



FINANCIAL STATEMENTS 2018





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Board Members, Executive Officers and Advisers

Optivo Board at 18 July 2018

Sir Peter Dixon

Chair
Appointed 22 May 2017

Steve Douglas

Vice-Chair
Resigned 31 March 2018

Florence Barras

Appointed 22 May 2017

David Clifford

Appointed 22 May 2017

John Cox

Appointed 22 May 2017

William Howard Cresswell

Appointed 22 May 2017

Paul Crouch

Appointed 22 May 2017

Vishal Dixit

Appointed 22 May 2017

Samantha Herelle

Appointed 22 May 2017

Peter Roscrow

Appointed 22 May 2017

Nick Stephenson

Appointed 22 May 2017

Andrew Wiseman

Appointed 22 May 2017

Optivo Executive Team at 18 July 2018

Paul Hackett

Group Chief Executive

Nick Apetroaie

Deputy Chief Executive
Resigned 30 November 2017

Neal Ackcral

Executive Director
Property & Asset Management

Kate Dodsworth

Executive Director
People and Strategy
Resigned 6 April 2018

Kerry Kyriacou

Executive Director
Development & Sales
Appointed 1 May 2018

Mark Miles Lea

Executive Director
Development & Sales
Resigned 25 May 2018

Jane Porter

Chief Operating Officer

Jo Robinson

Executive Director
Governance & Compliance

Sarah Smith

Chief Financial Officer

Kerry Tromanhauser

Executive Director
Transformation & Innovation
Resigned 31 August 2017

Suzie Woodhams

Executive Director
People and Strategy
Appointed 26 March 2018

Secretary & registered office

Alison Wignall

Grosvenor House
125 High Street
Croydon
Surrey CR0 9XP

Advisers to the Optivo Board

Statutory Auditors

BDO LLP
55 Baker Street
London W1U 7EU

Principal Bankers

Barclays Bank Plc
1 Churchill Place Canary Wharf
London E14 5HP

Principal Solicitors

Trowers & Hamblins
3 Bunhill Row
London EC1Y 8YZ

Devonshires

30 Finsbury Circus
London EC2M 7DT



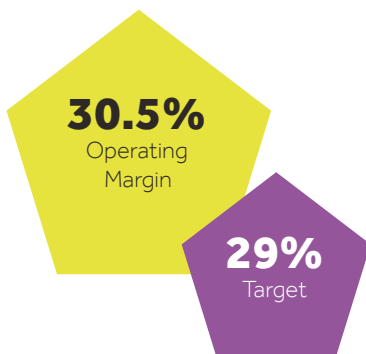
Chairman's Statement

Sir Peter Dixon
Chair of the Optivo Board.

In May 2017 we launched Optivo, created from the merger of AmicusHorizon and Viridian, so establishing a very resilient and robust business and one that is well placed to withstand shocks and manage risk. We set ourselves some challenging targets for our first year and in delivering them we collectively improved the lives of thousands of people. Our mission is 'building homes, making places, enhancing lives'. We're on a fantastic journey with a very exciting future ahead.

The Board approved a new strategic plan for Optivo setting out what we want to achieve from 2017-20 and the direction of the organisation. We are focusing on four headlines:

- ◆ Ensuring a sustainable business
- ◆ Maximising our social impact
- ◆ Valuing our people
- ◆ Providing sector leading services.



Sustainable business

Financially strong

We achieved a surplus before tax of £90m (before derivative movements) and an operating margin of 31%. We're committed to being a financially robust organisation providing value for money across our business. The Regulator of Social Housing affirmed Optivo's **G1 V1 rating** in June 2017, the highest that can be awarded. Moody's rated Optivo A1 on amalgamation reflecting the strength of our business. The whole sector was downgraded as a result of the downgrade in the UK Sovereign debt. But we remain one of the highest rated associations in the sector at A2. We're financially stronger and through merger have created the capacity to build many more homes. In May 2017 we restructured £760m loans to new terms and conditions. Since then we've signed £375m of new loan facilities giving us funding flexibility and making sure we can commit to new development sites. In March 2018 we issued £150m of bonds to raise long term funding for our investment programme.

A year of increasing our influence in the sector

Housing remains high on the political agenda nationally and locally and we've communicated widely on the important work Optivo is doing particularly in relation to putting residents at the heart of what we do.



Maximise our social impact

Over 93% of our residents are satisfied with their neighbourhood. We're passionate about enhancing lives and communities and this year we supported 1,045 people into employment and training, outperforming our target of 870. We secured £8.4m in grant funding and started our new sector leading Increase Programme to support residents into jobs and micro-enterprise. Our work to support young people in to jobs through the Fresh Visions Charity 'Build Yourself' project was recognised by Optivo winning the TPAS South East Award for innovative work. Our income and social impact teams helped residents source more than £8 million in additional income to help pay rent, and enhance their lives.



Building new homes

We're playing our part in helping to tackle the housing crisis by providing much needed new homes. As Optivo we will be investing £3.5bn over the next ten years, funding a development programme of 1,500 homes each year from 2020. We became one of only eight housing associations to strike a strategic partnership with the Mayor of London in July 2017. The deal will see us build 2,600 affordable homes in the capital by 2021 with up to £88.4m of grant funding from City Hall. We also got approval for our first large mixed tenure land led scheme in Kent. In 2017/18 we started 912 homes compared to our 880 homes target and entered into contracts for 1,300 new homes. At year end we had 1,375 new homes on site at a cost of £372.8m. We've completed 470 new homes, 164 in London and 306 in Kent and Sussex. Our development team has driven great customer service this year with 97.5% customers satisfied with their homes. Our target for 2018/19 is to get 1,000 homes started on site.



Value our people

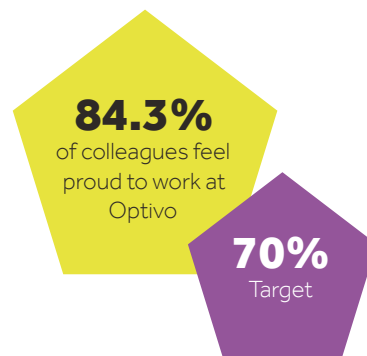
Having merged in May 2017 our change programme is being implemented to support the delivery of an efficient sector leading service. During the year to 31 March, 84.3% of staff who replied to our survey felt proud to work for Optivo and 75.6% of colleagues felt Optivo is a great employer.

New appointments

We've appointed two new members to the Executive Team: Suzie Woodhams, Executive Director of People and Communications and Kerry Kyriacou, Executive Director of Development & Sales.

Equality, diversity & inclusion

We celebrate diversity and are creating an organisation where people can be themselves when they come to work. Highlights over the last year have included: taking part in Hastings Pride and Brighton Pride, a full programme of events for Black History Month, International Women's Day events, and a 'Beat the Blues' campaign. We're leading the way in delivering a sector change programme. Leadership 2025 aims to address the imbalance of BME (Black and Minority Ethnic) professionals in leadership roles in the housing sector. We're sponsoring the initiative, along with L&Q and BME London.



Providing sector leading service

Our 'Better Together' customer experience statement outlines our standards of service to help ensure we provide a consistent high quality service. The majority of our residents would recommend Optivo to friends and family. With a net promoter score of 66 we're ranked second in the sector.

97% (target 96%) of residents are satisfied with the service we provided and 42% of households signed up to our on line service MyAccount (target 40%).

Residents involved

In our first year as Optivo we worked with residents to create a new resident governance structure. Residents formally monitor our performance at the Resident Strategy Group meetings, and they will start on scrutiny projects in 2018. We now have 57 resident governance members across our local and service panels.

Repairs standard

We published our first Optivo Asset Management Strategy. We procured key contracts while maintaining 96% satisfaction with repairs. With positive feedback from residents and to deliver improved value for money we'll expand our Direct Labour Organisation.

Awards

We picked up the accolade of 'Outstanding Customer Satisfaction' at the Constructing Excellence in London and the South East awards. Other awards since we became Optivo include:

- ◆ Excellence In-house (legal team) at the Law Society's Excellence Awards
- ◆ Best Financial Communications at the Housing Association National Accountancy Awards (HANA)
- ◆ Best Small Contact Centre at the UK Customer Experience Awards 2017
- ◆ Gold RoSPA Award for safety in June 2017.

Research and innovation

We're already considering how we can transform our business, making better use of resources and technology to enhance the customer experience and drive efficiency. Our Research & Innovation Team established the Optivo Futures Group to deliver the Transformation Programme including using Artificial Intelligence, Internet of Things and smart technology.

Approach to fire safety

We take the safety of our residents, staff and visitors seriously. We've comprehensive controls in place regarding fire safety and we review and test these on a regular basis. The thoughts of everyone at Optivo remain with all those affected by the Grenfell fire. Since the tragedy, we've re-examined our safety systems to ensure we have the most robust procedures in place.

An exciting future

It's been a great year for Optivo and we have a bright future **building homes, making places, enhancing lives.**



Report of the Board of Management & Strategic Report

Management presents its report incorporating the strategic report and audited consolidated financial statements for Optivo and its subsidiary undertakings for the year ended 31 March 2018. These consolidated accounts are also available on our website www.optivo.org.uk.

Principal activities and review of the business

Optivo takes great pride in giving people the keys to their new home. We're passionate about providing people with a place to call home and meeting a range of housing needs.

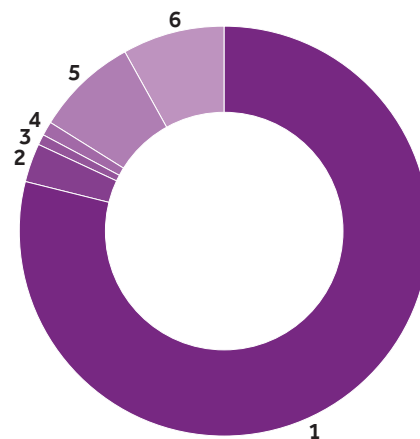
Optivo is one of the largest housing providers in the UK with over forty thousand homes housing over ninety thousand people in London, the South East and the Midlands. Optivo started 912 homes and completed 470 new homes in 2017/18. At March 2018 we had assets of £2.8bn, reserves of £574m and an annual turnover of £317m.

We are part of the g15, a group formed by the largest housing associations in London. We are working with residents, local authorities, and partners to meet housing need, and to create safe, sustainable communities for our residents. We are also helping residents make the most of their lives through jobs, training, financial and digital inclusion.

Turnover from our social and other activities for the year ended March 2018 is shown below:

	Turnover
Core social housing activity	
General needs housing for rent and supported housing and care Families unable to rent or buy at open market rates, housing for older people and people needing additional housing related support or care	£236m
Temporary social housing To support local authorities in addressing homelessness	£2m
Affordable home ownership Residents purchase an equity share in their home and pay rent on the remainder	£20m
Keyworker	£8m
Economic and community regeneration services	£1m
First tranche & open market sales	£22m
Other activities	£28m
Total	£317m

Homes in management



1	General Needs and HOPS	79%
2	Keyworkers	3%
3	Temporary	1%
4	Supported	1%
5	Low cost home ownership	8%
6	Non social and other housing	8%

Strategic goals

Our objectives from April 2017 to March 2020

Our strategy is to unlock the potential of our residents, people and business. This means increased capacity to build more homes, preserving resident loyalty and improving efficiency. Our objectives and targets are summarised below:

Measures	2017-18	2018-19	2019-20
OBJECTIVE 1: Provide sector leading service			
Target: Residents Recommend us (Net Promoter Score)	50	56	60
Target: Residents online	40%	45%	60%
OBJECTIVE 2: Value our people			
Target: Staff say we are great employer	70%	75%	80%
Target: Staff proud to work for us	70%	75%	80%
OBJECTIVE 3: Maximise our social impact			
Target: New homes started	880	1,000	1,250
Target: People into jobs and training	870	870	870
OBJECTIVE 4: Ensure a sustainable business			
Target: Operating margin			32%
Target: Sustainable Homes for Tomorrow Award			Gold

Board approved the financial plan and strategic plan for Optivo. The plan sets out our financial goals and efficiency targets following amalgamation. We'll:

- ◆ Drive out waste from our processes
- ◆ Continue to make the most of our assets and housing stock
- ◆ Use our scale to drive value from the services that we buy from others
- ◆ Measure our costs and benchmark them using independent evaluation
- ◆ Embed a culture of cost awareness, efficiency and value.

New home completions will rise in 2018/19 reflecting the current grant funding cycle and our ambition to significantly boost development expenditure taking advantage of our additional capacity.



Principal risks and uncertainties

To develop our business we expose ourselves to risk but in a controlled manner. We maintain a strategic risk register which the Board and Audit & Risk Committee scrutinise at each meeting. The strategic risk register is supported by a series of 'operational' risk registers. We report on risk causes as well as impacts.

We define strategic risks as "threats which if they occur could materially impact the long term viability of the business, or which could cause significant derailment, such that strategic objectives are not delivered". In scoring the risk we focus on the likelihood, causes, controls and mitigations of the risk. We assess risk appetite against our strategic risks and employ the same "likelihood" scoring matrix as that used to score the risks.

