQHT

	2020	2019
Financial assumptions	**2.5%**	2.4%
Discount rate	**2.8%**	3.3%
Inflation (RPI)	**1.8%**	2.3%
Inflation (CPI)	**2.5%**	3.3%
Salary growth		
Mortality assumptions		
• Base table	**S2PA**	S2PA
• Improvement method	**CMI 2019 with 1.0% LTR**	CMI 2018 with 1.25% LTR
• Projection	**Year of birth**	Year of birth

Mortality tables have been chosen based on published research by the Continuous Mortality Investigation Bureau of the Institute of Actuaries and Faculty of Actuaries.

9. Employee information (continued)

Summary of pension scheme balances

	Group 2020 £m	Group 2019 £m	Trust 2020 £m	Trust 2019 £m
Net pension asset				
LGPS schemes	-	-	-	-
LQHT staff benefits plan	4	-	4	-
Net pension asset	4	-	4	-

	Group 2020 £m	Group 2019 £m	Trust 2020 £m	Trust 2019 £m
Net pension liability				
LGPS schemes	10	2	2	2
LQHT staff benefits plan	-	12	-	12
SHPS	15	30	13	27
Net pension liability	25	44	15	41

Defined benefit schemes - Net Pension Asset

The two schemes that were in a net pension surplus at 31 March 2020 are the L&Q Staff Benefits Plan and the London Borough of Bexley LGPS. These were both in a net pension deficit position in the prior year.

	Group 2020 £m	Group 2019 £m	Trust 2020 £m	Trust 2019 £m
Analysis of the amount recognised in comprehensive income	-	-	-	-
Current service cost	-	-	-	-
Past service cost	-	-	-	-
Net interest on the defined liability	-	-	-	-
	-	-	-	-

	Group 2020 £m	Group 2019 £m	Trust 2020 £m	Trust 2019 £m
Analysis of amount recognised in other comprehensive income				
Actual return less expected return on plan assets	(1)	-	(1)	-
Amount included in net interest on net defined benefit liability	(3)	-	(3)	-
Remeasurements – return on plan assets excluding interest income	(4)	-	(4)	-
Changes in assumptions underlying the present value of the plan liabilities	15	-	15	-
Changes due to experience	4	-	4	-
Remeasurements recognised	15	-	15	-
Movement in (deficit)/surplus during the year				
Transfer from pension liability	(12)	-	(12)	-
Movement in year:				
Current service cost	-	-	-	-
Employer contributions	2	-	2	-
Past service costs	-	-	-	-
Other finance costs	(1)	-	(1)	-
Remeasurements	15	-	15	-
Net surplus at end of the year	4	-	4	-
Movement in fair value of plan assets				
At beginning of the year/transfer from pension liability	138	-	138	-
Expected return on assets	-	-	-	-
Interest income	3	-	3	-
Remeasurements on plan assets	(5)	-	(5)	-
Assets distributed on settlements	-	-	-	-
Employer contributions	2	-	2	-
Plan participant contributions	-	-	-	-
Benefits paid	(5)	-	(5)	-
At end of the year	133	-	133	-

Notes to the financial statements
for the year ended 31 March 2020

9. Employee information (continued)

	Group 2020 £m	Group 2019 £m	Trust 2020 £m	Trust 2019 £m
Movement in liabilities during the year				
Past service liability at start of the year / transfer from pension liability	150	-	150	-
Service cost	-	-	-	-
Interest cost	3	-	3	-
Plan participant contributions	-	-	-	-
Past service costs	-	-	-	-
Remeasurement:				
- Due to changes in assumptions	(15)	-	(15)	-
- Due to experience	(4)	-	(4)	-
Liabilities extinguished on settlements	-	-	-	-
Benefits paid	(5)	-	(5)	-
Past service liability at end of the year	129	-	129	-

Defined benefit schemes - Net Pension Liability

The schemes that were in a net pension deficit at 31 March 2020 are the Waltham Forest LGPS, Bucks County Council LGPS and the Greater Manchester Pensions Fund.

In the prior year the L&Q Staff Benefit Plan and the London Borough of Bexley LGPS were both also in a net pension deficit.

	Group 2020 £m	Group 2019 £m	Trust 2020 £m	Trust 2019 £m
Analysis of the amount recognised in comprehensive income				
Current service cost	(2)	-	-	-
Past Service cost	-	-	-	-
Net interest on the defined liability	-	(1)	-	(1)
	(2)	(1)	-	(1)

	Group 2020 £m	Group 2019 £m	Trust 2020 £m	Trust 2019 £m
Analysis of amount recognised in other comprehensive income				
Actual return less expected return on plan assets	(7)	8	-	8
Amount included in net interest on net defined benefit liability	1	(4)	-	(4)
Remeasurements – return on plan assets excluding interest income	(6)	4	-	4
Changes in assumptions underlying the present value of the plan liabilities	11	(2)	-	(2)
Changes due to experience	6	1	-	1
Release of fair value on acquisition	(3)	-	-	-
Remeasurements recognised	8	3	-	3
Movement in (deficit)/surplus during the year				
Net deficit at beginning of the year	(14)	(18)	(14)	(18)
LGPS arising on acquisition	(17)	-	-	-
Transfer to pension asset	12	-	12	-
Movement in year:				
Current service cost	(2)	-	-	-
Employer contributions	2	2	-	2
Past service costs	-	(1)	-	(1)
Other finance costs	(1)	-	-	-
Remeasurements	10	3	-	3
Net deficit at end of the year	(10)	(14)	(2)	(14)

9. Employee information (continued)

	Group 2020 £m	Group 2019 £m	Trust 2020 £m	Trust 2019 £m
Movement in liabilities during the year				
Past service liability at beginning of the year	**159**	157	**159**	157
LGPS arising on acquisition	**71**	-	**-**	-
Transfer to pension asset	**(150)**	-	**(150)**	-
Service cost	**2**	-	**-**	-
Interest cost	**2**	4	**-**	4
Plan participant contributions	**-**	-	**-**	-
Past service costs	**-**	1	**-**	1
Remeasurement:				
- Due to changes in assumptions	**(11)**	2	**(1)**	2
- Due to experience	**(6)**	(1)	**1**	(1)
Liabilities extinguished on settlements	**-**	-	**-**	-
Benefits paid	**(1)**	(4)	**-**	(4)
Other costs	**-**	-	**-**	-
Past service liability at end of the year	**66**	159	**9**	159

	Group 2020 £m	Group 2019 £m	Trust 2020 £m	Trust 2019 £m
Movement in fair value of plan assets				
At beginning of the year	**145**	139	**145**	139
LGPS arising on acquisition	**54**	-	**-**	-
Transfer to pension asset	**(138)**	-	**(138)**	-
Expected return on assets	**-**	-	**-**	-
Net interest income	**1**	4	**-**	4
Administration expenses	**-**	-	**-**	-
Remeasurements	**(6)**	4	**-**	4
Assets distributed on settlements	**-**	-	**-**	-
Employer contributions	**2**	2	**-**	2
Plan participant contributions	**-**	-	**-**	-
Benefits paid	**(2)**	(4)	**-**	(4)
At end of the year	**56**	145	**7**	145

SHPS - Net Pension Liability

	Group 2020 £m	Group 2019 £m	Trust 2020 £m	Trust 2019 £m
Analysis of the amount recognised in comprehensive income				
Current service cost	**-**	-	**-**	-
Past service cost	**-**	-	**-**	-
Net interest on the defined liability	**(1)**	(1)	**(1)**	(1)
	(1)	(1)	**(1)**	(1)

	Group 2020 £m	Group 2019 £m	Trust 2020 £m	Trust 2019 £m
Analysis of amount recognised in other comprehensive income				
Actual return less expected return on plan assets	**2**	4	**2**	3
Amount included in net interest on net defined benefit liability	**(2)**	(3)	**(2)**	(2)
Remeasurements – return on plan assets excluding interest income	**-**	1	**-**	1
Changes in assumptions underlying the present value of the plan liabilities	**11**	-	**9**	-
Changes due to experience	**3**	(5)	**3**	(5)
Remeasurements recognised	**14**	(4)	**12**	(4)
Movement in deficit/(surplus) in the year				
Net deficit at beginning of the year	**(30)**	(28)	**(27)**	(25)
SHPS arising on acquisition	**(2)**	-	**-**	-
Movement in year:				
Current service cost	**-**	-	**-**	-
Employer contributions	**4**	3	**3**	3
Past service costs	**-**	-	**-**	-
Other finance costs	**(1)**	(1)	**(1)**	(1)
Remeasurements	**14**	(4)	**12**	(4)
Net deficit at end of the year	**(15)**	(30)	**(13)**	(27)

9. Employee information (continued)

	Group 2020 £m	Group 2019 £m	Trust 2020 £m	Trust 2019 £m
Movement in fair value of plan assets				
At beginning of the year	**97**	94	**90**	87
SHPS arising on acquisition	**6**	-	**-**	-
Expected return on assets	**-**	-	**-**	-
Net interest income	**2**	2	**2**	2
Administration expenses	**-**	-	**-**	-
Remeasurements	**-**	1	**-**	1
Assets distributed on settlements	**-**	-	**-**	-
Employer contributions	**4**	3	**3**	3
Plan participant contributions	**-**	-	**-**	-
Benefits paid	**(3)**	(3)	**(3)**	(3)
At end of the year	**106**	97	**92**	90

	Group 2020 £m	Group 2019 £m	Trust 2020 £m	Trust 2019 £m
Movement in liabilities during the year				
Past service liability at beginning of the year	**127**	121	**117**	112
SHPS arising on acquisition	**8**	-	**-**	-
Service cost	**-**	-	**-**	-
Interest cost	**3**	3	**3**	3
Plan participant contributions	**-**	-	**-**	-
Past service costs	**-**	-	**-**	-
Remeasurement:	**-**	-	**-**	-
- Due to changes in assumptions	**(11)**	-	**(9)**	-
- Due to experience	**(3)**	6	**(3)**	5
Liabilities extinguished on settlements	**-**	-	**-**	-
Benefits paid	**(3)**	(3)	**(3)**	(3)
Other costs	**-**	-	**-**	-
Past service liability at end of the year	**121**	127	**105**	117

The fair value of the plan assets for all LGPS and SHPS was as follows:

Group	2020 £m	2020 %	2019 £m	2019 %
Equities	**66**	**22%**	34	14%
Gilts	**14**	**5%**	10	4%
Corporate bonds	**38**	**13%**	28	12%
Property	**8**	**3%**	5	2%
Cash	**10**	**3%**	4	2%
Other assets	**160**	**54%**	161	66%
	296	**100%**	242	100%

Trust	2020 £m	2020 %	2019 £m	2019 %
Equities	**30**	**13%**	33	14%
Gilts	**14**	**6%**	10	4%
Corporate bonds	**29**	**13%**	28	12%
Property	**5**	**2%**	5	2%
Cash	**5**	**2%**	4	2%
Other assets	**149**	**64%**	155	66%
	232	**100%**	235	100%

10. Board members and executive directors

Group Board remuneration for the year was:	2020 £	2019 £
Aubrey Adams (Chair)	**33,355**	32,541
David Montague (Chief Executive)	**-**	-
Waqar Ahmed (Group Finance Director)	**-**	-
Anne Elizabeth Bassis	**19,301**	18,831
Tracey Fletcher–Ray	**16,463**	16,062
Samantha Hyde	**13,624**	13,292
Rajiv Jaitly	**13,624**	13,292
Larissa Joy	**13,624**	13,292
Michael More	**19,301**	18,831
Trevor Moross	**20,721**	20,216
Simon Rubinsohn	**19,301**	18,831
Fayan Simpson	**13,624**	12,184
Edna Robinson	**9,152**	-
	192,090	177,372

10. Board members and executive directors (continued)

Board expenses of £1,033 (2019: £1,630) were incurred in the year.