Our strategic risks are set out below:

Description
IT Security and systems availability
Absence of a robust framework that regulates data management
Fall in asset values, house prices and asset/investment values
Integration following merger
Pension liabilities
Staff - low motivation and instability and loss of key people
Welfare Benefit Reform
Failure to deliver value for money
Change in government policy
Significant breach in regulatory standards
Unable to exit from care contracts
Non-compliance with H&S legislation
Inadequate return on investment from commercial portfolio
Funding environment and covenant compliance
Significant breach in fire safety standards

We manage these risks through our risk strategy and taking a range of actions including:

- ◆ Using prudent financial planning assumptions which are reviewed and signed off annually by Board
- ◆ Pensions Group – a sub group of the Board overseeing the pensions workplan
- ◆ Operating a targeted approach to income collection
- ◆ Maintaining relationships with Department for Works and Pensions and National Housing Federation at both local and national levels
- ◆ Being able to meet our funding covenants without having to rely on sales income
- ◆ Having strategies in place for new developments
- ◆ Regularly monitoring operational performance to enable early intervention / action

- ◆ Delivering compulsory data protection training and reviewing policies
- ◆ Having in place an information governance framework with named information asset owners
- ◆ Having in place a Health & Safety Group to monitor performance and ensure compliance with legislative requirements
- ◆ Having a range of performance management tools in place including having comprehensive training programmes
- ◆ Delivering against a prudent treasury strategy to manage liquidity and monitor cash flow.

Optivo Board and Executive Team continue to monitor, manage and develop the risk strategy.

About Optivo

Development and performance during the financial year

We set ourselves some challenging strategic targets for our first year and delivered all bar one of these as set out below.

Strategic plan objectives and targets	March 2018	Target	Target met
Residents recommend Optivo - Net Promoter Score	66	50	Yes
Residents online	42.9%	40	Yes
Staff say Optivo is a great employer	75.6%	70%	Yes
Staff say they're proud to work for Optivo	84.3%	70%	Yes
Number of people into jobs and training	1,045	870	Yes
New homes and commercial bed spaces completed	470	691	No
New homes started on site	912	880	Yes
Gold Sustainable Homes Award by 2020	On track	On track	Yes
Operating Margin	31%	29%	Yes

The shortfall on completions was due to slippage on two schemes and a change in commercial strategy.

Financial position at the year end

We are pleased to report an operating surplus of £117m and an operating margin of 31%. We use the operating margin as one of our key measures for delivering a sustainable business and driving efficiency. Our social housing activities generated an operating margin of 30%. Our operating surplus includes a £20m surplus on housing property disposals (2016/17: £29m). Our surplus before tax and impact of derivative movements is £90m (2016/17: £109m). The change in hedging relationships following refinancing of the loan portfolio and subsequent write off of the hedge reserves (£164m) mean we are reporting a deficit before tax of £51m.

Future prospects

We're in a strong position to deliver our vision. Our target is to deliver 1,500 homes on site every year from 2020. 85% of our programme will be affordable with just 15% for sale. We'll pursue grant funding for schemes where possible.

We'll continue to work with residents, stakeholders and Government to respond positively to the new challenges and the housing crisis. Our strategy will help us to maintain resident loyalty, ensure staff are productive and engaged, and drive greater efficiency. Our target is to get 870 people in to jobs and training each year.

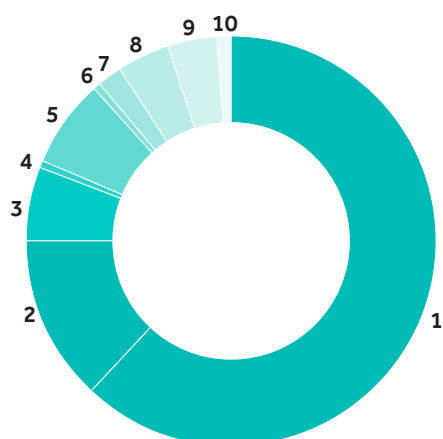
We have made significant investment in recent years in how we deliver maintenance services, ICT and process mapping improvement to better provide customers with a 'Right First Time' response. This has the added benefit of improving value for money. We'll continue our investment in technology to further reduce our cost per unit.

Results	2017/18 £m	*2016/17 £m	*2015/16 £m
Turnover	317	+346	309
Cost of sale	(21)	(23)	(19)
Operating costs	(199)	(202)	(204)
Surplus on disposal of fixed assets	20	29	22
Operating surplus	117	150	108
Surplus on other sales	4	1	-
Net interest payable	(42)	(43)	(44)
Fair value property movements	11	1	4
Surplus before derivative movements	90	109	68
Derivative movement and hedge reserve write off	(141)	1	1
(Deficit) / surplus for the year	(51)	110	69

* 2016/17 and 2015/16 are the combined results of AmicusHorizon and Viridian Housing associations.

† 2016/17 turnover included a one off fair value gain of £20m

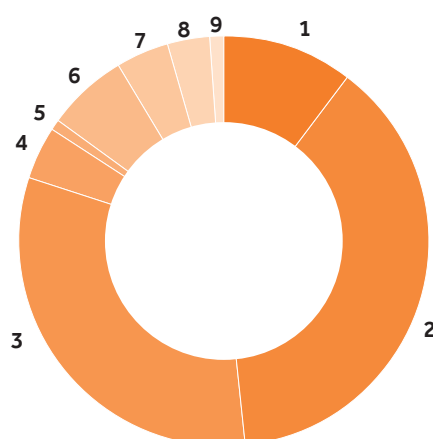
Analysis of turnover



1	General needs rent	£196m	62%
2	Support and care	£40m	13%
3	Shared ownership	£20m	6%
4	Temporary housing	£2m	0.5%
5	First tranche sales	£22m	7%
6	Other	£2m	0.5%
7	Keyworker	£8m	2%
8	Student	£12m	4%
9	Market sales	£13m	4%
10	Other non social	£3m	1%

- Turnover (excluding sales and 2017 gift on acquisition) increased from £280m to £282m. This is after applying the one percent rent decrease and reflects increased rental income from new homes being completed and handed in to management. 84% of turnover is generated from social housing activities
- First tranche and open market sales turnover decreased from £34m to £22m in 2017/18 reflecting a fall in volume of shared ownership homes in our development programme mix
- General needs and supported housing turnover increased by £4.7m (2%), reflecting an increase in unit numbers
- Turnover from keyworker accommodation increased by 9% to £8m
- Student housing turnover decreased by £2m (15%) to £12m
- Service charge income of £23m shows a surplus over costs of £1m (2016/17 £1m)
- We invested £168m in new and existing homes in 2017/18. This is 197% of our pre-derivative movement surplus of £90m.

Analysis of expenditure



1	Services	£22m	10%
2	Management	£79m	36%
3	Maintenance	£66m	30%
4	Depreciation and impairment	£19m	9%
5	Other	£3m	1%
6	Cost of sales	£13m	6%
7	Student	£9m	4%
8	Market rent cost of sale	£8m	3%
9	Other non social	£2m	1%

Operating costs decreased by 2% to £199m. 76% of our operational spend delivers housing management, maintenance and services. 92% of spend is focused on social housing activities. We reviewed our impairment provision and reduced it by £0.7m.

We incurred operating costs of £0.3m in 2017/18 and expect to spend a further £2.1m in 2018/19 on cladding replacement and fitting sprinkler systems.

Surplus on disposal of housing properties – surplus on staircasing (where leaseholder acquires a further property equity share), voluntary right to buy / right to acquire sales and asset management sales totalled £20m (2016/17: £29m). We sell void properties if it is not economically viable for us to repair them or if they are in an estate regeneration disposal programme. We reinvest sales proceeds to build new and improve existing homes.

Net interest payable at £42m is £1m lower than in 2016/17.

Balance sheet	2017/18 £m	*2016/17 £m	*2015/16 £m
Tangible fixed assets	2,657	2,527	2,414
Net current assets	59	95	127
Total assets less current liabilities	2,716	2,622	2,541
Long term liabilities & provisions	(2,142)	(2,161)	(2,176)
Net assets	574	461	365
Reserves	574	461	365

* 2016/17 and 2015/16 are the combined results of AmicusHorizon and Viridian Housing associations.

Housing properties are mainly held at historic cost, unamortised grant is held in creditors. The increased carrying cost of £121m included £156m investment in new homes and £13m spend on improvements and component replacements to existing homes. To date we have received £1bn social housing and capital grant to support our development programmes.

Pensions - we participate in six defined benefit schemes – four local government schemes, the multi-employer Social Housing Pension Scheme (SHPS) and Horizon Housing Group scheme. All are in deficit and closed to new members. We recognise a liability of £13m in relation to the SHPS scheme. This liability is measured at the present value of the future cash flows in respect of our contractual agreement to make enhanced payments to eliminate the deficit. SHPS' last formal valuation was at September 2014 at which point the deficit for the whole scheme had increased from £1,035m to £1,323m. The funding level increased from 67% to 70%. The SHPS triennial valuation as at 30 September 2017 has not yet been published. We recognise our proportion of the assets and liabilities of the other five schemes in our accounts. The year end deficit for these five schemes was £25m (March 2017: £27m). We offer a personal pension plan to new staff which carries no deficit risk to us.

Reserves

We reinvest all our annual surpluses back in to services and new homes to deliver sustainable communities.

Homes	2017/18 £m	Funded by	2017/18 £m
Property cost less depreciation and impairment	2,521	Loans and bonds net of cash and short term investments	979
		Unamortised grant	889
		Revenue reserves	575
		Other balances	78

Cash flow	2017/18 £m	2016/17 £m
Cash generated from operations	101	134
Cashflow from investing activities	(113)	46
Cashflow used in financing activities	(28)	(101)
Net change in cash	(40)	79

We had £104m cash and liquid resources at 31 March 2018.

In 2017/18 we:

- Received £101m net cash inflow from operating activities
- Invested £160m in new and existing homes and other fixed assets
- Paid interest of £47m
- Received additional net borrowing of £19m
- Received £13m Social Housing Grants and £33m from miscellaneous property sales.

We also received £35m from first tranche & open market sales.

Key Financial Indicators	2017/18	*2016/17	*2015/16
Number of homes in management excluding leaseholders	42,133	41,896	41,903
Interest cover (Association as per loan agreement)	262%	389% AH 410% VH	274% AH 304% VH
Earnings before interest, tax, depreciation, amortisation and derivative movement (EBITDAD) per unit	£3,681	†£3,831	£3,302
EBITDAD including major repair improvements capitalised per unit	£3,269	£3,798	£2,758
Net debt to turnover	2.14	2.75	3.02
Operating margin	31%	†35%	28%
Change in turnover	(8)%	12%	6%
Change in major repair improvements capitalised	(21)%	(4)%	13%
Effective interest rate	4.96%	4.02%	4.01%

* 2016/17 and 2015/16 are the combined results of AmicusHorizon (AH) and Viridian Housing (VH) associations.

† 2016/17 EBITDAD comparative excludes one off fair value gain.

Treasury management

Our Treasury Management Policy Statement ("TMPS") sets out the principles, policies, procedures and objectives of our treasury management activities. It's reviewed annually to ensure we apply best practice.

Significant treasury risks include ensuring the Group has sufficient liquidity to fund its operations and development pipeline, interest rate risks and ensuring that all loan covenants are met.

Facilities and funding

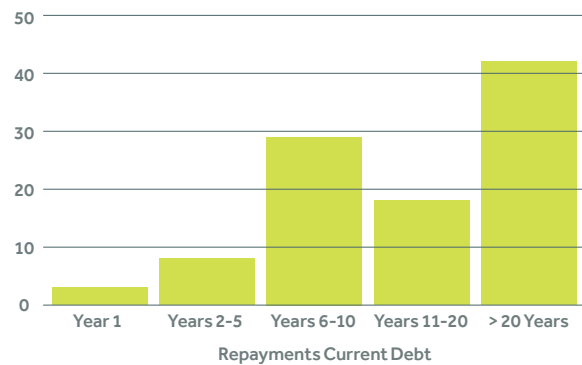
Committed facilities are secured against our social housing assets. These assets are independently valued to ensure we meet lenders' asset cover requirements. As at 31 March 2018 28,999 homes were charged as security to lenders. We also held 12,179 unencumbered properties.

During the year, the Group raised an additional £375m via revolving credit facilities (RCFs) and issued £150m long term public bonds. At 31 March 2018, total borrowings for the Group were £1,089m from available facilities of £1,695m (March 2017: total borrowings were £915m from available facilities of £1,250m). All undrawn facilities are RCFs.

£306m of the above available facilities were fully secured and available to be drawn with work underway to secure the remaining £300m.

We maintain a diversification in funding sources with 50% coming from eight banks and building societies and 50% from capital markets and other sources.

The Group has limited re-financing risk with 89% of current debt due for repayment in more than 5 years.



Interest rate management

The Group manages its exposure to fluctuations in interest rates with a view to achieving an acceptable level of certainty in its net interest costs. It targets the range of 75% to 95% for its net debt to be on a fixed rate basis, with a weighted average duration of between 8 to 12 years. Net debt is fixed either on an embedded basis or through use of standalone interest rate swaps. As a result of the public bond issued in March 2018, 101% of our net debt was on a fixed rate basis and the weighted average duration was 13 years. This exception was approved in advance by Finance & Treasury Committee and we project being back within the range by August 2018 as a result of new floating rate loan drawings.

At 31 March 2018 the weighted average cost of debt was 4.42% (March 2017: 3.97%). The increase reflects the repayment of floating rate RCF loan facilities from bond proceeds and a higher LIBOR level.

We manage our mark to market (MTM) exposure risk using thresholds built into our International Swaps and Derivatives Association (ISDA) agreements below which margin calls do not arise, and property security as collateral to cover margin calls. At 31 March 2018, MTM exposure equalled £146.2m (March 2017: £167m). Thresholds and property security covered the full market exposure. A 1% fall in rates would have increased our MTM exposure to £205m. Our policy of over collateralisation with property security means this would trigger a cash margin call of £2.9m.

Liquidity

We ensure our liabilities are always met when due and adequate liquidity is available to meet expenditure requirements in accordance with our liquidity tests as follows:

1. Sufficient cash immediately available to cover the next two months' forecast cash and the ISDA cash requirements (the ISDA cash amount is calculated on the basis of a 1% adverse move in swap rates)
2. Sufficient cash and loan facilities are available for drawdown to cover the next twelve months' forecast cash requirement
3. The sum of cash, loan facilities, anticipated core business surplus for the next two years and reliable asset sales should be sufficient to cover contractually committed development spend and scheduled loan repayments in the next year.

At 31 March we had cash and short term investments of £104m (March 2017: £145m). At the same date loan facilities available (secured and unsecured as above) were £606m (March 2017: £189m). These resources are more than sufficient to meet all of the Group's contractual commitments.

Cash and short-term balances are placed in money market funds, short-term bank deposits and in interest bearing accounts with our clearing banks.

Compliance with loan covenants

We have been working with our lenders and ISDA providers to bring our covenant requirements into a broadly consistent standard. This now provides greater flexibility as we look to meet our business plan aspirations and invest £3.5bn in new homes over the next 10 years.

The treasury team report compliance with loan covenants quarterly to the Finance & Treasury Committee. The Group complied with all financial covenants for the year ended 31 March 2018 and expects to do so for the foreseeable future.

Effects of material estimates and judgements upon performance

The following are the material judgements affecting performance.

Capitalisation of property development costs

Distinguishing the point at which a project is more likely than not to continue and allowing capitalisation of associated development costs requires judgement. After capitalisation management monitors the asset and considers whether changes indicate that impairment is required. The total associated development administration costs capitalised in the year was £4.0m.

Useful lives of depreciable assets

We set out the expected useful lives of our assets in note 1. 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 ICT equipment, changes to decent homes standards which may require more frequent replacement of key components and changes to the ability to let the property which may reduce the economic life of the property. Our policies are well developed. Accumulated depreciation at 31 March 2018 was £397m, with total charge in year of £35m.

Defined benefit pension scheme obligations

At 31 March 2018 we had six defined benefit pension schemes, all closed to new members. Management's estimate of the defined benefit obligation is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. We draw advice from scheme actuaries and our retained advisors. Variations in these assumptions may significantly impact the defined benefit obligation amount and the annual defined benefit expenses (as analysed in note 35). The liability at 31 March 2018 was £25m plus £13m for the SHPS past deficit liability.

Impairment

Management assesses the housing properties for indicators of impairment at each balance sheet date. Where indicators exist a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. Judgements in assessing the level of a cash generating units and the recoverable amounts could lead to increases or decreases in the impairment provision.

Fair value

Investment property and financial instruments are held at fair value, differing valuation approaches may have an impact on the surplus reported. We have explained our approach to valuation in the related accounting policy and/or note.

Classification of disposals of property, plant & equipment

Housing and related asset disposals are presented within operating surplus. Surplus on sale of our investment properties and non housing assets are presented below operating surplus. Proposed amendments to FRS 102 have clarified this presentation is correct.

Value for Money

How we ensure we deliver better value for money

Our Board has driven the delivery of Value for Money (VFM) supported by the whole business and residents.

The additional capacity released by merger means we'll be able to invest over £400m a year on growth. This will enable us to improve the financial strength of the organisation and spread our costs over a larger asset base. As a result of the merger, we expect to deliver recurring savings of £10m per annum by March 2020. This is in addition to the £15m annual saving targets identified for AmicusHorizon & Viridian pre-merger.

Our Merger & Integration Team (MIT) monitors progress and costs of our projects critical to achieving integration. During 2017/18, we integrated our main housing management and finance systems. We incurred one-off merger costs of £2.1m in 2017/18.

Value for money performance

We have made use of both Housemark and Sector scorecard ratios. We use benchmarking as an indicator of our performance against our g15 peers and to pick up trends in our performance. Although g15 comparisons are a year behind our financial reporting they still provide an effective comparison of performance against our peers. Our performance against targets is summarised below.

Housemark benchmarking

Financial performance	2017/18	2016/17	g15 2016/17	
Rent arrears	3.88%	3.05%	3.78% median	At March 2018 our arrears stood at 3.88%. Optivo has one of the largest Universal Credit caseloads in the UK and g15 which impacted performance. We are predicting an increase of over 2,000 Universal Credit cases in 2018/19. We are creating a single income team to drive performance and consistent practices.
Void rent loss	0.59%	N/a	0.53% median	At March 2018 rent loss on our empty homes stood at 0.59%. This was impacted by our harder to let Housing for Older People properties in Midlands and Sussex.
Rent collected	98.75%	99.46%	100.3%	
Residents recommending Optivo – Net Promoter Score (NPS)	66	N/a	N/a †	This is number two of all large landlords in the UK. We also compare well to private sector companies.

† Insufficient sample data available

Having focussed on amalgamating our systems and processes this year, we will make greater use of Housemark benchmarking during 2018/19 through analysis and comparison of detailed 2017/18 results.

Business health	2017/18	2016/17	g15 2016/17	
Operating margin – overall	30.5%	35.0%*	33.1%	In 2017/18, we incurred one-off costs of integration but exceeded our target of 29%. There was a one-off gain on acquisition in 2016/17.
Operating margin – social housing	30.2%	30.4%	36.3%	
EBITDA-MRI	217.1	272.8	105.0	

* The 2016/17 Operating margin (overall) included the impact of £20.5m gain on acquisition, which, if excluded, would give an operating margin of 30.9%

Value for Money (continued)

Operating efficiencies	2017/18	2016/17	g15 2016/17	
Social housing cost per unit (CPU)	£4,433	£4,583	£4,137	Our unit costs compare well to our peer group. We will achieve further efficiencies from our post-merger savings. Costs per unit remains a key driver in achieving our operating margin target.
Efficient asset management	2017/18	2016/17	g15 2016/17	
Return on Capital Employed (ROCE)	4.3%	5.7%	3.84%	We've had lower housing asset sales in 2017/18 and a one-off gain on acquisition in 2016/17.
Outcomes delivered	2017/18	2016/17	g15 2016/17	
Customer satisfaction	96.7%	89.3%	82.4% top quartile	As we've reduced costs and integrated services, we've improved our high levels of customer satisfaction. By engaging with our residents we achieve their buy in to changes we make to services.
Reinvestment %	6.7%	6.6%	5.5%	We invest our surpluses in to new build homes and major works for our existing homes.
Development – capacity and supply	2017/18	2016/17	g15 2016/17	
Gearing	38.8%	38.3%	44.0%	In 2017/18, we incurred one-off costs of integration. There was a one-off gain on acquisition in 2016/17. Our new supply ratios remain low. Having increased capacity to grow we expect to reach 1,500 homes on site per annum from 2020.
New supply delivered % - social housing	0.9%	1.1%	1.6%	
New supply delivered % - non-social housing	0%	0%	0.4%	
Units developed	369	428	658	

Conclusions

We remain committed to deliver ever better value for money. We're also committed to maintaining strong resident engagement to ensure we deliver the right services as efficiently as we can.

Through 2018/19 we will continue to drive down costs through our programme of delivering £10m merger efficiency savings by 2020.

Our People

The Board

The Optivo Board at 18 July 2018 has eleven independent Non-Executive Directors (NEDs) of which three are Optivo residents. There is one vacancy which is due to be filled on the 1 August 2018. The Board is responsible for the strategic direction of the business. Either directly or through Committees with delegated authority, the Board brings an independent view on all strategic issues. It also covers performance, resources and the control framework. The names of the Board members as at 18 July are on page 3. Board and Committees are appraised annually, both individually and collectively.

Committees

The following are the principal Committees supporting the Optivo Board:

Audit & Risk Committee

The Audit & Risk Committee has five members; three are Board members and two are independent Committee members. It is chaired by a Board member. Audit & Risk Committee meets regularly with senior management and external and internal auditors to scrutinise audit findings and the effectiveness of the internal controls framework. The Committee meets privately with the internal and external auditors at least once a year.

Our People (continued)

People, Governance & Remuneration Committee

The People, Governance & Remuneration Committee has four members; three are Board members and one is an independent Committee member. It is chaired by a Board member. Committee’s role is to support the Board to achieve strategic objectives around people issues including employment, human resources and organisational development. The Committee oversees governance, remuneration and equality and diversity.

Finance & Treasury Committee

The Finance & Treasury Committee has six members with four from the Board and two independent Committee members. It is chaired by a Board member. The Committee’s role is to provide financial oversight of the Group, oversee treasury activity and recommend the treasury strategy and plans to the Board.

Growth Committee

The Committee has six members with four from the Board and two independent committee members. It is chaired by a Board member. This Committee supports delivery of our development programme and commercial strategy. The Committee recommends the development strategy to the Board, approves large development bids, monitors the development programme and advises the Board on development issues and new initiatives.

Customer Experience Committee

This Committee champions the implementation and extension of Optivo’s digital agenda. It supports the development of cutting edge customer facing strategies and the implementation of the technology strategy. It acts as an

advisory Committee and has no delegated authority. The Committee has four members; three Board members and one independent member. We are currently recruiting a resident member to join the Committee.

There are also two additional groups supporting the Optivo Board. These are time limited groups whose role and continuation will be considered at the first governance review starting in September 2018.

Pensions Group

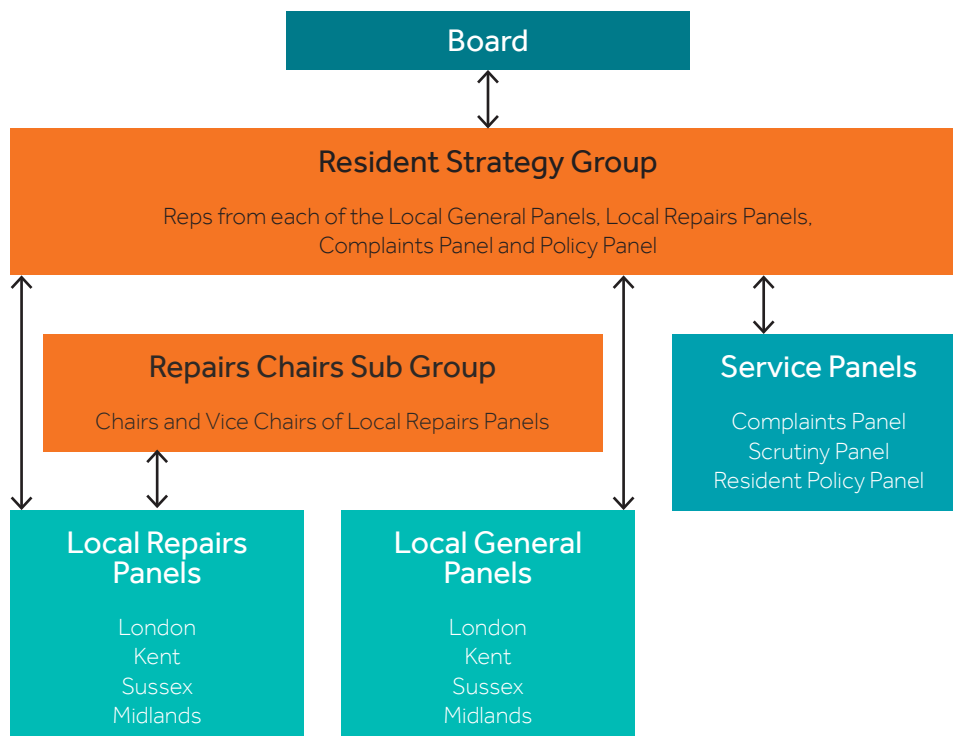
The role of the Pensions Group is to oversee the pensions strategy. This group has five members; four Board members and one independent Committee member. The Chair is a Board member.

Mergers, Integration and Transformation Group

The role of the Mergers, Integration and Transformation Group has been to steer the integration of the partnership. Looking forward it will consider merger opportunities and activities for the new organisation. It has five members who are all Board members. It is chaired by the Optivo Board Chair.