- The Chief Executive and Group Finance Director receive no remuneration in respect of being members of the Board,
- Remuneration is pro-rated from date of appointment to Board or committee,
- Edna Robinson is the Chair of Trafford Housing Trust and was co-opted to the Board on acquisition on 1 October 2019.

Directors Emoluments

The directors are defined as the Chief Executive and the Executive Group. The Chief Executive was also the highest paid director.

	Group 2020 £'000	Group 2019 £'000	LQHT 2020 £'000	LQHT 2019 £'000
Emoluments payable to the directors (excluding pension contributions, or cash in lieu payment thereof but including benefits in kind)	1,553	1,717	1,553	1,717
Pension contributions, or cash in lieu payment thereof, in respect of services as directors	148	191	148	191
	1,701	1,908	1,701	1,908
Emoluments payable to the Chief Executive (excluding pension contributions but including benefits in kind)	352	343	352	343

Director emoluments include accrued bonuses for the year and any adjustments to the actual bonus paid in respect of the previous year.

The Chief Executive received cash in lieu of pension payment of £68,820 (2019: £67,141). The Chief Executive has no individual pension arrangement (including a personal pension) to which LQHT or any of its subsidiaries makes a contribution.

During the year, the aggregate compensation for loss of office of key management personnel was £121,805 (2019: £176,346). The emoluments of all directors are reviewed and agreed on an annual basis by our Governance & Remuneration Committee. They are based on an individual assessment of pay scales prevailing the market and an assessment of performance against our corporate objectives.

Salary banding for key management personnel, considered as Board members and Executive Directors, earning over £60,000 (including salaries, performance related pay, benefits in kind, compensation for loss of office and pension contributions paid by the employer) is set out below:

	Group 2020 No.	Group 2019 No.	LQHT 2020 No.	LQHT 2019 No.
Salary Banding				
£60,001 to £100,000	-	-	-	-
£100,001 to £110,000	-	1	-	1
£110,001 to £180,000	-	-	-	-
£180,001 to £190,000	1	-	1	-
£190,001 to £200,000	-	1	-	1
£200,001 to £210,000	1	1	1	1
£210,001 to £220,000	-	1	-	1
£220,001 to £230,000	1	-	1	-
£230,001 to £240,000	1	-	1	-
£240,001 to £260,000	-	-	-	-
£260,001 to £270,000	1	1	1	1
£270,001 to £280,000	-	1	-	1
£280,001 to £290,000	1	-	1	-
£290,001 to £300,000	-	-	-	-
£300,001 to £310,000	-	-	-	-
£310,001 to £320,000	-	-	-	-
£320,001 to £330,000	-	1	-	1
£330,001 to £400,000	-	-	-	-
£400,001 to £410,000	-	1	-	1
£410,001 to £420,000	-	-	-	-
£420,001 to £430,000	1	-	1	-
	7	8	7	8

11. Tax on surplus on ordinary activities

Current and deferred taxation

The tax expense for the year comprises both current and deferred tax.

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

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

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

Deferred tax relating to investment property that is measured at fair value is measured using the tax rates and allowances that apply to the sale of the asset.

	Group 2020 £m	Group 2019 £m	**LQHT 2020 £m**	LQHT 2019 £m
Current tax				
UK corporation tax	**(1)**	1	**(1)**	1
Total current tax	**(1)**	1	**(1)**	1
Deferred tax				
Net origination and reversal of timing difference	**-**	(17)	**-**	-
Total tax on results on ordinary activities	**(1)**	(16)	**(1)**	1

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom at 19% (2019: 19%). The differences are explained as follows:

	Group 2020 £m	Group 2019 £m	**LQHT 2020 £m**	LQHT 2019 £m
Surplus on ordinary activities before tax	**413**	186	**270**	282
Surplus multiplied by 19% (2019: 19%) the standard rate of UK corporation tax	**79**	35	**51**	54
Effects of:				
Non-taxable income from investment in joint venture	**4**	(5)	**-**	-
Origination and reversal of timing differences	**1**	1	**-**	-
Non-taxable charitable activities	**(85)**	(47)	**(52)**	(53)
Total tax charge/(credit) for the year	**(1)**	(16)	**(1)**	1

It was announced on 11 March 2020 that the previously proposed reduction to the main rate of corporation tax from 19% to 17% from 1 April 2020 would not take place; instead the main rate of corporation tax will be maintained at 19% for the year ending 31 March 2021. The change to maintain the corporation tax rate at 19% was substantively enacted before the reporting date.

LQHT has charitable status for tax purposes and is exempt from corporation tax on income and gains falling within Sections 466-493 Corporation Tax Act 2010 and Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that these are applied to its charitable objects. Where income and gains received by the Trust do not attract the tax exemption these will be liable to corporation tax at the prevailing rate. The UK corporation tax rate applicable for the year ended 31 March 2020 was 19% (2019: 19%).

Deferred tax has been provided in the year to reflect the timing difference between the accounting and taxable profits on the revaluation of our investment properties. Although a provision is made it is not expected that the tax charge will materialise in the foreseeable future as the underlying assets are held principally for lettings at market rates. When disposal profits do materialise these profits are gifted to LQHT, effectively creating a tax credit which offsets the current tax.

A total deferred tax asset of £4m is included in other debtors and is included in note 16a and 16b. The deferred tax liability as at 31 March 2020 has been calculated based on tax rate that is expected to apply to the reversal of the timing differences.

12. Fixed assets – Housing properties

Housing properties

Housing properties in the course of construction are stated at either historic or deemed cost on conversion to FRS102. Cost includes the cost of acquiring land and buildings, development costs, and interest charges incurred during the development period. Staff costs and overheads which are directly attributable to bringing housing properties into working condition for their intended use are capitalised.

Under low-cost home ownership arrangements, the Group disposes of a long lease on low-cost home ownership housing units to people who occupy them at a share equal to between 25% and 75% of value. The occupier has the right to purchase further proportions up to 100% at the then current valuation. Low-cost home ownership properties are split between current and fixed assets on initial recognition. The proceeds from the sale of the current asset element ('first tranche') are included in turnover and the related asset expensed through the profit and loss statement as a cost of sale. The remaining element of the property is accounted for as a fixed asset and any subsequent tranche sale treated as a part disposal of a fixed asset, shown in note 6. Social housing grant in respect of low-cost home ownership properties is allocated against the retained element of the low-cost home ownership property and is treated as a deferred grant income, shown in note 20.

The Group operates two flexible intermediate products whereby the tenant can rent the property and then at a future point purchase a portion of the property in the same way that low-cost home ownership schemes operate. The future point of sales is determined by the Group or the tenant depending on the product. Tenants are able to purchase an undefined proportion of their property from day one. These properties have been classified as fixed assets within the housing properties note under the intermediate market rent category unless the tenant has indicated that they wish to purchase a proportion of the property from the outset. This will then be treated as a first tranche sale with the purchased proportion reclassified as a current asset and the associated sales costs taken to cost of sales. For those tenants who rented the property to begin with or wish to purchase further tranches, this will be treated as a part disposal of a fixed asset.

Where land has been acquired with the intention to develop as mixed tenure schemes but the precise mix is yet to be finalised, the land is treated as a fixed asset until certainty of tenure mix is established at which point the portion of land that relates to properties held for sale is transferred to current assets. All other development costs are allocated proportionately based on the floor area of each tenure type intended to be developed at each scheme. Other housing property costs for mixed tenure schemes in management are allocated proportionately based on number of homes of each tenure at the scheme.

Non-component works to existing properties

Non-component works to existing housing properties are capitalised where they relate to stock transferred from local authorities or relate to large-scale regeneration projects and where those properties are below the standards set by Group policies as there is a clear enhancement of the property beyond the standard assessed when the property was first acquired or constructed.

Fixed assets and depreciation

Land is not depreciated. Depreciation of housing property components is charged so as to write down the cost of the components to their estimated residual value, on a straight-line basis, over their estimated useful economic lives within the Group.

Housing property components are depreciated from the year following replacement year. The ranges of estimated useful economic lives are assumed as follows:

Major components

• Housing properties structure	50-100 years depending on type
• Kitchens	18-20 years
• Bathrooms, electrical, heating, windows and doors	20-30 years
• Boilers	15 years
• Roofs	25 to 65 years

Low-cost home owners and leaseholders are responsible for the costs of maintenance and replacement of components except in some specific circumstances where management make a policy decision otherwise e.g. replacement of defective cladding. All social housing grant (SHG) is amortised to income over 100 years for social housing lettings and over 25 years for low cost home ownership. Accumulated grant amortisation and any grant recognised through the performance method in equity is recorded as a contingent liability in the notes to the accounts (note 24).

Impairment of fixed assets

Social housing properties are held for their service potential and are not held solely for the cash inflows generated. As such, there is no requirement to perform an impairment assessment on initial recognition of those schemes that are developed or acquired and completed in accordance with approved Group policies and planned scheme appraisals.

Housing properties under construction and held for letting are reviewed for impairment if there is an indication that impairment may have occurred. Where there is evidence of impairment, a detailed assessment is undertaken to compare the carrying amount of cash generating units for which impairment is indicated to their recoverable amounts. The recoverable amount is taken to be the higher of the fair value less costs to sell or value in use of cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets, or cash generating units concerned, or the present value of future cash flows to be derived from them appropriately adjusted to account for any restrictions on their use. The Group defines a cash generating unit as a scheme (across mixed tenures) within housing properties. Where the recoverable amount of an asset or cash generating unit is lower than its carrying value an impairment is recorded through a charge to the Statement of Comprehensive Income.

Where any potential indicator as defined in FRS 102.27 'Impairment of Assets' is identified, a review of the affected scheme is undertaken to determine if an impairment is required.

Examples of key indicators or impairment include:

- Change in government policy, regulation or legislation which has a material detrimental impact;
- A change in demand for a property that is considered irreversible;
- Material reduction in the market value of properties intended to be sold or the resident has the right to purchase;
- Obsolescence of a property or part of a property.

Group additions to new housing properties during the year include capitalised interest of £42m (2019: £33m) and capitalised directly attributable internal costs of £27m (2019: £29m). The amount of cumulative interest capitalised in housing properties is not separately identifiable.

Group expenditure on works to existing properties during the year amounted to £225m (2019: £251m) of which £61m (2019: £92m) was capitalised and included as additions to properties held for lettings.

12. Fixed assets – Housing properties (continued)

Housing properties - Group	Properties under construction: Social housing lettings £m	Low-cost home ownership £m	Non-social housing lettings £m	Properties held for lettings: Social housing lettings £m	Low-cost home ownership £m	Non-social housing lettings £m	Total £m
Cost							
At 1 April 2019	**350**	**264**	**141**	**8,353**	**914**	**82**	**10,104**
Arising on acquisition	19	7	-	479	11	-	516
Reclassifications	33	(18)	(4)	(11)	-	-	-
Reclassifications from/(to) investments	-	-	(63)	6	-	-	**(57)**
Schemes completed in the year	(209)	(80)	(4)	209	80	4	-
Additions	548	235	32	55	6	-	**876**
Transfer from/(to) current assets	(8)	4	(3)	1	-	-	**(6)**
Disposals	-	-	(2)	(28)	(34)	-	**(64)**
At 31 March 2020	**733**	**412**	**97**	**9,064**	**977**	**86**	**11,369**
Depreciation							
At 1 April 2019	**-**	**-**	**-**	**608**	**5**	**4**	**617**
Arising on acquisition				**87**	**1**	**-**	**88**
Charge for year	-	-	-	82	-	-	**82**
Eliminated in respect of disposals	-	-	-	(10)	-	-	**(10)**
At 31 March 2020	**-**	**-**	**-**	**767**	**6**	**4**	**777**
Impairment							
At 1 April 2019	**3**	**4**	**-**	**10**	**1**	**-**	**18**
Charge for year	15	-	8	2	1	-	**26**
Release in the year	(3)	(4)	-	-	-	-	(7)
At 31 March 2020	**15**	**-**	**8**	**12**	**2**	**-**	**37**
Net book value:							
At 31 March 2020	**718**	**412**	**89**	**8,285**	**969**	**82**	**10,555**
At 31 March 2019	**347**	**260**	**141**	**7,735**	**908**	**78**	**9,469**

For the Group, a total funding value of £8,914m (2019: £8,360m) has been pledged as security on debt.

The net amount arising on acquisition of £428m includes £11m relating to assets that were previously held within joint ventures with THT companies that became subsidiaries on acquisition on 1 October 2019. At that date the assets were reclassified under fixed assets properties under construction.

Refer to note 14g for further information on the fair value uplift on acquisition of housing properties held for let.

Housing properties – LQHT	Properties under construction: Social housing lettings £m	Low-cost home ownership £m	Non-social housing lettings £m	Properties held for lettings: Social housing lettings £m	Low-cost home ownership £m	Non-social housing lettings £m	Total £m
Cost							
At 1 April 2019	**300**	**204**	**39**	**8,250**	**880**	**77**	**9,750**
Reclassifications	34	(18)	(4)	(12)	-	-	-
Reclassifications from/(to) investments	-	-	-	6	-	-	**6**
Schemes completed in the year	(207)	(80)	(4)	207	80	4	-
Additions	469	276	1	51	6	-	**803**
Transfer to current assets	(8)	4	(3)	-	-	-	**(7)**
Disposals	-	-	(2)	(27)	(34)	-	**(63)**
At 31 March 2020	**588**	**386**	**27**	**8,475**	**932**	**81**	**10,489**
Depreciation							
At 1 April 2019	**-**	**-**	**-**	**634**	**5**	**5**	**644**
Charge for year	-	-	-	77	-	1	**78**
Eliminated in respect of disposals	-	-	-	(11)	-	-	**(11)**
At 31 March 2020	**-**	**-**	**-**	**700**	**5**	**6**	**711**
Impairment							
At 1 April 2019	**3**	**4**	**-**	**10**	**1**	**-**	**18**
Schemes completed in the year	**(1)**	**-**	**-**	**1**	**-**	**-**	**-**
Charge for year	8	**1**	**7**	2	1	-	**19**
Release in the year	(3)	**(4)**	-	-	-	-	**(7)**
At 31 March 2020	**7**	**1**	**7**	**13**	**2**	**-**	**30**
Net book value:							
At 31 March 2020	**581**	**385**	**20**	**7,762**	**925**	**75**	**9,748**
At 31 March 2019	**297**	**200**	**39**	**7,606**	**874**	**72**	**9,088**

In LQHT, a total funding value of £8,263m (2019: £7,908m) has been pledged as security on debt.

12. Fixed assets – Housing properties (continued)

Impairment

An assessment to identify impairment triggers associated with fixed assets at year end was performed, resulting in a full impairment review of these assets where a trigger existed.

On housing properties held for lettings an impairment of £3m (2019: £nil) was recognised in the year, and one scheme completed in the year required £1m impairment to be transferred from social housing under construction to held for lettings.

The Group recognised a further £23m and LQHT £16m of impairment on housing properties under construction (2019: £4m for Group and LQHT) and released £7m as a result of the required annual review in line with FRS102.

This reflects a combination of the current economic market environment affecting future recoverable values as well as unforeseen cost increases of several development projects.

13a. Other tangible fixed assets

Group	Freehold office premises £m	Leasehold office premises £m	Office furniture and equipment £m	Computer equipment £m	Total £m
Cost					
At 1 April 2019	52	2	7	15	76
Arising on acquisition	7	1	-	4	12
Additions	-	1	2	4	7
Disposals	(5)	(1)	-	-	(6)
At 31 March 2020	54	3	9	23	89
Depreciation					
At 1 April 2019	5	1	4	9	19
Arising on acquisition	-	1	-	2	3
Charge for year	1	-	1	2	4
Eliminated in respect of disposals	-	(1)	-	-	(1)
At 31 March 2020	6	1	5	13	25
Net book value:					
At 31 March 2020	48	2	4	10	64
At 31 March 2019	47	1	3	6	57

LQHT	Freehold office premises £m	Leasehold office premises £m	Office furniture and equipment £m	Computer equipment £m	Total £m
Cost					
At 1 April 2019	54	2	9	18	83
Additions	-	-	-	3	3
Disposals	-	-	-	-	-
At 31 March 2020	54	2	9	21	86
Depreciation					
At 1 April 2019	14	1	5	12	32
Charge for year	-	-	1	2	3
Eliminated in respect of disposals	-	-	-	-	
At 31 March 2020	14	1	6	14	35
Net book value:					
At 31 March 2020	40	1	3	7	51
At 31 March 2019	40	1	4	6	51

Other fixed assets

Depreciation on other fixed assets is charged on a straight-line basis over the expected useful economic lives of the fixed assets to write down the cost less estimated residual values at the following annual rates set:

Freehold premises	25-100 years
Short leasehold premises	Shorter of 10 years or life of lease
Furniture and equipment	4-8 years
Motor vehicles	4 years
Computer equipment	3 years
Service equipment	5 years

13b. Intangible assets

Group	Computer software £m	Total £m
Cost		
At 1 April 2019	**29**	**29**
Arising on acquisition	1	**1**
Additions	8	**8**
Disposals	-	
At 31 March 2020	**38**	**38**
Amortisation		
At 1 April 2019	**17**	**17**
Charge for year	4	**4**
Eliminated in respect of disposals	-	**-**
At 31 March 2020	**21**	**21**
Net book value:		
At 31 March 2020	**17**	**17**
At 31 March 2019	12	**12**

LQHT	Computer software £m	Total £m
Cost		
At 1 April 2019	**29**	**29**
Additions	-	**-**
Disposals	8	**8**
At 31 March 2020	**37**	**37**
Amortisation		
At 1 April 2019	**17**	**17**
Charge for year	4	**4**
Eliminated in respect of disposals	-	**-**
At 31 March 2020	**21**	**21**
Net book value:		
At 31 March 2020	**16**	**16**
At 31 March 2019	12	**12**

Intangible assets

Depreciation on intangible assets is charged on a straight-line basis from the year after the financial purchase is made and spread over the expected useful economic lives of the intangible assets to write down the cost less estimated residual values at the annual rates set out below.

- Software development 3-7 years

14. Investments

a) Investment in jointly controlled entities (joint ventures)

An entity is treated as jointly controlled entity where the Group is party to a contractual agreement with one or more parties from outside the Group to undertake an economic activity that is subject to joint control by virtue of voting rights or degree of influence exercisable.

In the consolidated accounts, interests in jointly controlled entities are accounted for using the equity method of accounting. Under this method an equity investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investor's share of the profit or loss, other comprehensive income and equity of the jointly controlled entities.

The consolidated statement of comprehensive income includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings applying accounting policies consistent with those of the Group. In the consolidated statement of financial position, the interests in jointly controlled entity undertakings are shown as the Group's share of the identifiable net assets, including any unamortised premium paid on acquisition.

Notes to the financial statements for the year ended 31 March 2020

14. Investments (continued)

Group	Barking Riverside Ltd £m	Limited Liability Partnerships £m	Associates £m	Total £m
Cost				
At 1 April 2019	**33**	**365**	**9**	**407**
Arising on acquisition	-	(45)	(14)	**(59)**
Additions	10	37	8	**55**
Repayments	-	(85)	-	**(85)**
At 31 March 2020	**43**	**272**	**3**	**318**
Goodwill				
At 1 April 2019	**17**	**1**	**-**	**18**
Additions	-	-	-	**-**
Amortisation	-	-	-	**-**
At 31 March 2020	**17**	**1**	**-**	**18**
Impairment				
At 1 April 2019	-	**(4)**	-	**(4)**
Charge for the year	-	-	-	**-**
Release in the year	-	-	-	**-**
At 31 March 2020	**-**	**(4)**	**-**	**(4)**
Share of reserves				
At 1 April 2019	**3**	**54**	**-**	**57**
Arising on acquisition	-	(6)	8	**2**
Share of profit in the year	(5)	45	(8)	**32**
Profit distributed	-	(52)	-	**(52)**
At 31 March 2020	**(2)**	**41**	**-**	**39**
Net book value:				
At 31 March 2020	**58**	**310**	**3**	**371**
At 31 March 2019	53	416	9	478

Included in the share of profit from joint ventures as shown in the group statement of comprehensive income £25m (2019: £20m) are adjustments for intragroup transactions with joint ventures that do not get adjusted for in the investment in jointly controlled entities in the statement of financial position.