Residents

We firmly believe in putting residents at the heart of our organisation, in a position to influence and drive up service standards. We have 57 residents in our governance structure and recruit on an ongoing basis. They help influence decisions and scrutinise our services. Residents and staff work together to identify what’s working well and where we can make improvements. The structure has links with our Board ensuring residents voices are heard throughout the organisation.



There are four regional Local General Panels and Local Repairs Panels which scrutinise local performance and service delivery, build and maintain links with local communities and help shape resident involvement activities.

The Complaints Panel scrutinise complaints performance and trends and sit on complaint review hearings. The Resident Policy Panel endorse customer facing policies, before Board or Executive Team approval. The Scrutiny Panel carry out in-depth scrutiny reviews on projects commissioned by the Resident Strategy Group (RSG).

Representatives from each of the Local Panels sit on the Resident Strategy Group (RSG). The RSG scrutinises key performance indicators and overall service delivery, and work with Board and the Executive Team to develop strategies and influence budgets.

Executive Team

The Board delegates day to day management to the Executive Team (ET) named on page 3. ET are supported by the Leadership Team (LT) in developing and co-ordinating our culture and values.

Employees

At 31 March 2018 we had 1,521 full time equivalent employees. Having great people on board is essential to us delivering our strategic objectives. Our staff are a vital resource. We consult and involve staff on all aspects of our operations through: Staff forum, team meetings, email communications, newsletters and our intranet. It is important our people are engaged with our objectives and are motivated to provide excellent customer service. We had 87 employees earning over £60,000.

Diversity and inclusion

Through our Single Equality Scheme we are committed to providing equal opportunities to staff and proactively encourage an inclusive workplace. Staff diversity is a key indicator. At 31 March 2018 our people profile was: 31% black and minority ethnic, 64% female and 5% declared a recognised disability.

As an equal opportunities employer we encourage applications from people with disabilities. We make appropriate adjustments for employees with disabilities to help them remain in employment. We are accredited as part of the Disability Confident Employer scheme. This is in recognition of our commitment to employment, retention, training and career development for employees with a disability.

Health, safety and welfare of employees at work

We have a well-developed Health and Safety Management System, underpinned by our Health & Safety Policy statement. The Policy contains a comprehensive organisational structure and framework, sets out responsibilities of managers and staff, and summarises the arrangements for putting the Policy into practice. The Chief Operating Officer acts as the Optivo 'Health & Safety Champion' and executive lead, chairing our Health & Safety Group (HSG), and reporting to the Board on performance at least quarterly.

Our Head of Health & Safety is responsible for the strategic management and implementation of the Health & Safety Management System, supported by a competent in-house Health & Safety Team. We carry out regular inspections of health and safety standards across our portfolio, and closely monitor performance relating to key compliance areas which is scrutinised at Operational Performance Team, HSG and Board meetings.

After the tragedy at Grenfell we inspected the cladding on all our freehold and managed four storey and higher blocks. The suspected presence of Aluminium Composite Material (ACM) cladding was identified at four locations. The cladding covered no more than 20% of any of these buildings. The managing agents at one of the locations confirmed the cladding, having undergone statutory testing, didn't need replacing. We've removed the cladding at the other three sites and replaced at one of the locations. There is no requirement to replace the cladding at the other two locations, however, we've made a commitment to replace this cladding by the end of the year.

Environmental policy

We strive to adopt the highest environmental standards in all areas of our operations and investment decisions. We also expect similar environmental standards from our partners. Our environmental performance group monitors delivery of our energy and environment strategy.

We're committed to improving the energy efficiency of our homes which, in turn helps residents to reduce their fuel bills and to live more comfortably. We also help residents to manage their energy bills by delivering energy advice. By reducing emissions from our offices and business travel, we're reducing our environmental impact and improving value for money. Our aim is to achieve a Sustainable Homes Index for Tomorrow (SHIFT) Gold rating by 2020. We're committed to tackling fuel poverty and environmental impact.

We consider environmental sustainability from the outset when we build new homes. Where we have the resources or funding we improve the energy efficiency of our existing homes. We achieve this through loft insulation and heating upgrade programmes, including installation of renewable heating systems in non-gas homes at high risk of fuel poverty. We are working with a number of partners to retrofit energy saving measures to our existing homes.

Compliance with Governance and Financial Viability Standard

The Regulator of Social Housing's (RSH) Governance and Financial Viability Standard (the Standard) provides guidance to enable us to assess our compliance with the Standard. The overall required outcomes of the Standard are:

- ◆ To ensure we have effective governance arrangements in place that deliver the aims, objectives and intended outcomes for our residents and potential residents in an effective, transparent and accountable manner
- ◆ To manage our resources effectively to ensure we maintain our viability, ensuring that social housing assets are not put at undue risk.

The Standard requires registered providers to assess their compliance with the Standard at least annually. Boards are required to report their compliance with the Standard within their annual accounts. Boards need to determine where they are obtaining their assurance to demonstrate to the RSH:

- ◆ A clear understanding of asset values, related security, potential losses and potential chains of recourse. Boards need to know exactly what information will be required in the event of distress and social housing asset exposure in order to value the assets without delay
- ◆ Evidence of application of the principles
- ◆ The assurance they receive on the quality of records.

The Audit & Risk Committee reviewed and updated our assurance framework on 4 July 2018. Compliance with the Regulator's Governance and Financial Viability Standard was reviewed by the Board on 18 July 2018.

We were compliant at 31 March 2018 with the Data Protection Act 1988. Following the introduction of General Data Protection Regulation (GDPR) on 25 May 2018 we are fully compliant with GDPR with the exception of data minimisation where we are partially compliant. We have a risk-based action plan of the data minimisation work required. We have robust Data Protection and Technology Policies to protect our data and mandatory GDPR training has been completed by staff.

We have reported non-compliance with the Rent Standard to the RSH. This is due to an issue identified with rent charging in our four hostels and a market rented issue on eleven homes. We have action plans in place to remedy this. Optivo complies in full with all other areas of the Rent Standard and is satisfied it has complied with all other laws and regulations that are relevant.

On 26 May 2017 the Board agreed to adopt the National Housing Federation (2015 edition) Code of Governance. The Association complies in full with the Code as reported to Board on the 18 July 2018. There are no areas where we are non-compliant. In September 2017 the Board agreed to adopt the NHF's code on mergers, group structures and partnerships.

Going concern

The Board has approved the budget for 2018/19, the thirty year financial plan and cash flow forecasts. The Board has a reasonable expectation the group has adequate resources to continue in operation for the foreseeable future. These financial statements have therefore been prepared on a going concern basis reflecting the continued operation of the Optivo business.

Assessment of the effectiveness of internal controls

The Board is the ultimate governing body and is responsible for the system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage risk and to provide reasonable assurance that key business objectives will be met. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the Association's assets and interests. The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk.

The Board delegates the ongoing review of controls to the Audit & Risk Committee and receives annual reports from the Chief Executive and the Audit & Risk Committee. Day to day management of the business is the responsibility of the Executive Team.

Scope of assurance

The Board understands our internal controls system is designed to manage rather than eliminate all risks. Our procedures can only provide the Board with reasonable rather than absolute assurance against material misstatement, errors, losses or fraud.

The Board's review of effectiveness

The Board considered the Chief Executive's report on Internal Controls and the Annual Report from Audit & Risk Committee for the year to 31 March 2018 and up to the date of signing these accounts. In order to fulfil their responsibility the Executive Team has established an assurance framework supported by clear delegated authorities and operating procedures. We use our documented assurance framework to demonstrate to the Board and Audit & Risk Committee a robust process of reporting on internal control. This is supported by the annual self-assessment review and sign off by ET and LT which evidences compliance with the assurance framework. The Internal Audit department provides an independent assessment on the robustness and effectiveness of the internal controls across the organisation. This team achieves this through a programme of reviews which are approved by and reported to the Audit & Risk Committee. The Association also uses the services of independent third party auditors to review controls and processes where the nature of the review requires expertise not available in-house. These systems have operated throughout the financial year and up to the date of signing these accounts. The Board monitored and considered outcomes arising as a consequence of the risk management process. They also received reports from officers on the associated control environment. The Board confirms the risk management process was in place in the year and up to the date of the annual report, and is regularly reviewed.

The Board confirms we had no breakdown in internal control resulting in material losses, contingencies or uncertainties which would require disclosure in the financial statements during the year.

The Board and Executive Officers

The Board and Executive Officers of the subsidiaries are shown in those entities' financial statements.

Each Optivo Board member holds one fully paid £1 share in Optivo. The Executive Officers hold no interest in Optivo's share capital. They do not have the legal status of directors, but act as executives within the authority delegated by the Board.

We have directors' and officers' liability insurance for the Board, Executive Officers and staff.

Statement of the Board's financial responsibilities

The Co-operative and Community Benefit Societies Act 2014 and registered social housing law require the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Association and the Group and of their surplus or deficit for that period. In preparing these 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 accounting standards have been followed, subject to any material departures disclosed, and explained in the financial statements; and
- ◆ Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Association will continue in business.

The Board is responsible for instituting adequate systems of internal control and for:

- ◆ Safeguarding assets
- ◆ Taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for keeping proper accounting records. These disclose, with reasonable accuracy at any time, the financial position of the Association and the Group. This enables the Board to ensure the financial statements comply with:

- ◆ The Co-operative and Community Benefit Societies Act 2014
- ◆ The Housing and Regeneration Act 2008
- ◆ The Accounting Direction for Private Registered Providers of Social Housing 2015.

Anti-slavery statement

We confirm, so far as we are aware, we had no acts of modern day slavery within our organisation at 31 March 2018. We recognise we need to be vigilant and committed to driving out potential acts of modern day slavery from our supply chains. We've responsibility under the Modern Slavery Act 2015 to ensure transparency in the provision of all our goods and services. As part of our due diligence processes to prevent slavery and human trafficking, our:

- ◆ Supplier set-up process requires suppliers to outline the controls they have in place. Imported products from sources outside the UK and EU are potentially more at risk of slavery/human trafficking issues

- ◆ Dedicated Human Resources team who have created robust and inclusive selection, recruitment and induction processes
- ◆ Account Managers and Contracts Managers continually monitor the level of management control required
- ◆ Procurement Team report on this annually to our Executive Team.

We've briefed Optivo staff and contractors on how to recognise the signs and symptoms of Modern Slavery as part of our work around Safeguarding. Our full statement has been approved by the Board and is available on our website.

Disclosure of information to auditors

Each director has confirmed in fulfilling their duties as a director they have taken the steps they ought to have taken to make themselves aware of any information relevant to the audit and the auditors are aware of that information. So far as they are aware, there is no relevant audit information which they haven't made the auditors aware of.

Auditors

A resolution to appoint BDO LLP as auditors of Optivo will be proposed at the Annual General Meeting on 19 September 2018.

By order of the Board



Sir Peter Dixon
Chair of Optivo Board
18 July 2018

Approval

This Report of the Board and Strategic Report was approved by order of the Optivo Board on 18 July 2018.



Alison Wignall
Optivo Company Secretary
18 July 2018

Independent Auditor's Report to the Members of Optivo

Opinion

We have audited the financial statements of Optivo ("the Association") and its subsidiaries ("the Group") for the year ended 31 March 2018 which comprise the consolidated and Association statement of comprehensive income, the consolidated and Association statement of financial position, the consolidated and Association statement of changes in equity, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Association's affairs as at 31 March 2018 and of the Group's and the Association's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

Description of key audit matter	Our response
Business Combination	
<p>As explained in the accounting policies and in note 36 to the financial statements, Optivo has been created as a result of the legal amalgamation of AmicusHorizon Limited and Viridian Housing Association.</p> <p>The financial and accounting systems of the historic components have continued to operate separately under the amalgamated entity resulting in a complex compilation exercise being needed in order to prepare the group and Association financial statements. In addition, management have exercised a significant degree of judgement in determining the appropriate accounting implications of this business combination. In particular in respect of:</p> <ul style="list-style-type: none"> ◆ the application of merger accounting at both group and association levels resulting in the presentation of financial information as if the amalgamated entity had always existed ◆ conclusions about the significance of aligning the accounting policies of the combined group ◆ the nature and extent of related disclosure explaining the combination and the effect on the financial statements. ◆ As a consequence of these matters and because the nature of the underlying records and its effect on our audit strategy and allocation of resources, the business combination is considered to be a key audit matter. 	<p>This key audit matter influenced our audit strategy through emphasis on obtaining sufficient appropriate audit evidence about information derived from historical constituents' accounting systems and checking that such information had been combined to produce the results of the amalgamated group. As part of our work:</p> <ul style="list-style-type: none"> ◆ We obtained management's rationale for the application of merger accounting at both group and Association level and we checked that the rationale was consistent with the principles of merger accounting for a public benefit entity as set out in FRS 102. We checked that the rationale was supported by appropriate evidence, particularly in respect of participation of historic boards in setting strategic, financial and operating objectives for the amalgamated entity. ◆ We checked that the merger accounting requirements had been appropriately applied. This involved checking that the results of the entity had been combined from the beginning of the financial year in which the amalgamation occurred and that the corresponding information for the previous year had been aggregated from the signed financial statements of the historical components. We also checked that all financial information had been adjusted in order to align significant accounting policies of the group. ◆ We checked that the related disclosure was presented in accordance with the requirements of the underlying framework and that related policies were adequately disclosed and explained, including reference to key judgements and estimates made where necessary.
Loan Refinancing	
<p>As explained in the accounting policies and note 36 to the financial statements, a significant proportion of the group's loan portfolio was restructured following the formation of Optivo. As part of this restructuring:</p> <ul style="list-style-type: none"> ◆ Loans amounting to £440m were extinguished; ◆ Loans amounting to £33m were repaid in full; ◆ New loans of £407m were assumed at terms and conditions that management considered to be substantially different from those of the loans that they replaced resulting in the derecognition of the historical borrowing and recognition of the new. Any gain or loss arising was recognised in the group and parent income and expenditure account. Management determined that the new loans are classified as 'basic' in accordance of the requirements of FRS 102; ◆ Hedge accounting relationships were discontinued as a consequence of the extinguishment of the underlying hedged items. ◆ Management took the decision not to apply hedge accounting to any possible hedging relationships; ◆ The derivative financial instruments used for hedging purposes were transferred to the parent association from a financing subsidiary <p>This loan refinancing has a significant effect on a number of material classes of transactions, account balances and disclosures within the financial statements and was therefore considered to be a significant risk. Because of the effect of this significant risk on our audit effort and strategy, it is considered to be a key audit matter.</p>	<p>Our response included the following:</p> <ul style="list-style-type: none"> ◆ We checked that historical loans had been derecognised and new loans recognised with any resulting gain or loss being recognised in the group and parent entity statement of comprehensive income; ◆ We checked that loans that had been repaid had been derecognised ◆ We checked the basis of measurement of the borrowing as basic against the criteria set out in FRS 102, agreeing the key terms back to loan agreements ◆ We checked that issue costs associated with the historical loans had been written off and new issue were evidenced and had been offset against the new borrowing in the determination of the amortised cost ◆ We checked that the hedge reserve had been appropriately reflected in net surplus and that the related presentation in the statement of comprehensive income was acceptable ◆ We checked that the accounting policies, key judgements and estimates and other related disclosure adequately describe the refinancing transaction and presented the information required by the accounting standards.

Our application of materiality

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

We determined materiality for the financial statements as a whole to be £56,500,000 which represents 2% of gross assets.

We also apply a specific materiality level for all items comprising operating profit (including related disclosures) as that term is defined for the purposes of the entities lending covenants. This therefore involves adjusting operating profit for items such as depreciation, amortisation and fair value movements on investment properties where they are recognised as part of operating profit. The specific materiality level that we applied was £7,500,000.

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

Materiality for the parent entity was set at £56,000,000 with a specific materiality set at £7,500,000.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 60-75% of materiality or specific materiality depending on the financial statement area being audited. In setting the level of performance materiality. We considered a number of factors including the expected total value of known and likely misstatements and management's attitude towards proposed adjustments.

We agreed with the Audit Committee that misstatements in excess of £1,130,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

An overview of the scope of our audit

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

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

Classification of components

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

Audit work on all components was performed by BDO UK both for the purposes of reporting on the individual financial statements and for group/consolidation purposes. Individual component audits were carried out using component materialities of less than 0.2% of overall financial statement materiality.

The significant components of the group comprise the parent Association and its loan financing subsidiary, Optivo Finance PLC.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information including the report of the board of management and strategic report and the Chairman's statement, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required by the Co-operative or Community Benefit Societies Act 2014 or the Housing and Regeneration Act 2008 to report to you if, in our opinion:

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

Responsibilities of the board

As explained more fully in the board members responsibilities statement set out on page 20, the board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board are responsible for assessing the Group and the 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 the board 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 for the audit of the financial statements

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

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

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

Other matters

Following the recommendation of the audit committee, we were appointed at the AGM on 24 September 2014 to audit the financial statements for the year ending 31 March 2014 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ending 31 March 2014 to 31 March 2018 inclusive.

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

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

Use of our report

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


Philip Cliftlands

Senior Statutory Auditor
For and on behalf of BDO LLP Gatwick

Date 24 July 2018

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

2 Statements



Group

	Note	Core business 2018 £'000	Impact of derivatives 2018 £'000	Total 2018 £'000	Combined 2017 £'000
Turnover	3a	317,431	-	317,431	346,700
Cost of sales	3a	(21,464)	-	(21,464)	(23,310)
Operating expenditure	3a	(199,021)	-	(199,021)	(201,978)
Surplus on disposal of housing property	3c	20,469	-	20,469	29,013
Operating surplus		117,415	-	117,415	150,425
Surplus on other sales	9	3,551	-	3,551	489
Interest receivable	10	488	-	488	1,134
Interest and financing costs	11	(42,317)	-	(42,317)	(43,712)
Movement in fair value of investment property	15	10,530	-	10,530	667
Movement in fair value of financial instruments	11	-	23,647	23,647	198
Hedge reserve write off		-	(164,331)	(164,331)	-
Movement in fair value of investments	16	-	-	-	16
(Deficit)/surplus before taxation		89,667	(140,684)	(51,017)	109,217
Taxation	12	276	-	276	(250)
(Deficit)/surplus for the year		89,943	(140,684)	(50,741)	108,967
Actuarial loss in respect of pension schemes	35	(757)	-	(757)	(2,085)
Change in fair value of hedged financial instruments	11	-	165,003	165,003	(11,253)
Total comprehensive income for the year		89,186	24,319	113,505	95,629

All activities relate to continuing operations. We report the results before and after reflecting the impact of discontinuing hedge accounting and the fair value changes in derivative financial instruments.

The notes on pages 34 to 71 form part of these financial statements.

Association

	Note	Core business 2018 £'000	Impact of derivatives 2018 £'000	Total 2018 £'000	Combined 2017 £'000
Turnover	3a	308,930	-	308,930	334,186
Cost of sales	3a	(13,660)	-	(13,660)	(17,367)
Operating expenditure	3a	(198,635)	-	(198,635)	(198,974)
Surplus on disposal of housing property	3c	20,270	-	20,270	28,145
Operating surplus		116,905	-	116,905	145,990
Surplus on other sales	9	3,551	-	3,551	486
Interest receivable	10	968	-	968	2,368
Interest and financing costs	11	(41,797)	-	(41,798)	(43,398)
Movement in fair value of investment property	15	11,847	-	11,848	667
Movement in fair value of financial instruments	11	-	23,647	23,647	198
Hedge reserve write off		-	(164,331)	(164,331)	-
(Deficit)/surplus for the year		91,474	(140,684)	(49,210)	106,311
Actuarial loss in respect of pension schemes	35	(757)	-	(757)	(2,085)
Change in fair value of hedged financial instruments	11	-	164,331	164,331	(10,984)
Total comprehensive income for the year		90,717	23,647	114,364	93,242

All activities relate to continuing operations. We report the results before and after reflecting the impact of discontinuing hedge accounting and the fair value changes in derivative financial instruments.

The notes on pages 34 to 71 form part of these financial statements.

Group	Income & expenditure reserve £'000	Designated reserve £'000	Restricted reserve £'000	Revaluation reserve £'000	Hedge reserve £'000	Total £'000
Combined balance as at 1 April 2017	626,316	306	1,455	462	(167,586)	460,953
(Deficit)/surplus for the year	(50,741)	-	-	-	165,003	114,262
Actuarial loss on defined benefit pension scheme	(757)	-	-	-	-	(757)
Reserves transfers & activities funded from reserves	771	64	(819)	(16)	-	-
Donations received	6	-	-	-	-	6
Balance as at 31 March 2018	575,595	370	636	446	(2,583)	574,464
Association	Income & expenditure reserve £'000	Designated reserve £'000	Restricted reserve £'000	Hedge reserve £'000	Total £'000	
Combined balance as at 1 April 2017	611,689	169	634	(164,331)	448,161	
(Deficit)/surplus for the year	(49,210)	-	-	164,331	115,121	
Actuarial loss on defined benefit pension scheme	(757)	-	-	-	(757)	
Donations received	2	-	-	-	2	
Charitable activities funded by restricted reserves	-	-	(5)	-	(5)	
Balance as at 31 March 2018	561,724	169	629	-	562,522	


Group	Income & expenditure reserve £'000	Designated reserve £'000	Restricted reserve £'000	Revaluation reserve £'000	Hedge reserve £'000	Total £'000
Combined balance as at 1 April 2016	519,367	306	1,498	477	(156,333)	365,315
Surplus for the year	108,967	-	-	-	-	108,967
Actuarial loss on defined benefit pension scheme	(2,085)	-	-	-	-	(2,085)
Change in fair value of hedged financial instruments	-	-	-	-	(11,253)	(11,253)
Charitable activities funded by restricted reserves	67	-	(67)	-	-	-
Reserves transfer	(9)	-	24	(15)	-	-
Donations received	9	-	-	-	-	9
Balance as at 31 March 2017	626,316	306	1,455	462	(167,586)	460,953
Association	Income & expenditure reserve £'000	Designated reserve £'000	Restricted reserve £'000	Hedge reserve £'000	Total £'000	
Combined balance as at 1 April 2016	507,396	169	692	(153,347)	354,910	
Surplus for the year	106,311	-	-	-	106,311	
Actuarial loss on defined benefit pension scheme	(2,085)	-	-	-	(2,085)	
Change in fair value of hedged financial instruments	-	-	-	(10,984)	(10,984)	
Charitable activities funded by restricted reserves	67	-	(67)	-	-	
Reserves transfer	(9)	-	9	-	-	
Donations received	9	-	-	-	9	
Balance as at 31 March 2017	611,689	169	634	(164,331)	448,161	

	Note	Group		Association	
		2018 £'000	Combined 2017 £'000	2018 £'000	Combined 2017 £'000
Fixed assets					
Tangible fixed assets -					
Housing properties	13	2,520,528	2,399,607	2,522,080	2,390,997
Other tangible fixed assets	14	17,717	19,452	17,717	19,452
Investment properties	15	118,330	107,616	94,983	83,136
Other investments	16	2	2	14	2,157
Total fixed assets		2,656,577	2,526,677	2,634,794	2,495,742
Current assets					
Properties held for sale	17	37,895	30,260	34,615	21,919
Trade and other debtors	18	36,678	32,862	38,877	48,836
Hedge accounted financial asset		-	44	-	44
Cash and cash equivalents	20	104,232	144,605	96,509	138,488
		178,805	207,771	170,001	209,287
Creditors: amounts falling due within one year	21	(119,147)	(112,889)	(117,075)	(118,583)
Net current assets		59,658	94,882	52,926	90,704
Total assets less current liabilities		2,716,235	2,621,559	2,687,720	2,586,446
Creditors: amounts falling due after more than one year	22	(2,115,760)	(2,133,170)	(2,099,187)	(2,110,849)
Provisions and other liabilities	29	(753)	(776)	(753)	(776)
Pension liabilities	35	(25,258)	(26,660)	(25,258)	(26,660)
Net assets		574,464	460,953	562,522	448,161
Capital and reserves					
Share capital – non equity		-	-	-	-
Income & expenditure reserve		575,595	626,316	561,724	611,689
Designated reserves		370	306	169	169
Restricted reserve		636	1,455	629	634
Revaluation reserve		446	462	-	-
Hedge reserve		(2,583)	(167,586)	-	(164,331)
Total reserves		574,464	460,953	562,522	448,161

The financial statements on pages 27 to 32 were approved by the Optivo Board and authorised for issue on 18 July 2018 and were signed on its behalf by:



Sir Peter Dixon
Chairman



David Clifford
Board Member



Alison Wignall
Secretary

	2018 £'000	Combined 2017 £'000
Cash flow from operating activities		
(Deficit) / surplus for the year	(50,741)	108,967
Adjustment for non-cash items:		
Depreciation, amortisation & impairment	24,861	28,630
Acquisition gain	-	(27,426)
Tax	(276)	(240)
Interest payable	42,317	43,712
Interest receivable	(488)	(1,134)
Surplus on disposal of fixed assets	(24,020)	(31,168)
Net fair value losses recognised in profit or loss	130,154	(146)
Difference between net pension expense and cash contribution	(2,159)	(1,506)
(Increase) / decrease in stocks	(7,820)	7,581
(Increase) / decrease in trade and other debtors	(3,818)	965
(Decrease) / increase in trade and other creditors	(7,048)	6,317
Decrease in provisions	(23)	(73)
Cash generated from operations	100,939	134,479
Tax paid	-	-
Net cash from operating activities	100,939	134,479
Cash flows from investing activities		
Purchase of property, plant and equipment	(160,125)	(131,348)
Proceeds from sale of property, plant and equipment	33,461	44,399
Interest received	488	1,134
Amounts returned from deposits	-	122,627
Net capital grants received	13,087	9,296
Net cash from investing activities	(113,089)	46,108
Cash flows from financing activities		
Proceeds from long term borrowings	251,000	50,000
Interest paid	(46,936)	(45,778)
Other financing	17	358
Repayment of borrowing	(232,304)	(105,320)
Net cash used in financing activities	(28,223)	(100,740)
Net change in cash and cash equivalents	(40,373)	79,847
Cash and cash equivalents at start of year	144,605	64,758
Cash and cash equivalents at end of year	104,232	144,605

3

Accounting Policies



Introduction

On 22 May 2017, AmicusHorizon Limited and Viridian Housing announced the formation of a new housing association, Optivo. This business combination was effected through an Amalgamation under s109 of the Community Benefits Societies Act 2014. The amalgamated business increases our capacity to build, delivering more new homes and better services than we could apart. The net assets of Optivo at March 2018 were £574m (2017: £461m).