Active trading joint ventures, all established in the UK, as at 31 March 2020 were as follows:

Joint venture	Partner	Group interest	Group voting rights	Total investment £m
Barking Riverside Limited	Greater London Authority	51%	50%	**58**
BDWZest Developments LLP	BDW Trading Limited	50%	50%	**2**
Alie Street LLP	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**-**
Queensland Road	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**1**
Fulham Wharf	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**12**
Nine Elms	BDW Trading Limited	50% through BDWZest Developments LLP	50% through BDWZest Developments LLP	**7**
Academy Central LLP	George Wimpey East London Ltd	38%	50%	**-**
Chobham Manor LLP	Taylor Wimpey UK Limited	50%	50%	**16**
Countryside Zest (Beaulieu Park) LLP	Countryside Properties (Joint Venture) Ltd	50%	50%	**82**
Countryside L&Q (Oaks Village) LLP	Countryside Four Ltd	50%	50%	**7**
Acton Gardens LLP	Countryside Properties (Joint Venture) Ltd	50%	50%	**24**
Ponton Road LLP	Bellway Homes Limited	50%	50%	**52**
Erith Hills LLP	Anderson Design Limited	50%	50%	**30**
Fairview L&Q PR LLP	Fairview New Homes Limited	50%	50%	**47**
Triathlon Homes LLP	Southern Space Ltd and First Base 4 Stratford LLP	33%	33%	**-**
Stepney Way 1 LLP	Mount Anvil	50%	50%	**30**
Stepney Way 2 LLP	Mount Anvil	50%	50%	**-**
Laurus Partnership Homes LLP	Willmott Dixon	50%	50%	**-**
Health Social Innovators LLP	- Numbers for Good Ltd - UCL Business PLC	50%	50%	**-**
Heath Farm Lane LLP	Vistry Partnerships	50%	50%	**-**

14. Investments (continued)

Joint venture	Partner	Group interest	Group voting rights	Total investment £m
GM Homes SIB Partnership LLP	- Eastlands Home Partnership Limited - Homelessness Support LLP	25%	50%	-
JV North Limited	Various	10%	10%	-
Manchester Athena Limited	Various	17%	17%	-
GM JV Fundco LLP	Various	10%	10%	-
Laurus Living Space LLP	Wates Construction Limited	50%	50%	-
Investments in associates				
Harley Winchester Ltd	Various	75%	75%	3
Jointly Controlled Assets				
Beam Park	Countryside Properties (UK) Ltd	50%	50%	-
Total				**371**

L&Q has not entered into any new joint ventures or associates within the year. As a result of the acquisition of Trafford Housing Trust, THT & L&Q Community Ltd and THT and L&Q Development LLP became subsidiaries of the Group and were de-recognised as joint ventures.

b) Investments - HomeBuy equity loans

HomeBuy is a term used to describe a program of low cost home ownership products where a loan is provided by the group to the purchaser of a property at a nil interest rate. The program is funded through a combination of government grant and the Group's own funds.

The loan made to the purchaser has no fixed repayment date and there are no monthly repayment requirements. The group shares in any future capital gain realised on redemption of the loan, which will be when the property is sold or if the purchaser chooses to repay the loan without selling the property.

In the circumstances where the purchaser chooses to repay the loan without selling the property, the value of the loan to be repaid is based on the property market value at that date. Any future capital loss realised on redemption of the loan is offset initially against the government grant.

In the accounting of the HomeBuy equity loan investment, the group has opted to adopt paragraphs PBE34.90 to PBE 34.97 of FRS 102. All are non-current loans, as they are not redeemable on demand.

The scheme is now closed to new entrants, and there were no commitments taken up at the year end.

As at 31 March 2020, HomeBuy equity loans amounted to £104m for the Group and LQHT (2019: £111m) and HomeBuy grant amounted to £92m for the Group and LQHT (2019: £98m).

c) Investment properties

Investment properties (Private Rented Sector, "PRS") are valued in the year of acquisition or transfer, and subsequently on an annual basis by a qualified RICS Chartered Surveyor. This valuation was prepared in accordance with the RICS valuation – Global Standards (incorporating the IVS International Valuation Standards) 2017 together with, where applicable, with the UK National Supplement effective January 2019 (the "Red Book"). The properties are valued on an open market value basis subject to tenancies.

In accordance with these standards, the valuers have declared a "material uncertainty" in their valuation reports due to the uncertainties in markets caused by the Coronavirus pandemic. The values in their reports have been used to inform the measurement of property assets at valuation in these financial statements. The valuers continue to exercise professional judgement in accordance with their professional standards, and this remains the best information available despite the material uncertainty clause.

Changes in the value of market rented properties are taken to the income statement in the period they arise. PRS properties under construction are not classified as investment properties and are stated at cost. All commitments in respect of these are included as capital commitments (see note 26).

Investment properties – Market rented	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
At 1 April 2019	**942**	670	**6**	7
Arising on acquisition	**6**	-	**-**	-
Additions	**17**	59	**-**	-
Transfer (to)/from fixed assets	**57**	176	**(6)**	(1)
Revaluation	**7**	37	**-**	-
Disposal	**(3)**	-	**-**	-
At 31 March 2020	**1,026**	942	**-**	6

d) Investments - Real Lettings property fund

The Real Lettings property fund is a residential property fund providing move-on accommodation for homeless individuals and families in London. The investment was made in instalments with the final instalment made in 2015, bringing the total amount invested to £10m. The fund is managed by Resonance Impact Investment Limited (RIIL) and LQHT receive quarterly distributions recognised in other finance income.

e) Equity investment in subsidiaries

All equity investments in subsidiaries are eliminated on consolidation. The amounts presented in LQHT are direct investments in subsidiary undertakings.

As at March 2020, LQHT held £300m in PRS Co Ltd (2019: £300m), £312m in Gallagher Estates Ltd (2019: £312m), £550m in L&Q New Homes Ltd (2019: £550m) and £2m in L&Q Energy Ltd (2019: £2m).

f) Goodwill

Goodwill arose on the acquisition of 100% of the shares of Gallagher Estates group of companies on 1 February 2017. The principal activity of these companies is property development, specifically around land parcels and servicing.

The expected useful life of goodwill is 5 years from the date of acquisition.

g) Acquisition in the year

On 1 October 2019 the L&Q Group entered into a business combination recognising the value of Trafford Housing Trust in the statement of comprehensive income as a gift to L&Q as per FRS 102 (PBE 34.77). All post acquisition results of Trafford Housing Trust and its subsidiaries have been consolidated in the Group statement of comprehensive income.
The acquisition had the following effect on the Group's assets and liabilities.

Trafford Housing Trust net assets at acquisition date	Book values £m	Fair value adjustments £m	Recognised values on acquisition £m
Fixed assets - housing properties	**209**	208	**417**
Investment properties	**6**	-	**6**
Other fixed assets	**10**	-	**10**
Investments	**21**	-	**21**
Properties for sale	**4**	-	**4**
Debtors	**32**	-	**32**
Cash	**5**	-	**5**
Creditors due less than one year	**(56)**	-	**(56)**
Creditors due more than one year	**(153)**	(32)	**(185)**
Deferred grant liability	**(18)**	15	**(3)**
Pension Liability	**(19)**	3	**(16)**
Net identifiable assets and liabilities	**41**	**194**	**235**

The sum of the net book value of assets and liabilities, effectively Trafford Housing Trust reserves on 1 October 2019 of £41m and the net fair value uplift of £194m resulted in a gift of £235m which has been treated as an exceptional gain in the year.

15. Land and properties for sale and work in progress

Completed properties and properties under construction for open market sales are recognised at the lower of cost and net realisable value. Costs comprise of materials and direct overheads attributable to the development. Interest incurred is capitalised from the point of first obtaining planning permission, throughout work in progress and up to the point of practical completion of the development scheme. Net realisable value is assessed using publicly available information and internal forecasts on future sales price after allowing for all further costs of completion and disposal.

Strategic land under development and promotion included as open market sales under construction is valued at the lower of cost and estimated selling price less costs to complete and selling expenses. Cost includes the purchase of land together with its acquisition expenses and promotional costs associated with developments once the viability of such a development is reasonably secure. Work in progress is appraised within the context of current market values or the expected sale prices achievable over the development period and is reduced to estimated selling price less costs to complete and selling expenses where changes in circumstances indicate full recovery is unlikely. At the date a sale is recognised all costs, including planning and infrastructure costs attributable to that sale, are taken to cost of sales. No interest or directly attributable overheads are capitalised against these strategic land developments.

Group	Land and properties under construction		Completed properties for sale		Total
	Low-cost home ownership £m	Open market sales £m	Low-cost home ownership £m	Open market sales £m	£m
At 1 April 2019 as previously stated	**202**	**489**	**15**	**344**	**1,050**
Reclassification*	2	306	-	(308)	**-**
At 1 April 2019	**204**	**795**	**15**	**36**	**1,050**
Arising on acquisition	5	72	1	4	**82**
Completed in the year	(44)	(131)	44	131	**-**
Additions	99	69	-	-	**168**
Reclassification from (to)/from fixed assets	(7)	14		-	**7**
Cost of properties sold	-	(59)	(42)	(101)	**(202)**
Impairment of current assets	(1)	(4)	-	-	**(5)**
At 31 March 2020	**256**	**756**	**18**	**70**	**1,100**

* During the year a revised definition of 'completed properties' was applied. As a result the Group note 15 shows a reclassification of the opening Stock between 'under construction' and 'completed' properties.

LQHT	Properties under construction		Completed properties for sale		Total
	Low-cost home ownership £m	Open market sales £m	Low-cost home ownership £m	Open market sales £m	£m
At 1 April 2019	**116**	**-**	**15**	**-**	**131**
Completed in the year	(44)	(18)	44	18	**-**
Additions	144	6	-	-	**150**
Reclassification (to)/from fixed assets	(7)	13	-	-	**6**
Cost of properties sold	-	-	(40)	(18)	**(58)**
Impairment of current assets	(1)	-	-	-	**(1)**
At 31 March 2020	**208**	**1**	**19**	**-**	**228**

Stock is stated at the lower of cost and estimated selling price less costs to complete and sell. Significant judgement is required in determining the selling price of certain items of stock, specifically the strategic land stock of £351m (2019: £364m) included in Group land and properties under construction – open market sales. In determining the selling price a number of factors were considered such as planning status, the number of properties that could be built on the sites and increased construction costs.

16a. Debtors due after more than one year

On-lending loans made to subsidiaries by London and Quadrant Housing Trust are classified as a long term debt as formal agreements deem them not to be repayable within one year. These are shown at cost with interest between 1.2% and 5.8% (2019: 2.6% and 6.0%) charged at arm's length.

All deferred land payments with fixed dates of more than one year under the land sale contracts are presented at a discounted rate of 3.5% per annum (2019: 3.5%).

	Group 2020 £m	Group 2019 £m	**LQHT 2020 £m**	LQHT 2019 £m
Amounts owed by subsidiaries	**-**	-	**1,137**	1,009
Forward funding of land purchase	**93**	65	**59**	-
Deferred tax asset	**1**	1	**-**	-
Deferred land payments	**-**	24	**-**	-
Shared equity	**2**	2	**2**	2
	96	92	**1,198**	1,011

Shared equity relates to loans provided on the same basis as the HomeBuy scheme to leasehold residents covering the shortfall in purchase price as a result of decants for demolition at Ocean Estate.

16b. Debtors

	Group 2020 £m	Group 2019 £m	**LQHT 2020 £m**	LQHT 2019 £m
Amounts receivable within one year:				
Former tenant arrears	**7**	9	**7**	9
Less: provision for bad and doubtful debts	**(7)**	(9)	**(7)**	(9)
	-	-	**-**	-
Current tenant arrears	**45**	45	**41**	44
Less: provision for bad and doubtful debts	**(13)**	(6)	**(12)**	(6)
	32	39	**29**	38
Social housing grant receivable	**1**	-	**1**	-
Deferred tax asset	**3**	3	**-**	-
Other debtors and prepayments	**173**	165	**97**	22
Amount owing from subsidiaries	**-**	-	**28**	30
	209	207	**155**	90

Other debtors and prepayments include deferred land debtors of £42m (2019: £116m) and development debtors of £77m (2019: £7m).