Legal status

Optivo is registered with the Financial Conduct Authority under the Co-operative and Community Benefits Societies Act 2014 and is registered with Homes England as a social housing provider. The Association is a public benefit entity. The prior year comparatives for these financial statements have been prepared for 31 March 2017 as the combined financial statements of AmicusHorizon Ltd and Viridian Housing Ltd; the two associations that amalgamated on 22 May 2017 to become Optivo.

1 Accounting policies

The financial statements have been prepared in accordance with FRS 102 the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland, the Statement of Recommended Practice (SORP), "Accounting by registered social housing providers" 2014 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting judgements and estimates. It also requires management to exercise judgement in applying the Group's accounting policies. The impact potential variations may have on the financial information are explained in the accounting policies below.

In preparing the separate financial statements of the parent Association, advantage has been taken of the following disclosure exemptions available in FRS 102:

- ◆ Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the Group and the parent Association would be identical
- ◆ No cash flow statement has been presented for the parent Association
- ◆ Disclosures in respect of the parent Association's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole
- ◆ No disclosure has been given for the aggregate remuneration of the key management personnel of the parent Association as their remuneration is included in the totals for the Group as a whole.

The following principal accounting policies have been applied consistently in relation to the financial statements.

Basis of consolidation

The consolidated financial statements present the results of Optivo – registered provider of social housing and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full. Control of each subsidiary is established through holding 100% of the share capital or through ability to appoint the board.

Investments in subsidiaries

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

Merger accounting

These financial statements have been prepared under merger accounting principles because the ultimate equity holders remain the same and no controlling interest in the net assets of the group is altered. Merger accounting involves combining all of the results and cash flows of all the amalgamating parties from the beginning of the financial period in which the merger occurs. The comparative amounts are restated by including the results for all the combining entities for the previous accounting period and by combining their statement of financial positions as at the previous reporting date. The board consider that merger accounting is appropriate because the amalgamation satisfied the following key criteria:

- (a) no party to the combination was portrayed as either acquirer or acquiree, either by its own board or management or by that of another party to the combination;
- (b) there was no significant change to the classes of beneficiaries of the combining entities or the purpose of the benefits provided as a result of the combination; and
- (c) all parties to the combination, as represented by the members of the board, participated in establishing the management structure of the combined entity and in selecting the management personnel, and such decisions are made on the basis of a consensus between the parties to the combination rather than purely by exercise of voting rights.

As the board consider that all criteria were met, merger accounting was required to be applied in the preparation of these financial statements. As the entity has been formed from the legal amalgamation of the historic constituent entities, merger accounting has also been applied in the preparation of the parent only financial statements.

1 Accounting policies (continued)

Associates and arrangements

An entity is treated as an associated undertaking where the Group exercises significant influence in that it has the power to participate in the operating and financial policy decisions.

An entity is treated as a joint arrangement 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.

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 associate. 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 balance sheet, the interests in associated undertakings are shown as the Group's share of the identifiable net assets, including any unamortised premium paid on acquisition. Investments in joint operations result in the recognition of the assets, liabilities, income, and expenditure attributable to the Group.

Income

Income is measured at the fair value of the consideration received or receivable. The Group generates the following material income streams:

- ◆ Rental income receivable (after deducting lost rent from void properties available for letting)
- ◆ First tranche sales of low cost home ownership housing properties developed for sale
- ◆ Service charges receivable
- ◆ Amortisation of deferred capital grants and other grants receivable
- ◆ Proceeds from the sale of land and property
- ◆ Supporting people contract income
- ◆ Key worker accommodation
- ◆ Care homes
- ◆ Student accommodation
- ◆ Market rent lettings
- ◆ Commercial lettings.

Rental income

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting, net of voids. Income from first tranche sales is recognised at the point of legal completion of the sale. The profit or loss on disposal of social housing stock intended for outright sale or first tranche sales is recognised within operating profit. Any profit or loss on disposal of commercial stock is recognised below the operating surplus.

Service charges

The Group operates both fixed and variable service charges on a scheme by scheme basis. Service charges on all schemes are set on the basis of budgets. Where variable service charges are used the budget will include an allowance for the surplus or deficit from prior years, with a surplus being returned to residents in the form of a reduced charge for the year and a deficit being recovered via a higher service charge.

Charges made to leaseholders for the replacement of equipment and repairs within their estates are held in sinking funds which are ring-fenced for use on those estates. Such sinking funds are disclosed on the balance sheet as creditors.

Rent and service charge agreements

The Association has made arrangements with individuals and households for arrears payments of rent and service charges. These arrangements are effectively loans granted at nil interest rate.

Schemes managed by agents

Income represents rent receivable. Management fees payable to agents are included in operating costs.

Tangible fixed assets - housing properties

Housing properties constructed or acquired (including land) on the open market are stated at cost less depreciation and impairment (where applicable).

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

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

Expenditure on major refurbishment to properties is capitalised where the works increase the net rental stream over the life of the property. An increase in the net rental stream may arise through an increase in the net rental income, a reduction in future maintenance costs, or a subsequent extension in the life of the property. All other repair and replacement expenditure is charged to the statement of comprehensive income.

Mixed developments are held within property, plant and equipment and accounted for at cost less depreciation except for the commercial elements which are held as investment properties at valuation.

Housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in the first tranche, are included in property, plant and equipment and held at cost less any impairment. They are transferred to completed properties when ready for letting.

1 Accounting policies (continued)

Expenditure on schemes, which are subsequently aborted, is written off in the period in which it is recognised the scheme will not be developed to completion.

Government grants

As required by the Housing SORP 2014, grant is carried as deferred income in the balance sheet and released to the statement of comprehensive income on a systematic basis over the useful economic life of the asset for which it was received. In accordance with Housing SORP 2014 the useful economic life of the housing property structure has been selected (see table of useful economic lives below).

Social Housing Grant (SHG) becomes recyclable at the point the related property is sold and is transferred to a Recycled Capital Grant Fund until it is reinvested in a replacement property. If there is no requirement to recycle or repay the grant on disposal of the assets any unamortised grant remaining within creditors is released and recognised as income within the statement of comprehensive income.

Grants relating to revenue are recognised in the statement of comprehensive income over the same period as the expenditure to which they relate once performance related conditions have been met. Grants due from government organisations or received in advance are included as liabilities.

Other grants

Grants received from non-government sources are recognised using the performance model. Grants are recognised as income when the associated performance conditions are met.

Depreciation of housing properties

Housing land and property is split between land, structure and other major components that are expected to require replacement over time. Land is not depreciated on account of its indefinite useful economic life.

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

The cost of housing property and components are depreciated over the useful economic lives of the assets on the following basis:

Component:	
Structure	100-125 years
Electrical wiring	10-30 years
Boilers & heating	15 years
Windows	25-30 years
Kitchens	20-25 years
Bathrooms	20-30 years
Roofs	60-80 years
Fire alarms	20 years
Lifts	25-30 years
Front doors	30 years

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

Allocation of costs for mixed tenure and shared ownership developments

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

Impairment

The housing property portfolio for the Group is assessed for indicators of impairment at each balance sheet date. Where indicators are identified then a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated to their recoverable amounts. An option appraisal is carried out to determine the option which produces the highest net realisable value. Valuations on rental return or potential sale proceeds are obtained and used to inform the options. The recoverable amount is taken to be the higher of the fair value less costs to sell or the value in use of an asset or cash generating unit. The assessment of value in use may involve considerations of the service potential of the assets or cash generating units concerned or the present value of future cash flows to be derived appropriately adjusted to account for any restrictions on their use. Where value in use - service potential (VIU-SP) is to be determined, the calculation of depreciated replacement cost compares a rebuild cost (using floor space, an average build cost per square metre and an average grant per unit) with expectations of price for an asset with equivalent service potential on the open market. The lower of the replacement costs is then adjusted as if that cost had been depreciated for the life of the asset.

1 Accounting policies (continued)

The Group defines cash generating units as follows:

- ◆ Individual historic completed homes / stock transfer properties assessed on the basis of geography and property size
- ◆ Already impaired properties assessed at individual scheme level.

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.

Donated land and other assets

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

Stock swaps

Housing properties acquired from other social landlords in exchange for non-monetary assets, or a combination of monetary and non-monetary assets, are measured at fair value. Grant associated with the transfers is recorded as a contingent liability.

Stock

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

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

Development overheads

Development overhead costs are capitalised to the extent they are directly attributable to bringing schemes into working condition for their intended use. Such expenditure consists of in-house development, architect and surveyor costs (including the cost of our own employees), and a proportion of the cost of staff in other departments who work on development activities.

Shared ownership properties and staircasing

Under low cost home ownership arrangements, the Group disposes of a long lease on low cost home ownership housing units for a share ranging between 25% and 75% of value. The Buyer has the right to purchase further proportions and up to 100% based on the market valuation of the property at the time each purchase transaction is completed.

Low cost home ownership properties are split proportionately between current and fixed assets based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sales proceeds included in turnover. The remaining "staircasing element", is classed as property, plant and equipment and included in completed housing property at cost together with any provision for impairment. Sales of subsequent tranches are treated as a part disposal of property, plant and equipment. Such staircasing sales may result in capital grant being deferred or abated and any abatement is credited in the sale account in arriving at the surplus or deficit.

The Group maintains shared ownership properties to a sound state of repair where it has the responsibility to do so. Maintenance of other shared ownership properties is the responsibility of the shared owner. Any impairment in the value of such properties is charged to the statement of comprehensive income.

Investment properties

Investment properties consist of commercial properties and other properties not held for social benefit or for use in the business but held for investment potential or capital appreciation. Investment properties are measured at cost on acquisition or initial recognition and subsequently at fair value at the year end, with changes in fair value recognised in the statement of comprehensive income. Fair value is determined annually by appropriately qualified external valuers and derived from current market rents and investment property yields for comparable properties, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided on investment properties. The Group engaged Jones Lang LaSalle Ltd and Resolution Property Surveyors for the fair value at 31 March 2018. Changes in fair value are recognised in the statement of comprehensive income.

Recycled Capital Grant Fund

On the occurrence of certain relevant events, primarily the sale of dwellings, the Regulator of Social Housing (RSH) can direct the Association to recycle or repay capital grants. The group adopts a policy of recycling, for which a separate fund is maintained. If unused within a three year period, grant will be repayable to the RSH with interest. Any unused recycled capital grant held within the Recycled Capital Grant Fund, which it is anticipated will not be used within one year is held in the balance sheet under "creditors due after more than one year". The remainder is held under "creditors due within one year".

Disposal Proceeds Fund

Receipts from Right to Acquire (RTA) sales made prior to April 2017 are required to be retained in a ring fenced fund that can only be used for providing replacement housing. These sales receipts less eligible expenses are held in the Disposal Proceeds Fund. Any such amount held within Disposal Proceeds Fund, which it is anticipated will not be used within one year is held in the balance sheet under "creditors due after more than one year". The remainder is held under "creditors due within one year".

1 Accounting policies (continued)

Tangible fixed assets – Other

Other tangible fixed assets, other than investment properties, are stated at historic cost less accumulated depreciation and any accumulated impairment losses. Historic cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Group adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the Group. The carrying amount of the replaced part is derecognised and reflected in the statement of comprehensive income. Repairs and maintenance are charged to the statement of comprehensive income during the period in which they are incurred.

Depreciation of other tangible fixed assets

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Freehold offices	50 years
Furniture & office equipment	5 years
Computer hardware	4 years
Computer software	4 years
Motor vehicles	4 years
Office improvements	10 years
Leasehold properties	Over term of lease

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'surplus on disposal of fixed assets' in the statement of comprehensive income.

Impairment of rental and other trade receivables

The Association estimates the recoverable value of rental and other receivables and impairs the debtor by appropriate amounts. When assessing the amount to impair the Association reviews the age profile of the debt, historical collection rates and the class of debt. Former tenant arrears are written off to the statement of comprehensive income at the point they become former to the extent that they are not considered recoverable.

Debtors and creditors

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

Financial instruments and borrowings

Optivo has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to its financial instruments. Financial assets and financial liabilities are recognised when the organisation becomes a party to the contractual provisions of the instrument, and are offset only when the organisation currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Borrowings are initially recognised at the transaction price, including transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges. Where the calculated difference between the historic cost and amortised cost basis is not material these financial instruments are stated on the balance sheet at historic cost. Loans and investments payable or receivable within one year are not discounted.

During the period a number of loans, amounting to £440m inherited from the merging entities on amalgamation were restructured. The restructuring resulted in a number of key features of the borrowing being substantially changed. This included the term of the borrowings, the interest rates to be applied and certain key covenants. As a consequence, the Board have concluded that this represents a substantial modification of the terms of the loans and have accounted for the restructuring by derecognising the old borrowing and the related issue costs and recognising the new borrowing at fair value and carrying it at amortised cost using the new effective interest rate. Because the fair value of the new borrowing was materially consistent with the carrying amount of the loans derecognised, no gain or loss has arisen on this transaction.

Cash and cash equivalents

Cash and cash equivalents in the Group's consolidated balance sheet consist of cash at bank and in hand, deposits and short term investments with an original maturity of three months or less.

Derivative instruments and hedge accounting

The Group holds floating rate loans which expose the Group to interest rate risk. To mitigate against this risk the Group uses interest rate swaps. These instruments are measured at fair value at each reporting date. They are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Group previously designated each of the swaps against either existing drawn floating rate debt or against highly probable future floating rate debt and to the extent the hedge was effective, movements in fair value adjustments, other than adjustments for own or counter-party credit risk, were recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Following re-financing in May 2017 we've discontinued hedge accounting. Movements in fair value are recognised in the statement of comprehensive income.

1 Accounting policies (continued)

Finance costs

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

Deferred financing costs

Deferred financing costs represent the costs incurred in securing new borrowing facilities. They are deducted from the value of the housing loans and bond and amortised over the life of the housing loans or bond to which they relate using the effective interest rate method. The deferred financing cost includes the discount and premium on the bond issue. The carrying amount of the housing loans or bond will be increased by the finance cost for each reporting period and reduced by repayments made in respect of the loan or bond in that period.

Sales & leaseback schemes

The Group has a leasehold interest in properties which have been subsequently leased back to the respective freeholders for the purpose of providing housing accommodation. The remaining life is ten years. The Group's net investment in these properties is disclosed in the Balance Sheet under "debtors". The balance of the Group's investment in these properties is written down as lease payments are received.

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 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.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Group. All other leases are classified as operating leases. Rentals paid under operating leases are charged to the statement of comprehensive income on the accruals basis. Where assets are financed by leasing agreements that give rights approximating to ownership they are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments (or if lower the fair value of leased asset) and is depreciated in accordance with the Group's normal policy for that class of assets. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation using the effective interest method so as to achieve a constant rate of interest on the remaining balance of the liability. Annual rentals on operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the lease.

Current taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

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

Pension costs

The Group operates six funded schemes and the SHPS defined contribution scheme which we use for auto enrolment. We ceased taking contributions for the AH money purchase (stakeholder) pension scheme in April 2018.

Funded schemes

The defined benefit schemes are set out below and are closed to new members.

Horizon Housing Group Pension Scheme

Local Government Pension Scheme

Kent County Council Scheme

Local Government Pension Scheme

East Sussex County Council Scheme

Local Government Pension Scheme

London Borough of Ealing Scheme

Local Government Pension Scheme

London Borough of Barnet Scheme

Pensions Trust

Social Housing Pension Scheme (SHPS)

For SHPS the scheme actuary has advised that it is not possible to identify the share of underlying assets and liabilities belonging to individual participating employers. The charge to the statement of comprehensive income represents the employer contribution payable to the scheme for the accounting period. Contributions payable under the terms of a funding agreement for past deficits are recognised as a liability in the balance sheet at the present value of the expected future cash flows for which there is a contractual obligation.

The assets of each of the schemes are held separately from those of the group. For each scheme accounted for as a defined benefit scheme, the 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. The pension scheme surpluses (to the extent they are recoverable) or deficits are recognised in full. The movement in the scheme surpluses/deficits is split between operating charges, finance items and in other comprehensive income actuarial gains and losses.

1 Accounting policies (continued)

Money Purchase Pension Scheme

Employees have the option to join a Group Pension Plan, to which the group makes a contribution of up to 10% of pensionable salary. This is a defined contribution scheme. Contributions are charged to the statement of comprehensive income in the year in which they become payable.

Provision for liabilities

The Group has recognised provisions for hand back liabilities. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date.

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

Contingent liabilities

A contingent liability is recognised 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.

A contingent liability exists on grant repayment which is dependent on the disposal of the related property.

Restricted reserves

Income received, and expenditure incurred, for restricted purposes is separately accounted for within restricted funds.

Operating segments

As we have publically traded securities within the Group we are required to disclose information about our operating segments under IFRS 8. Segmental information is disclosed in notes 3(a) and 3(b) and as part of the analysis of housing properties in note 13. 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 rather than geographical location. As permitted by IFRS 8 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 Board does not routinely receive segmental information disaggregated by geographical location.

Going concern

The Board reviewed and approved the budget for 2018/19 in March 2018 and thirty year financial plan with cashflow forecasts in May 2018. The Board has a reasonable expectation we have adequate resources to continue in operation for the foreseeable future. For this reason we continue to adopt the going concern basis in preparing our financial statements.

2 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, we've made a number of judgements. These include:

- ◆ Considering the measurement basis to determine the recoverable amount of assets where there are indicators of impairment and have used either EUV-SH or depreciated replacement cost and determining what constitutes a cash generating unit when indicators of impairment require there to be an impairment review
- ◆ Determining the anticipated costs to complete a development scheme based on anticipated construction cost, effective rate of interest on loans during the construction period, legal costs and other costs. We then determine the recoverability of the cost of properties developed for outright sale and/or land held for sale. This judgement is also based on our best estimate of current sales and economic conditions prevailing at the time
- ◆ Determining the critical underlying assumptions in relation to the estimate of the defined benefit scheme obligations such as standard rates of inflation, mortality, discount rate and anticipated future salary increases. Variations in these assumptions have the ability to significantly influence the value of the liability recorded and annual defined benefit expense. Assumptions used are informed by actuarial advice
- ◆ The application of merger accounting following the coming together of Viridian Housing and AmicusHorizon. The Board exercised judgement in determining whether the criteria for merger accounting, as set out in the accounting policies, had been met. Had the Board concluded that those criteria had not been met, the purchase method of accounting would have applied, resulting in the need to identify an acquirer in the business combination and for the assets and liabilities of the acquiree to have been recognised at fair value with any gain or loss being recognised through the statement of comprehensive income. In making this key judgement, the Board considered the accounting treatment which more closely reflected the nature of the combination
- ◆ Determining that there was a substantial modification of loan terms following refinancing leading to de-recognition of the lending syndicate and replacing with new borrowings. This judgement resulted in the de-recognition of historical borrowing and write-out of related issue costs and the recognition of new borrowing at the new effective interest rate. The Board have also concluded that the new borrowing meets the definition of a basic financial instrument and is therefore carried at amortised cost. The determination that there had been a substantial modification of loan terms resulted in the cessation of hedge relationships because the underlying hedged item had been extinguished prompting de-recognition of the cashflow hedge reserve.

4 Notes to the Financial Statements



3(a) Particulars of turnover, operating costs and operating surplus

Group	2018					2017 Combined				
	Turnover £'000	Cost of sales £'000	Operating costs £'000	Fixed asset disposals £'000	Operating surplus/ (deficit) £'000	Turnover £'000	Cost of sales £'000	Operating costs £'000	Fixed asset disposals £'000	Operating surplus/ (deficit) £'000
Social housing activities (note 3b)	267,134	-	(186,506)	-	80,628	263,454	-	(183,333)	-	80,121
Other social housing activities										
First tranche sales	21,844	(13,045)	-	-	8,799	34,051	(16,054)	(423)	-	17,574
Supported housing	24	-	(24)	-	-	123	-	(683)	-	(560)
Gift aid	9	-	-	-	9	6	-	-	-	6
Other	-	-	(1,362)	-	(1,362)	1,108	-	(3,069)	-	(1,961)
Gift on acquisition (note 3d)	-	-	-	-	-	20,531	-	-	-	20,531
Surplus on asset disposal (note 3c)	-	-	-	20,469	20,469	-	-	-	29,013	29,013
	21,877	(13,045)	(1,386)	20,469	27,915	55,819	(16,054)	(4,175)	29,013	64,603
Non-social housing activities										
Community activities	529	-	(529)	-	-	301	-	(301)	-	-
Market & sub-market renting	595	-	(183)	-	412	371	-	(126)	-	245
Student accommodation	11,976	-	(8,638)	-	3,338	14,008	-	(12,827)	-	1,181
Commercial renting	1,990	-	(1,713)	-	277	1,894	-	(852)	-	1,042
Market sales	12,958	(8,419)	321	-	4,860	10,497	(7,256)	(13)	-	3,228
Other	372	-	(387)	-	(15)	356	-	(351)	-	5
	28,420	(8,419)	(11,129)	-	8,872	27,427	(7,256)	(14,470)	-	5,701
Total	317,431	(21,464)	(199,021)	20,469	117,415	346,700	(23,310)	(201,978)	29,013	150,425

Community activities for Fresh Visions and Optivo includes grant received from the Big Lottery Fund of £ 226,985 (2017: £193,970) and related expenditure of £220,778 (2017: £224,753) for the following:

	Grant £	Expenditure £
First Steps Counselling	107,693	99,484
Families on our Doorstep	119,292	121,294
	226,985	220,778

3(a) Particulars of turnover, operating costs and operating surplus (continued)

Association	2018					2017 Combined				
	Turnover	Cost of sales	Operating costs	Fixed asset disposals	Operating surplus/ (deficit)	Turnover	Cost of sales	Operating costs	Fixed asset disposals	Operating surplus/ (deficit)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Social housing activities (note 3b)	266,176	-	(185,962)	-	80,214	262,522	-	(182,833)	-	79,689
Other social housing activities										
First tranche sales	21,844	(13,045)	-	-	8,799	34,051	(16,321)	(423)	-	17,307
Supported housing	24	-	(24)	-	-	125	-	(683)	-	(558)
Services to group companies	271	-	(271)	-	-	240	-	(240)	-	-
Gift aid	6,812	-	-	-	6,812	3,089	-	-	-	3,089
Other	-	-	(1,362)	-	(1,362)	518	-	(3,340)	-	(2,822)
Gift on acquisition	-	-	-	-	-	20,531	-	-	-	20,531
Surplus on asset disposal (note 3c)	-	-	-	20,270	20,270	-	-	-	28,145	28,145
	28,951	(13,045)	(1,657)	20,270	34,519	58,554	(16,321)	(4,686)	28,145	65,692
Non-social housing activities										
Community activities	529	-	(529)	-	-	301	-	(301)	-	-
Market & sub-market renting	595	-	(183)	-	412	371	-	(126)	-	245
Student accommodation & nursing homes	9,986	-	(8,591)	-	1,395	9,436	-	(10,176)	-	(740)
Commercial renting	1,990	-	(1,713)	-	277	1,894	-	(852)	-	1,042
Market sales	703	(615)	-	-	88	1,108	(1,046)	-	-	62
	13,803	(615)	(11,016)	-	2,172	13,110	(1,046)	(11,455)	-	609
Total	308,930	(13,660)	(198,635)	20,270	116,905	334,186	(17,367)	(198,974)	28,145	145,990

3(b) Particulars of income and expenditure from social housing lettings

Group	General needs £'000	Key workers £'000	Ealing Care Home £'000	Other £'000	Shared ownership £'000	Temporary social housing £'000	2018 Total £'000	2017 Combined Total £'000
Rents receivable net of identifiable service charges	195,348	6,743	-	1,113	12,955	1,477	217,636	216,829
Service charges receivable	16,452	-	-	64	6,117	72	22,705	22,719
Charges for support services	-	-	-	-	-	-	-	23
Care management fee	-	-	9,612	-	-	-	9,612	9,499
Net rental income	211,800	6,743	9,612	1,177	19,072	1,549	249,953	249,070
Amortised government grant	9,368	-	42	-	302	4	9,716	9,386
Other revenue income	4,407	1,161	404	453	961	79	7,465	4,998
Turnover from social housing lettings	225,575	7,904	10,058	1,630	20,335	1,632	267,134	263,454
Expenditure on letting activities								
Management	43,730	3,881	11,387	369	4,323	444	64,134	63,042
Bad debts	1,338	78	-	1	29	(80)	1,366	689
Service charge costs	16,036	-	-	53	5,482	48	21,619	21,944
Routine maintenance	27,125	765	104	135	61	201	28,391	31,173
Planned maintenance	30,506	785	396	105	(1)	32	31,823	21,316
Major repairs	5,089	247	5	11	-	-	5,352	9,576
Impairment of housing properties	(686)	-	-	-	(41)	-	(727)	(942)
Depreciation of housing properties	28,951	934	56	-	2,173	292	32,406	33,247
Accelerated depreciation	1,478	29	-	-	-	-	1,507	2,371
Other costs	6	67	-	7	-	555	635	917
	153,573	6,786	11,948	681	12,026	1,492	186,506	183,333
Operating surplus/(deficit) on social housing lettings	72,002	1,118	(1,890)	949	8,309	140	80,628	80,121
Void losses	(2,012)	(135)	-	-	(46)	(130)	(2,323)	(2,473)