17. Cash and cash equivalents

	Group 2020 £m	Group 2019 £m	**LQHT 2020 £m**	LQHT 2019 £m
Cash and cash equivalents	**157**	171	**103**	86
Bank overdrafts	**-**	-	**-**	-
	157	171	**103**	86

Restrictions on cash and cash equivalents include £23m (2019: £21m) held in debt service reserve, £3m (2019: £35m) as held funds. All cash and cash equivalents mature in three months or less, or are convertible to cash within three months or less. Financial assets pledged as collateral can be replaced subject to negotiations.

18. Creditors: amounts falling due within one year

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Debenture loans (see note 22)	**9**	12	**9**	12
Bank loans and overdrafts (see note 22)	**50**	14	**50**	14
Trade creditors	**88**	83	**24**	49
Other taxation and social security	**9**	2	**1**	2
Accruals and deferred income	**174**	74	**64**	65
Other creditors	**186**	253	**77**	71
Social housing grant (see note 20)	**24**	24	**24**	24
Amounts due to subsidiaries	**-**	-	**60**	5
	540	462	**309**	242

All accrued costs to complete on strategic land development are treated as amounts falling due within one year as their nature and timing are uncertain.

Included in Accruals and deferred income is £83m related to Land sales (2019: £3m). Included in other creditors is development related creditors of £106m (2019: £163m).

Social housing grant due within one year is detailed in Note 20.

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

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Debenture loans (see note 22)	**2,994**	2,843	**2,694**	2,544
Bank loans and overdrafts (see note 22)	**2,475**	2,123	**2,475**	1,998
Total housing loans	**5,469**	4,966	**5,169**	4,542
Net issue premium	**(37)**	(45)	**(34)**	(41)
Loan fair value adjustments	**96**	90	**-**	-
Total loans measured at amortised cost	**5,528**	5,011	**5,135**	4,501
Deferred income	**3**	-	**-**	-
Other creditors	**59**	46	**46**	41
Recycled capital grant fund (see note 21)	**87**	84	**87**	84
	5,677	5,141	**5,268**	4,626

20. Social Housing Grant

Social housing grant (SHG) is initially recognised at fair value as a long term liability, specifically as deferred government grant income and released through the profit and loss as turnover income over the life of the structure of housing properties in accordance with the accrual method applicable to registered providers of social housing accounting for housing properties at cost, except for grant received in respect of HomeBuy investments, shown in note 14b. For items where on transition to FRS 102 an election was taken to treat fair value as deemed cost, the performance method for accounting for grant has been applied as the fair value application as deemed cost is treated as a revaluation at the transition date and SHG in respect of those items has been taken to revenue reserves. An amount equivalent to SHG taken to revenue reserves is disclosed as a contingent liability reflecting the potential future obligation to repay SHG where properties are disposed.

On disposal, SHG associated with those properties is transferred to the Recycled Capital Grant Fund (RCGF) until the grant is recycled or repaid to reflect the existing obligation under the social housing grant funding regime.

Social Housing Grant – Group	Properties under construction			Properties held for lettings			
	Social housing lettings £m	Low-cost home ownership £m	Non-social housing lettings £m	Social housing lettings £m	Low-cost home ownership £m	Non-social housing lettings £m	Total £m
Cost							
At 1 April 2019	**401**	**58**	**-**	**1,720**	**194**	**-**	**2,373**
Arising on acquisition	1	2	-	-	-	-	**3**
Reclassification	(34)	34	-	(1)	1	-	**-**
Schemes completed in the year	(30)	(13)	-	30	13	-	**-**
Received during the year	62	26	-	3	2	-	**93**
Recycled on disposal	-	-	-	(2)	(7)	-	**(9)**
At 31 March 2020	**400**	**107**	**-**	**1,750**	**203**	**-**	**2,460**
Amortisation							
At 1 April 2019	**-**	**-**	**-**	**221**	**89**	**-**	**310**
Charge for the year	-	-	-	17	7	-	**24**
Eliminated on disposal	-	-	-	-	(3)	-	**(3)**
At 31 March 2020	**-**	**-**	**-**	**238**	**93**	**-**	**331**
Net book value:							
At 31 March 2020	**400**	**107**	**-**	**1,512**	**110**	**-**	**2,129**
At 31 March 2019	401	58	-	1,499	105	-	**2,063**

20. Social Housing Grant (continued)

Ageing analysis - Group

Social Housing Grant	Group 2020	Group 2019
Within one year	24	24
Greater than one year	2,105	2,039
Total	**2,129**	2,063

Social Housing Grant – LQHT	Properties under construction			Properties held for lettings			
	Social housing lettings £m	Low-cost home ownership £m	Non-social housing lettings £m	Social housing lettings £m	Low-cost home ownership £m	Non-social housing lettings £m	Total £m
Cost							
At 1 April 2019	400	58	-	1,744	201	-	2,403
Reclassification	(34)	34	-	(1)	1	-	-
Schemes completed in the year	(29)	(13)	-	29	13	-	-
Received during the year	62	25	-	-	-	-	87
Recycled on disposal	-	-	-	(2)	(8)	-	(10)
At 31 March 2020	399	104	-	1,770	207	-	2,480
Amortisation							
At 1 April 2019	-	-	-	222	89	-	311
Charge for the year	-	-	-	17	7	-	24
Eliminated on disposal	-	-	-	(1)	(2)	-	(3)
At 31 March 2020	-	-	-	238	94	-	332
Net book value:							
At 31 March 2020	399	104	-	1,532	113	-	2,148
At 31 March 2019	400	58	-	1,522	112	-	2,092

Ageing analysis - LQHT

Social Housing Grant	LQHT 2020	LQHT 2019
Within one year	24	24
Greater than one year	2,124	2,068
Total	**2,148**	2,092

21. Recycled capital grant fund

The Regulator of Social Housing can direct the Group to recycle SHG or to repay the recoverable capital grant back. Where the grant is recyclable the recoverable capital grant is credited to the recycled capital grant fund (RCGF), which is included as a creditor due either within one year or after more than one year as appropriate.

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
At beginning of the year	84	87	84	87
Net HomeBuy grant abated	-	-	-	-
Net SHG recovered	-	1	-	1
Transferred to fund during year	18	15	18	15
Utilised during the year against new build	(15)	(19)	(15)	(19)
At end of the year	87	84	87	84

There are no amounts 3 years old or older where repayment may be required (2019: £nil).

22. Debt analysis – on loans measured at amortised cost

This note provides information about the contractual terms of the Group's and its subsidiaries' interest-bearing loans and borrowings. All loans and borrowings are measured at amortised cost, including those that have embedded derivative financial instruments attached to them whereby the embedded derivative is deemed to be closely related to the host contract.

Debenture and bank loans are secured by way of a first fixed charge over housing properties and include an asset cover test based on the ratio on the value of properties secured to the carrying value of the loan. Bank loans include interest cover and gearing covenants each of which is tested annually against relevant disclosures within the statement of comprehensive income and statement of financial position.

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Creditors falling due within one year				
Debenture loans	9	12	9	12
Bank loans	50	14	50	14
	59	26	59	26
Creditors falling due after more than one year				
Debenture loans	2,994	2,843	2,694	2,544
Bank loans and overdrafts	2,475	2,123	2,475	1,998
	5,469	4,966	5,169	4,542
Total housing loans	5,528	4,992	5,228	4,568

The following is an analysis of the anticipated contractual cash flows for the Group's drawn loans measured at amortised cost and derivative financial instruments held as at 31 March 2020 excluding deferred finance, capitalised costs and fair value adjustments.

Interest is calculated on an undiscounted basis whereby floating rate loans are determined using the prevailing implied forward rates as at 31 March 2020.

Group Debt analysis – interest-bearing loans and borrowings

As at 31 March 2020	Total loans £m	Interest on loans £m	Interest on derivative financial instruments £m	Total £m
Due less than one year	(59)	(145)	-	(204)
Between one and two years	(895)	(143)	-	(1,038)
Between two and three years	(239)	(134)	-	(373)
Between three and five years	(547)	(256)	-	(803)
In five years or more	(3,788)	(1,555)	-	(5,343)
Gross contractual cash flows	(5,528)	(2,233)	-	(7,761)

As at 31 March 2019	Total loans £m	Interest on loans £m	Interest on derivative financial instruments £m	Total £m
Due less than one year	(26)	(147)	-	(173)
Between one and two years	(188)	(147)	-	(335)
Between two and three years	(710)	(142)	-	(852)
Between three and five years	(488)	(256)	-	(744)
In five years or more	(3,580)	(1,607)	-	(5,187)
Gross contractual cash flows	(4,992)	(2,299)	-	(7,291)

22. Debt analysis – on loans measured at amortised cost (continued)

LQHT Debt analysis – interest-bearing loans and borrowings

As at 31 March 2020	Total loans £m	Interest on loans £m	Interest on derivative financial instruments £m	Total £m
Due less than one year	**(26)**	**(133)**	**-**	**(159)**
Between one and two years	**(64)**	**(135)**	**-**	**(199)**
Between two and three years	**(710)**	**(133)**	**-**	**(843)**
Between three and five years	**(488)**	**(238)**	**-**	**(726)**
In five years or more	**(3,280)**	**(1,574)**	**-**	**(4,854)**
Gross contractual cash flows	**(4,568)**	**(2,213)**	**-**	**(6,781)**

As at 31 March 2019	Total loans £m	Interest on loans £m	Interest on derivative financial instruments £m	Total £m
Due less than one year	(26)	(133)	-	(159)
Between one and two years	(64)	(135)	-	(199)
Between two and three years	(710)	(133)	-	(843)
Between three and five years	(488)	(238)	-	(726)
In five years or more	(3,280)	(1,574)	-	(4,854)
Gross contractual cash flows	(4,568)	(2,213)	-	(6,781)

The weighted average cost of fixed rate loans was 3.9% (2019: 3.9%), and variable rate loans was 1.3% (2019: 1.9%) inclusive of lending margins. 54% of the Group's debt, including the use of financial instruments (see note 29) was fixed (2019: 57%). Interest rates on fixed rate debt range from 2.3% to 11.5% (2019: 2.3% to 11.5%).

	Loans at amortised cost £m	Floating rate £m	Fixed rate £m	Weighted average interest rate %	Weighted average life of loan Years
At 31 March 2020	**5,528**	**2,525**	**3,003**	**3.4**	**12**
At 31 March 2019	4,992	2,137	2,855	3.5	13

Analysis of changes in net debt - Group

	As at 31 March 2019	Cashflows	Acquisition of subsidiary	Other non- cash movements	As at 31 March 2020
Cash	**171**	**(19)**	**5**	**-**	**157**
Debt due within one year	**(26)**	**-**	**-**	**(33)**	**(59)**
Debt due after one year	**(4,966)**	**(581)**	**-**	**78**	**(5,469)**
Net debt	**(4,821)**	**(600)**	**5**	**45**	**(5,371)**

Notes to the financial statements for the year ended 31 March 2020

23. Provisions for liabilities and charges

The Group recognises provisions and liabilities of uncertain timing or amounts. Provisions are made for specific and quantifiable liabilities, measured at the best estimate of expenditure and only where probable that it is required to settle a legal or constructive obligation that existed at the Statement of Financial Position date.

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
At beginning of the year	**55**	65	**25**	16
Increase in provision	**17**	17	**16**	16
Release of provision	**(13)**	(27)	**(11)**	(7)
At end of the year	**59**	55	**30**	25

An analysis of the movement in each specific provision is set out below.

The provision in respect of the works required to replace ACM cladding and other major works identified as either legally required or for which the Group had a constructive obligation increased £13m in the year as further inspections have taken place identifying additional works required. Upon completion of works previously provided for relating to ACM cladding replacement and other major works £9m was released.

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Major works obligation				
At beginning of the year	**17**	4	**16**	4
Increase in provision	**13**	16	**13**	15
Release of provision	**(9)**	(3)	**(8)**	(3)
At end of the year	**21**	17	**21**	16

A self-insurance amount of £3m following release of £2m in the year:

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Self-insurance reserve provision				
At beginning of the year	**5**	5	**5**	5
Increase in provision	**-**	-	**-**	-
Release of provision	**(2)**	-	**(2)**	-
At end of the year	**3**	5	**3**	5

Warranties are provided for completed development homes from date of sale completion for a period of two years and charged to the scheme costs:

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Warranties on newbuild properties				
At beginning of the year	**4**	4	**4**	4
Increase in provision	**2**	1	**2**	1
Release of provision	**(1)**	(1)	**(1)**	(1)
At end of the year	**5**	4	**5**	4

A restructuring provision of £1m for announced and ongoing team specific restructuring plans has been made in the year:

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Restructuring provision				
At beginning of the year	**-**	3	**-**	3
Increase in provision	**1**	-	**1**	-
Release of provision	**-**	(3)	**-**	(3)
At end of the year	**1**	-	**1**	-

A deferred tax provision is made for changes in valuation of the Group's Private Rented Sector portfolio and in relation to the fair value gain arising on the acquisition of Gallagher Estates:

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Deferred tax				
At beginning of the year	**29**	49	**-**	-
Increase in provision	**1**	-	**-**	-
Release of provision	**(1)**	(20)	**-**	-
At end of the year	**29**	29	**-**	-

24. Contingent liabilities

A contingent liability is disclosed for a possible obligation, for which it is not yet confirmed that a present obligation exists that could lead to an outflow of resources; or for a present obligation that does not meet the definitions of a provision or a liability as it is not probable that an outflow of resources will be required to settle the obligation or when a sufficiently reliable estimate of the amount cannot be made. This includes a contingent liability reflecting the potential future obligation to repay social housing grant where properties are disposed of.

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
At start of the year	**1,746**	1,723	**1,715**	1,692
Arising on acquisition	**16**	-	**-**	-
Increase in the year	**20**	23	**20**	23
At end of the year	**1,782**	1,746	**1,735**	1,715

The movement in contingent liabilities in the year relates to an increase from amortised grant less any grant related to units that were disposed in the year.

25. Share capital

	Group 2020 £	Group 2019 £	LQHT 2020 £	LQHT 2019 £
Shares of £1 each issued and fully paid				
At beginning of the year	**10**	9	**10**	9
Issued during year	**-**	2	**-**	2
Cancelled or eliminated during the year	**-**	(1)	**-**	(1)
At end of the year	**10**	10	**10**	10

26. Capital commitments

Capital commitments are disclosed in respect of capital expenditure towards fixed assets which have been contracted and predominantly relate to developments where known contractors have been appointed and which have started on site.

	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Expenditure that has been contracted for but has not been provided for in these financial statements	**2,332**	1,374	**2,285**	1,283
Expenditure that has been authorised by the Governing Board but has not yet been contracted for	**757**	1,971	**757**	1,951
	3,089	3,345	**3,042**	3,234
The Group expects to finance contracted commitments through:				
Social housing grant	**362**	182	**362**	182
Surpluses and borrowings	**1,970**	1,192	**1,923**	1,101
	2,332	1,374	**2,285**	1,283

The development pipeline as at 31 March 2020 had an estimated cost of £5.3 billion (2019: £6.7 billion) and currently spans 14 years. This includes fixed and current assets relating to ongoing construction as well as developments not yet on site which will be funded primarily through accumulated reserves and borrowings.

Our approved development pipeline has the following projections:

	Group 2020	Group 2019
Homes in the development pipeline	**29,504**	29,911
	£m	£m
Projected pipeline cost	**5,324**	6,667
Projected source of funding		
Social housing grant	**498**	492
Surpluses and borrowings	**4,826**	6,175
	5,324	6,667

27. Commitments under operating leases

Total commitments under operating leases are as set out below:

Land and buildings Operating leases which expire:	**Group 2020 £m**	Group 2019 £m	**LQHT 2020 £m**	LQHT 2019 £m
In less than one year	**1**	-	**-**	-
Between one and five years	**4**	1	**1**	1
After five years	**1**	1	**1**	1
Total	**6**	2	**2**	2

Other leases Operating leases which expire:	**Group 2020 £m**	Group 2019 £m	**LQHT 2020 £m**	LQHT 2019 £m
In less than one year	**-**	-	**-**	-
Between one and five years	**1**	-	**-**	-
After five years	**-**	-	**-**	-
Total	**1**	-	**-**	-

28. Related party transactions

All transactions in respect of tenant board members and other related public or commercial entities are carried out at arm's length and under normal commercial terms. The Group has taken advantage of the exemption contained in FRS 102 33.1(A) Related Party Disclosures and has therefore not disclosed transactions or balances between entities which are 100% owned. Per requirements of the Accounting Direction 2019, transactions between registered providers and other non-registered entities in the Group are disclosed below.

Intra-group transactions between the Group's registered providers and its non-regulated subsidiaries for the year ended 31 March 2020:

2020	**Sales income £m**	**Cost of sales £m**	**Operating costs £m**	**Gift aid £m**	**Loan interest payable £m**	**Loan interest receivable £m**	**Loan creditors £m**	**Loan debtors £m**	**Other creditors £m**	**Other debtors £m**
Subsidiaries to LQHT										
Quadrant Construction Services Ltd	349	(343)	-	-	(18)	-	(268)	-	-	51
L&Q New Homes Ltd	123	(121)	(1)	(70)	(10)	-	(177)	-	(27)	-
L&Q PRS Co Ltd	-	-	(2)	(6)	(10)	-	(391)	-	-	7
Quadrant Housing Finance Ltd	-	-	-	-	-	9	-	128	-	1
East Place Ltd	-	-	-	-	-	-	(1)	-	(1)	-
East Regen Ltd	2	(2)		(1)	-	-	-	-	-	-
East Thames Partnership Ltd	-	-	-	(3)	-	-	-	-	-	-
THT and L&Q Developments LLP	-	-	-	-	(1)	-	(23)	-	-	-
Gallagher Estates Ltd	-	-	-	(45)	(1)	-	(87)	-	-	-
Gallagher Estates NR Ltd	-	-	-	(18)	-	-	-	-	-	-
Gallagher Longstanton Ltd	-	-	-	-	-	-	-	-	-	-
Redlawn Land Ltd	-	-	-	(11)	-	-	-	-	-	-
Gallagher Llanwern Ltd	-	-	-	-	-	-	-	-	-	-
Gallagher Projects Ltd	-	-	-	-	-	-	-	-	-	-
LQHT to non-registered provider subsidiaries	6	(7)	3	154	(9)	39	(128)	924	(59)	28

28. Related party transactions (continued)

Intra-group transactions between the Group's registered providers and its non-regulated subsidiaries for the year ended 31 March 2019:

2019	Sales income	Cost of sales	Operating costs	Gift aid	Loan interest payable	Loan interest receivable	Loan creditors	Loan debtors	Other creditors	Other debtors
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Subsidiaries to LQHT										
Quadrant Construction Services Ltd	232	(227)	-	-	(20)	-	(494)	-	(6)	-
L&Q New Homes Ltd	1	(1)	(1)	(35)	(5)	-	(205)	-	(15)	-
L&Q PRS Co Ltd	-	-	(2)	(7)	(8)	-	(308)	-	(8)	-
Quadrant Housing Finance Ltd	-	-	-	-	-	10	-	133	-	1
East Place Ltd	-	-	-	-	-	-	(1)	-	(1)	-
East Regen Ltd	21	(21)	-	(2)	-	-	(1)	-	-	3
East Thames Partnership Ltd	19	(20)	-	(15)	(1)	-	-	-	-	1
East Finance plc	-	-	-	-	-	10	-	-	-	-
Gallagher Estates Ltd	-	-	-	(31)	-	-	-	-	-	-
Gallagher Estates NR Ltd	-	-	-	(27)	-	-	-	-	-	-
Gallagher Longstanton Ltd	-	-	-	(15)	-	-	-	-	-	-
Redlawn Land Ltd	-	-	-	(9)	-	-	-	-	-	-
Gallagher Llanwern Ltd	-	-	-	(2)	-	-	-	-	-	-
Gallagher Projects Ltd	-	-	-	-	-	-	-	-	-	-
LQHT to non-registered provider subsidiaries	47	(38)	3	143	(20)	34	(133)	1,009	(5)	30

Quadrant Construction Services Ltd operates on a cost-plus basis in recharging all of its direct costs to LQHT as the parent currently using a 2% mark-up (2019: 2%).

All transactions in respect of tenant board members and other related public or commercial entities are carried out at arm's length and under normal commercial terms. Rents received from tenant and leaseholder board members during the year are £5,724 (2019: £5,782) of which £nil (2019: £nil) was included in amounts owing at the year end.

The defined benefit pension schemes are considered to be related parties, transactions between the group and the group's pensions plans are disclosed in note 9.

Through the declaration of interest from key management personnel, the following related party transactions are required to be disclosed:

- LQHT paid membership and sponsorship fees to the Centre For London of £84,000 in the year with £36,000 outstanding at the year end. Fiona Fletcher-Smith is a board trustee of Centre For London.
- Housing For Women, a Housing Association, was invoiced by LQHT for rent and service charges to the amount of £80,598 in the year of which £557 remains outstanding at the year end. Diane Hart was a non-executive board member of Housing For Women up to 24 March 2020.
- LQHT incurred membership fees and conference costs totalling £153,154 towards the National Housing Federation (NHF) of which £750 remains outstanding for those services at year end. David Montague was a board member of the NHF up to 18 September 2019. Waqar Ahmed has been a board member of National Housing Federation since 24 September 2019.
- Centrepoint was invoiced by LQHT for rent and service charges to the amount of £319,287 in the year, with no amounts outstanding at year end. David Montague was a board trustee for Centrepoint up to 9 October 2019.
- LQHT paid interest payments totalling £1,535,268 in the year to THFC (Capital Plc) and has a facility amount of £14,959,145 fully drawn. David Montague joined the THFC board on 17 March 2020.
- LQHT was recharged by Buckinghamshire Healthcare NHS Trust a total of £44,147 for communal energy services with no amounts outstanding at year end. Rajiv Jaitly is a non-executive director of the Buckinghamshire Healthcare NHS Trust.
- LQHT was invoiced by the Housing Associations' Charitable Trust (HACT) a total of £55,032 for consulting services with no amounts outstanding at year end. Samantha Hyde is a board trustee of HACT.
- LQHT paid Barking Riverside Limited (BRL) £78,800,000 in advanced funding towards land in the year. BRL was recharged audit fees of £4,672 and tax consultancy fees of £1,854 from LQHT with £4,672 outstanding at the year end. Diane Hart is a board member of BRL.
- LQHT paid executive search and recruitment fees to Saxton Bampfylde of £32,190 in the year, with no amounts outstanding at year end. Larissa Joy is director of Saxton Bampfylde.
- LQHT was invoiced by Registered Institute of Chartered Surveyors (RICS) a total of £10,239 in the year for assessment and subscription fees with £132 outstanding at year end. Simon Rubinsohn is the RICS Chief Economist.

29. Financial instruments

Initial measurement

Initially, financial assets and liabilities are measured at fair value (including transaction costs, for assets and liabilities not measured at fair value through profit or loss).

Measurement subsequent to initial recognition

Subsequently, financial assets and liabilities (including derivatives) are measured at fair value, with the following exceptions:

- Loans and receivables, held-to-maturity investments, and non-derivative financial liabilities which are measured at amortised cost using the effective interest method.
- Financial assets and liabilities that are designated as a hedged item or hedging instrument are subject to measurement under the hedge accounting requirements of the IAS 39.

Fair value is determined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. To calculate fair value, the Group uses:

- Where they exist, quoted market prices in an active market to measure the financial instrument.
- If a market for a financial instrument is not active, the Group will use a valuation technique that makes maximum use of market inputs and includes recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models where in each case it is an acceptable valuation technique that incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

Amortised cost is calculated using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. Financial assets that are not carried at fair value though profit and loss are subject to an impairment test. If expected life cannot be determined reliably, then the contractual life is used.

29. Financial instruments (continued)

Hedge accounting

The following table indicates the periods in which cash flows associated with cash flow hedging instruments are expected to occur.

Interest on financial instruments is calculated on an undiscounted basis using the prevailing implied forward rates as at the statement of financial position date for the floating rate leg and the fixed rate for the fixed rate leg.

	Group 2020 £m	Group 2019 £m
Interest Rate Swaps:		
Due within one year	-	-
Between one and two years	-	-
Between two and three years	-	-
Between three and five years	-	-
In five years or more	-	-
Gross contractual cash flows	-	-
Nominal values of the above		
Cash flow hedge	-	-
Fair value	-	-
Total	-	-

Hedge accounting is applied to financial assets and financial liabilities of the Group where a hedging relationship qualifies for hedge accounting and if, and only if, all of the following conditions are met:

- At the inception of the hedge, or at the point of transition, formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge is in place. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship, and effectiveness can be reliably measured; and
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated. Under IAS 39 for financial instruments: recognition and measurement, it is necessary to comply with the criteria of 80% to 125% for hedge effectiveness.

Hedging instruments

A hedging instrument is classified as an instrument whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.

Hedged items

A hedged item is an item that exposes the Group to risk of changes in fair value or future cash flows and is designated as being hedged. A hedged item may include a single or group of recognised assets or liabilities, a firm commitment or a highly probable transaction.

Hedged effectiveness

The Group assesses hedge effectiveness both prospectively and retrospectively. To qualify for hedge accounting at the inception of a hedge and, at a minimum, at each reporting date, the cumulative changes in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the cumulative changes in the fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%.

Accounting treatment - Cash flow hedges

Where the Group hedges its exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect profit or loss, the hedging relationship is designated of a cash flow hedge.

A cash flow hedge is accounted for as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised in other comprehensive income and accumulated in the cash flow hedge reserve; and
- the ineffective portion of the gain or loss on the hedging instrument (including ineffectiveness within the 80% to 125% window) shall be recognised in profit or loss and disclosed separately in interest payable and similar charges. Ineffectiveness in this context represents over-effectiveness when the cumulative change in the fair value of the hedging instrument is higher than the cumulative change in the hedged item.

If the Group closes out early a cash flow hedge that has a designated hedging relationship, the cumulative gains and losses recognised in other comprehensive income are frozen and reclassified from the cash flow hedge reserve to revenue reserve using the effective interest method.

Accounting treatment – Financial instruments measured at fair value through profit and loss

Some contracts that themselves are not financial instruments may nonetheless have financial instruments embedded in them. An embedded derivative is a feature within a contract, such that the cash flows associated with that feature behave in a similar fashion to a stand-alone derivative.

The Group will separate an embedded derivative from its host contract when:

- the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the entire instrument is not measured at fair value with changes in fair value recognised in the profit and loss statement.

If an embedded derivative is separated, the host contract is accounted for at amortised cost using the effective rate method and the fair value of the embedded derivative is recognised in profit and loss and disclosed separately in interest payable and similar charges. If the Group is unable to measure the embedded derivative separately, the entire combined contract will be designated at fair value through profit or loss.

Where an embedded derivative is closely related to the host contract, the entire contract shall be accounted for at amortised cost using the effective rate method. All of the Group's embedded derivatives are closely related to the host contract and accounted for at amortised cost.

29. Financial instruments (continued)

Financial instruments	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Financial instruments measured at fair value through profit and loss	-	-	-	-
Total loans measured at amortised cost	5,588	5,037	5,194	4,527
At end of the year	5,588	5,037	5,194	4,527

Risk

The main risk arising from the Group's financial instruments are interest rate risk and liquidity risk.

Interest rate risk

The Group finances its operations through a mixture of retained surpluses, government grant and loan borrowings. The Group manages its exposure to fluctuations in interest rates with a view to achieving a level of certainty in its net interest costs. The Group's interest rate strategy is focused on achieving the prescribed balance between fixed and floating rate debt at an acceptable level of risk and cost.

Cash flow hedges are entered into to hedge exposure to the variability in cash flows attributable to movements in GBP interest rates using GBP interest rate swap contracts whereby the Group agrees to pay interest at a fixed rate and receive interest at a floating rate. The interest rate swaps are designated as a hedge of the variability in the debt interest payments due to changes in the benchmark interest rate (LIBOR). This method reflects the risk management objective of the hedging relationship that is to swap a series of future variable cash flows to a fixed rate. The periods in which the hedged variable rates of interest payments are expected to occur are set out in the maturity analysis in note 22. The movement through the cash flow reserve for the year ended 31 March 2020 was £nil (2019: £nil).

The Group's cash flow interest rate risk exposure is managed in accordance with treasury policy. As at 31 March 2020 a 0.5% increase in interest rates would result in an additional charge to the statement of consolidated income of £13m (2019: £11m).

Liquidity risk

The Group has a policy to maintain sufficient liquidity in cash and undrawn lending facilities to cover 18 months of operational activity. At the year end 69% of the Group's borrowings were due to mature in more than five years (2019: 72%). The liquidity risk of each Group entity is managed centrally by the Group treasury function in accordance with the Board approved Treasury Policy and Treasury Strategy.

30. Financial assets and liabilities

Financial assets

The Group classifies its financial assets into one of the following categories depending on the purpose for which the asset was acquired.

Fair value through profit and loss

Other than derivative financial instruments which are not designated as hedging instruments, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit and loss.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method.

Provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms. The amount of such a provision is disclosed as the difference between the net carrying amount and the present value of the future expected cash flows associated with the receivable item.

A summary of the financial instruments held by category is provided below:

Group	Financial assets at fair value		Financial assets at amortised cost	
Financial assets	2020 £m	2019 £m	2020 £m	2019 £m
Investment properties and real lettings property fund	1,036	952	-	-
Cash and cash equivalents	-	-	157	171
Debtors	-	-	305	298
	1,036	952	462	469

	Financial liabilities at fair value		Financial liabilities at amortised cost	
Financial liabilities	2020 £m	2019 £m	2020 £m	2019 £m
Trade and other payables	-	-	598	508
Loans and borrowings	-	-	5,588	5,037
Derivatives				
• Designated hedges	-	-	-	-
• Fair value through profit and loss	-	-	-	-
	-	-	6,186	5,545

30. Financial assets and liabilities (continued)

Valuation

All financial assets or liabilities at fair value are calculated using measurements based on inputs that are observable for the asset either directly or indirectly from prices. All other loans and receivables are shown at amortised cost.

Credit risk

Credit risk applies to all debtor balances, the majority relating to tenant and other arrears which are reported monthly with dedicated teams assigned to manage recovery of those arrears.

The Group fully provides for former tenant arrears except where recovery is assessed as likely. Provision against current tenant arrears is made based on experienced loss and the aged profile of the amounts due. More than 70% of the arrears are collected directly from local authorities in the form of housing benefits therefore reducing the Group's exposure to individual tenants' credit risk.

'Arrears' includes rent, service charge and other amounts related to a tenancy sub-account such as major works costs, maintenance recharges and court fees.

Arrears provision	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
At beginning of the year	15	16	15	15
Arising on acquisition	1	-	-	-
Movement in provision	5	(1)	3	-
At end of the year	21	15	18	15

Arrears	Group 2020 £m	Group 2019 £m	LQHT 2020 £m	LQHT 2019 £m
Less than 30 days	9	20	8	19
30 to 60 days	5	4	4	4
60 to 90 days	3	3	3	3
More than 90 days	35	27	33	27
	52	54	48	53

Included in the above are £7m (2019: £9m) of former tenant arrears which are fully provided for through the statement of comprehensive income.

31. Ultimate holding entity

London & Quadrant Housing Trust is the ultimate holding entity of the Group.

32. Post year end events

Fitch applied a downgrade to the UK Sovereign Rating on 27 March 2020 and on 1 April 2020 Fitch placed L&Q's long-term Issuer Default Rating on 'negative' outlook to reflect this. Fitch affirmed L&Q's A+/Negative rating on 21 July 2020.

On 1 September 2020 David Montague announced he will step down from his role as Chief Executive of L&Q by the end of financial year 2021.

On 30 September 2020 Edna Robinson will resign her position on both the L&Q Group and Trafford Housing Trust Boards having come to the end of her term. She will be replaced by Sean Anstee.

33. Group entities

The entities forming the Group are:

Entity	Status	Activity
London & Quadrant Housing Trust	Registered in England & Wales under Co-operative and Community Benefit Societies Act 2014	Registered social landlord and public benefit entity and the ultimate parent of the Group
L&Q New Homes Limited	Limited company registered in England and Wales	Property development and housing for open market sales
Quadrant Construction Services Limited	Limited company registered in England and Wales	Provision of design and build services and acting as principal contractor to members of Group
Quadrant Housing Finance Limited	Registered in England & Wales under Co-operative and Community Benefit Societies Act 2014	Bond finance provided to Group members
L&Q PRS Co Limited	Limited company registered in England and Wales	Management and ownership of properties available for lettings in the private rental market
L&Q Living Limited	Registered in England & Wales under Co-operative and Community Benefit Societies Act 2014	Provision of care services and supported housing
L&Q Energy Limited	Limited company registered in England and Wales	Energy services company providing heat and power, incorporated November 2018
East Thames Partnership Limited	Limited company registered in England and Wales	Delivery of housing for sale
East Regen Limited	Limited company registered in England and Wales	Development, design and construction of housing schemes
East Place Limited	Limited company in England and Wales	Housing for open market sales and partner in Triathlon Homes LLP
East Homes Services Limited	Limited company by shares registered in England and Wales	Provides services to Triathlon Homes LLP

The entities forming the Group are:

Entity	Status	Activity
L&Q Estates Limited	Limited company by shares registered in England and Wales	Intermediate holding company and property development
Gallagher Estates Holdings Limited	Limited company by shares registered in England and Wales	Intermediate holding company
GW 305 Limited	Limited company by shares registered in England and Wales	Intermediate holding company
Gallagher Estates No. 2 Limited	Limited company by shares registered in England and Wales	Intermediate holding company
Gallagher Estates Limited	Limited company by shares registered in England and Wales	Intermediate holding company and property development
Portobello Developments 2002 Limited	Limited company by shares registered in England and Wales	Property development
Wixams First Limited	Limited company by shares registered in England and Wales	Property development
Wixams NEA Management Company Limited	Limited company by guarantee registered in England and Wales	Incorporated to act as a property management company but currently dormant
Gallagher Estates NR Limited	Limited company by shares registered in England and Wales	Property development
Drayton Stratford Limited	Limited company by shares registered in England and Wales	Property development

33. Group entities (continued)

The entities forming the Group are:

Entity	Status	Activity
West Longstanton Limited	Limited company by shares registered in England and Wales	Small company property development
Gallagher Homes Limited	Limited company by shares registered in England and Wales	Property development
Gallagher Longstanton Limited	Limited company by shares registered in England and Wales	Property development
Redlawn Limited	Limited company by shares registered in England and Wales	Former holding company
Gallagher Llanwern Limited	Limited company registered in England and Wales	Property development
Gallagher Projects Limited	Limited company by shares registered in England and Wales	Procurement and delivery of infrastructure and other construction activities
Gallagher Elstow Limited	Limited company by shares registered in England and Wales	Property development
Gallagher Bridgend Limited	Limited company by shares registered in England and Wales	Property development
Gallagher Poole Limited	Limited company by shares registered in England and Wales	Property development
Gallagher Broughton Limited	Limited company by shares registered in England and Wales	Dormant

The entities forming the Group are:

Entity	Status	Activity
Gallagher Estates Land Limited	Limited company by shares registered in England and Wales	Dormant
J.J. Gallagher Construction Limited	Limited company by shares registered in England and Wales	Dormant
Redlawn Land Limited	Limited company by shares registered in England and Wales	Property development
Trafford Housing Trust Limited	Limited company by guarantee registered in England and Wales	Registered housing provider
THT and L&Q Community Limited	Registered in England & Wales under Co-operative and Community Benefit Societies Act 2014	Partnership between THT and L&Q Housing Trust. Owns all rented and shared ownership housing assets developed by THT & L&Q Developments LLP
THT Properties Limited	Limited company by shares registered in England and Wales	Dormant
THT Developments Limited	Limited company by shares registered in England and Wales	Property development and housing for open market sales
THT and L&Q Developments LLP	Limited Liability Partnership	Partnership between THTD and L&Q New Homes. Property development and housing for affordable rent, shared ownership and open market sales
Laurus Homes Limited	Limited company by shares registered in England and Wales	Dormant
THT Social Investments Limited	Limited company by shares registered in England and Wales	Investment holding company

34. Glossary including alternative performance measures

This section provides a glossary of unfamiliar or uncommon terms used throughout these financial statements and sets out definitions of non-GAAP measures and reconciliations to the nearest measure in accordance with FRS102.

The alternative performance measures ('APMs') used may not be directly comparable with similarly titled measures used by other companies, including those in the same industry.

Management use these measures because they provide useful insight and monitoring of performance, as well as comparability to other registered providers where they report under the same metrics.

APMs should be considered in addition to, and not as a substitute for or as superior to, measures of financial performance, financial position or cash flows reported in accordance with FRS102.

Exceptional items

The Group's strategic report identifies operating surplus before exceptional items. The Board believe that the presentation of the Group's results in this way is relevant to an understanding of the Group's financial performance. This also facilitates comparison with prior periods to assess trends in financial performance more readily. The Group applies judgement in identifying significant non-recurring items of income and expenditure that are recognised as exceptional to help provide an indication of the Group's underlying performance. In determining whether an event or transaction is exceptional in nature, management considers quantitative as well as qualitative factors such as frequency or predictability of occurrence. Exceptional items for the FY2020 are disclosed in Note 14(g) of these consolidated financial statements.

Development pipeline

This is the current and future portfolio of approved construction projects.

Homes enabled

Includes homes expected to be built on land sold by L&Q in the period, based on outline or detailed planning permission at the point of land sale. These exclude land sold within the L&Q Group and affordable homes on land sold to a third party where L&Q is acquiring the affordable homes.

Occupancy

Applies only to general needs and calculated as occupied units as a percentage of the sum of occupied units and vacant units that are available for letting.

Units managed

Units include homes as well as non-habitable units such as garages, parking spaces and sheds.

Social value

A measure of value for money related to community investment activities. It is calculated using the Housing Association Charitable Trust (HACT) wellbeing valuation, the methodology of which is available on their website.

Sector scorecard

An initiative to benchmark housing associations' performance and check they are providing value for money. The measures used include the standard metrics as set out by the Social Housing Regulator to support the 2019 Value for Money Standard for Registered Providers of Social Housing. These may therefore be on a different basis to similar financial measures and can include relevant comparable information to aid understanding of performance.

Calculations of the key measures included in the sector scorecard are below:

Sector scorecard	L&Q 2020
Operating margin (overall) calculated as operating surplus excluding gain/(loss) on disposal of fixed assets, share of joint venture results and revaluation of investment properties ÷ turnover	£182m ÷ £915m = 20%
Operating margin (social housing lettings "SHL" only) calculated as SHL operating surplus excluding gain/(loss) on disposal of fixed asset, share of joint venture results and revaluation of investment properties ÷ SHL turnover	£185m ÷ £561m = 33%
EBITDA MRI (as % interest) EBITDA MRI represents earnings before interest, tax, depreciation and amortisation adding back major repair capitalised costs calculated as EBITDA MRI ÷ Gross interest payable x 100	£191m ÷ £161m = 119%
Gearing as prescribed in the current Sector Scorecard calculated as net debt ÷ carrying value of housing properties including investment properties x 100 where net debt represents total bank and debenture loans less cash and cash equivalents	£5,371m ÷ £10,555m =51%
Return on capital employed calculated as total operating surplus including gain/(loss) on disposal of fixed assets and share of operating surplus/(deficit) in joint venture or associates ÷ total fixed assets + total current assets less current liabilities at end of year	£272m ÷ (£13,185m) = 2.1%
Ratio of responsive repairs to planned maintenance calculated as routine maintenance as a percentage of planned maintenance + major repairs expenditure + capitalised major repairs and re-improvements expenditure	£115m ÷ (£57m+£61m) = 1
Headline social housing cost per unit Total social housing cost (per note 3) Total social housing homes: (per note 4) Total	£389m ÷ 88,727 = £4,384
Management cost per unit Total management cost (per note 3) Total social housing homes: (per note 4) Total	£50m ÷ 88,727 = £564
Service charge cost per unit Total service charge cost (per note 3) Total social housing homes: (per note 4) Total	£67m ÷ 88,727 = £755
Maintenance cost per unit Total routine maintenance + planned maintenance cost (per note 3) Total social housing homes: (per note 4) Total	(£111m + £53m) ÷ 88,727 = £1,848
Major repairs cost per unit Total capitalised maintenance cost (per note 3) Total social housing homes (per note 4) Total	£61m ÷ 88,727 = £688
Other social housing costs per unit Total other social housing cost (per note 3) Divided by total social housing homes: (per note 4) Total	£47m ÷ 88,727 = £530
Rent collected as % of rent due (General needs)	£359m ÷ £361m = 99%
Overheads as a % of turnover Calculated as overheads ÷ turnover excluding amortised grant x 100	£58m ÷ £891m = 7%

Photo: L&Q @ The Pavilions creates a peaceful and secluded community space for its residents by incorporating a Site of Importance for Nature Conservation within its masterplan.

34. Glossary including alternative performance measures (continued)

Streamlined Energy and Carbon Reporting (SECR) Methodology

In line with the GHG Protocol Corporate Accounting and Reporting Standard, greenhouse gas (GHG) emissions are reported separately as scope 1 (direct emissions), scope 2 (indirect emissions from purchased electricity) and scope 3 (all other indirect emissions) using a carbon dioxide equivalent. A carbon dioxide equivalent is used to enable the global warming potential (GWP) of a variety of GHGs to be combined and reported using a single, standardised unit of measurement.

In accordance with SECR reporting recommendations, the UK Government's 2019 GHG Conversion Factors have been used to convert energy consumption and fuel usage into carbon emissions figures.

All electricity and gas consumption figures have been extracted directly from supplier invoices, with the exception of energy supplies to void units. A pro-rata extrapolation method has been used to apportion consumption and estimate missing data in cases where, respectively, the invoice periods exceeded or fell short of the financial year reporting period. Missing data estimated in this way accounts for approximately 1% of total energy consumption.

For temporary energy supplies to void units, consumption figures were calculated using the total energy spend data for electricity and gas, provided by our voids energy supplier, and applying the corresponding tariff and charge rates. Energy supply to these unlet void units represents approximately 2% of total energy consumption.

At our construction sites, a portion of mains electricity consumption has been excluded where it has been unfeasible to collect accurate consumption information on account of our preferred electricity supplier not being used. Based on procurement data, the scale of this excluded consumption is estimated as being approximately 1% of total energy usage.

The quantity of transport fuel used by L&Q's vehicle fleet, covering activities such as direct maintenance, caretaking and development, has been extracted from fuel card and fleet management software.

The amount of transport fuel used by employees for business purposes, i.e. grey fleet, has been estimated using consolidated mileage claims data and the corresponding vehicle specification information provided. Where specific vehicle information was unavailable, the GHG Conversion Factors for average passenger vehicles have been applied.

Energy and carbon emissions data for Trafford Housing Trust has been included from 1 October 2019, when it officially became a part of the L&Q Group.

To reflect L&Q's leading role as both a housing association and residential developer, the carbon intensity metric has been calculated as L&Q's total carbon emissions divided by the total number of residential units owned, managed, completed or under construction as at 31 March 2020.

Photo: an aerial shot of Barking Riverside.
The development will ultimately deliver 10,800 new homes.

05

Other company information

Other company information

Executive Directors

David Montague CBE (Chief Executive) - announced intention to resign by 31 March 2021

Waqar Ahmed (Group Finance Director)

Fiona Fletcher-Smith

Diane Hart

Steve Moseley

Tom Nicholls

Gerri Scott (appointed April 2020)

Secretary and registered office

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Registrations

Registered Society number:
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Regulator of Social Housing number:
L4517

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