3(b) Particulars of income and expenditure from social housing lettings (continued)

Association	General needs £'000	Key workers £'000	Ealing care home £'000	Other £'000	Shared ownership £'000	Temporary social housing £'000	2018 Total £'000	2017 Combined Total £'000
Rents receivable net of identifiable service charges	195,272	6,743	-	1,113	12,360	1,477	216,965	216,164
Service charges receivable	16,438	-	-	64	5,913	72	22,487	22,526
Charges for support services	-	-	-	-	-	-	-	23
Care management fee	-	-	9,613	-	-	-	9,613	9,499
Net rental income	211,710	6,743	9,613	1,177	18,273	1,549	249,065	248,212
Amortised government grant	9,368	-	42	-	231	4	9,645	9,315
Other revenue income	4,406	1,161	404	453	963	79	7,466	4,995
Turnover from social housing lettings	225,484	7,904	10,059	1,630	19,467	1,632	266,176	262,522
Expenditure on letting activities								
Management	43,761	3,881	11,387	369	4,091	444	63,891	62,790
Bad debts	1,338	78	-	1	29	(80)	1,366	705
Service charge costs	16,029	-	-	53	5,271	48	21,401	21,761
Routine maintenance	27,121	765	104	135	61	201	28,387	31,170
Planned maintenance	30,504	786	396	105	(1)	32	31,822	21,315
Major repairs	5,089	247	5	11	-	-	5,352	9,576
Impairment of housing properties	(686)	-	-	-	(41)	-	(727)	(942)
Depreciation of housing properties	28,899	934	56	-	2,105	292	32,328	33,170
Accelerated depreciation	1,478	29	-	-	-	-	1,507	2,371
Other costs	6	67	-	7	-	555	635	917
	153,539	6,787	11,948	681	11,515	1,492	185,962	182,833
Operating surplus/(deficit) on social housing lettings	71,945	1,117	(1,889)	949	7,952	140	80,214	79,689
Void losses	(2,014)	(135)	-	-	(46)	(130)	(2,325)	(2,473)

3(c) Fixed asset disposals

Group	Staircasing £'000	Right to Buy £'000	Other properties £'000	Total 2018 £'000	Total 2017 £'000
Disposal proceeds	17,630	2,337	13,785	33,752	45,654
Cost of disposals	(9,308)	(1,718)	(2,257)	(13,283)	(16,426)
Disposal Proceeds Fund	-	-	-	-	(215)
	8,322	619	11,528	20,469	29,013
Association	Staircasing £'000	Right to Buy £'000	Other properties £'000	Total 2018 £'000	Total 2017 £'000
Disposal proceeds	17,366	2,337	13,785	33,488	44,635
Cost of disposals	(9,308)	(1,653)	(2,257)	(13,218)	(16,275)
Disposal Proceeds Fund	-	-	-	-	(215)
	8,058	684	11,528	20,270	28,145

3(d) Acquisition gains

Group & Association	Total 2018 £'000	Total 2017 £'000
St Martins	-	8,238
SLDHA	-	12,293
	-	20,531

5 Surplus for the year

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Operating surplus is stated after charging/ (crediting):				
Grant amortised	(9,716)	(9,421)	(9,645)	(9,300)
Depreciation – housing properties	32,501	33,247	32,423	33,170
Depreciation – Farncombe Road debtor	(95)	-	(95)	-
Depreciation – other fixed assets	2,706	2,985	2,706	2,984
Impairment release housing properties	(727)	(519)	(727)	(59)
Accelerated depreciation	1,507	2,371	1,507	2,370
Operating lease charges:				
-Land & building	900	932	873	932
-Other	480	680	475	675
Auditors' remuneration:				
-In respect of audit services	160	235	146	224
-In respect of other services	35	55	35	46
Defined benefit scheme pension contributions (note 35)	838	667	838	667
Defined benefit scheme deficit contributions	2,159	1,769	2,159	1,769
Defined contribution scheme pension cost	2,966	3,140	2,966	3,140

6 Employees

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Staff costs (including directors) consist of:				
Wages and salaries	54,701	53,352	54,493	52,924
Social security costs	5,172	5,049	5,153	5,033
Pension costs	3,804	3,807	3,790	3,795
Redundancy costs	2,588	451	2,588	451
	66,265	62,659	66,024	62,203

The average number of employees (including directors) expressed as full time equivalents (FTE) (calculated based on a standard working week of 37 hours) during the year was as follows:

	Group		Association	
	2018 FTE	2017 FTE	2018 FTE	2017 FTE
Administration	253	259	253	259
Development	50	50	50	50
Housing, support and care	1,218	1,253	1,218	1,253
	1,521	1,562	1,521	1,562

7 Directors' and senior executive remuneration

The key management personnel are defined as the Chief Executive and the Executive Team of Optivo as it existed at 31 March 2018 disclosed on page 3.

	2018 £'000	2017 £'000
The emoluments of the Executive Officers were:		
Executive directors' emoluments (excluding pension)	1,621	1,742
Pension contributions	129	135
The Deputy Chief Executive was the highest paid director in 2017/18;		
total remuneration (excluding pension contributions) for the year	279	180
Total remuneration for the Group Chief Executive (excluding pension contributions) for the year	238	224

The Chief Executive is a member of the Optivo personal pension scheme and a contribution of £13,858 (2017: £12,409) was made to this scheme on his behalf. There are no enhanced or special terms that apply to the Chief Executive's pension scheme arrangements.

The aggregate payments made in respect of directors' loss of office is £242k (2017: £167k).

The remuneration (including employer pension contributions) paid to staff (including Executive Team) earning over £60,000:

Band	Employees 2018	Employees 2017
£60,000 - £70,000	60	45
£70,001 - £80,000	11	19
£80,001 - £90,000	11	13
£90,001 - £100,000	2	13
£100,001 - £110,000	6	8
£110,001 - £120,000	4	1
£120,001 - £130,000	5	3
£130,001 - £140,000	-	1
£140,001 - £150,000	2	1
£150,001 - £160,000	1	1
£160,001 - £170,000	1	1
£180,001 - £190,000	-	1
£190,001 - £200,000	2	2
£220,001 - £230,000	1	-
£230,001 - £240,000	-	1
£250,001 - £260,000	1	-
£290,001 - £300,000	1	-
	108	110

8 Board and Committee members

The table below shows the salaries paid to Board and Committee members and expenses incurred during the discharge of their duties during 2017/18:

	2018 Remuneration £	2018 Expenses £	2018 Total £	2017 Total £
Sir Peter Dixon	21,000	174	21,174	6,443
Andrew Wiseman	10,947	-	10,947	9,913
Christopher Blease	219	-	219	1,553
Darryl Hogan	1,733	124	1,857	1,732
David Clifford	10,947	-	10,947	10,612
Dominic Gibb	219	-	219	1,553
Florence Barras	8,775	289	9,064	10,817
Geanna Kilpatrick	2,801	11	2,812	1,586
Helen Richards-Carpenter	905	-	905	-
Hilke Farina	219	192	411	1,798
Ian Jones	219	-	219	1,553
John Cox	8,293	312	8,605	8,035
Kathryn Smith	905	-	905	-
Matthew Abbott	905	-	905	-
Maureen Nicholas	1,957	-	1,957	-
Melanie Johnson	219	11	230	1,744
Michael Lavers	-	-	-	2,500
Michele Dovey	1,848	202	2,050	-
Naveed Chaudry	1,848	-	1,848	-
Neil Ferguson	2,801	-	2,801	1,553
Nick Stephenson	8,353	65	8,418	7,601
Paul Casey	219	-	219	1,727
Paul Crouch	10,109	452	10,561	7,947
Peter Roscrow	10,931	30	10,961	10,500
Robert Woolf	2,931	-	2,931	2,500
Samantha Herelle	8,293	28	8,321	7,000
Simon Wilcox	219	-	219	1,720
Stephen Leung	219	-	219	1,553
Steve Douglas	14,931	-	14,931	14,500
Vishal Dixit	9,975	567	10,542	3,664
William Howard Cresswell	10,449	-	10,449	7,000
*Lord Falconer of Thoroton	-	-	-	18,041
*Beverley Spear	1,050	-	1,050	7,710
*David Lingeman	-	-	-	7,000
*David Oliver	1,500	27	1,527	10,743
*Hattie Llewelyn-Davies	-	-	-	19,372
*Michael Davis	6,197	214	6,411	8,226
*Neil Robertson	3,345	210	3,555	12,312
*Rod Morton	-	-	-	10,695
	165,481	2,908	168,389	221,203

The Fresh Visions People Limited Board members are unpaid. The total payments to Board and Committee members in 2017/18 is less than 0.1% of our turnover. The amount paid to Board and Committee members is reviewed annually. Remuneration is based on sector benchmarking data for comparable sized associations.

*These Board members resigned on 22 May 2017

9 Surplus on disposal of other fixed assets

Group	2018 Total £'000	2017 Total £'000
Disposal proceeds	4,250	2,672
Cost of disposals	(699)	(2,183)
	3,551	489

Association	2018 £'000	2017 £'000
Disposal proceeds	4,250	2,667
Cost of disposals	(699)	(2,181)
	3,551	486

10 Interest receivable and income from investments

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Bank and deposit interest	376	772	364	763
Investment income	112	362	110	360
From subsidiary undertaking	-	-	494	1,245
	488	1,134	968	2,368

11 Interest and financing costs

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Bank loans and overdrafts	26,664	30,479	26,664	12,824
Loans from group undertakings	-	-	-	25,023
Swap payments	17,259	12,525	16,639	4,609
Recycled Capital Grant Fund	100	88	100	88
Other interest payable	2,824	1,875	2,645	1,874
Net interest on pension funds	927	1,239	927	1,239
	47,774	46,206	46,975	45,647
Interest capitalised on construction of housing properties	(5,457)	(2,494)	(5,178)	(2,249)
	42,317	43,712	41,797	43,398

Other financing costs through income and expenditure

(Gain)/loss on basis swap derivative instruments	(23,647)	122	(23,647)	122
Loss on fair value hedge release	164,331	-	164,331	-

Other financing costs through other comprehensive income

Loss on hedged derivative instrument	672	621	-	621
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12 Taxation

Optivo is a charitable housing association and is not liable to Corporation Tax on its charitable activities. Four subsidiaries, Crystal Palace Housing Association Ltd (CPHA), Optivo Finance plc (OF plc), Optivo Development Services Ltd (ODS) and Lamborn Estates Ltd (LE) are subject to Corporation Tax.

A reconciliation between Corporation Tax at the standard rate on the surplus on ordinary activities and the actual tax charge has not been provided due to the charitable status of Optivo, Charity of Julia Spicer for Almshouse, Eason Gruaz Homes, Middlesex First Limited and The Fresh Visions People Ltd.

The tax recognised in the income and expenditure account represents credits of £17k for OF plc and £259k for CPHA (2017: OF plc £1k, CPHA £4k and ODS £245k).

13(a) Tangible fixed assets – housing properties – Group

	Housing properties held for letting £'000	Housing properties for letting under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	Total housing properties £'000
Cost					
At 1 April 2017	2,352,081	62,139	300,163	32,290	2,746,673
Additions during year	20,702	84,322	39	63,521	168,584
Transfer to current assets	-	-	(1,300)	(3,050)	(4,350)
Transfer on completion	53,340	(53,340)	18,876	(18,876)	-
Transfer between tenures	102	-	(102)	-	-
Disposals - property	(3,805)	-	(8,187)	-	(11,992)
Disposals - components & demolition	(6,682)	-	-	-	(6,682)
At 31 March 2018	2,415,738	93,121	309,489	73,885	2,892,233
Depreciation & impairment					
At 1 April 2017	329,005	883	17,177	-	347,065
Depreciation charge for year	30,225	-	2,276	-	32,501
Disposals during year	(6,634)	-	(500)	-	(7,134)
Impairment release	(686)	-	(41)	-	(727)
At 31 March 2018	351,910	883	18,912	-	371,705
Net book value					
At 31 March 2018	2,063,828	92,238	290,577	73,885	2,520,528
At 31 March 2017	2,023,076	61,256	282,985	32,290	2,399,607

The cost of land included in the above not subject to depreciation is £763m (2017: £748m). The net book value of leasehold land and buildings included above is £297m (2017: £253m). Additions to housing properties in the course of construction during the year included capitalised interest of £5.5m (2017: £2.5m) at an average interest rate during the year of 4.28% (2017: 4.62%). The total expenditure on works to existing properties during the year was £72m (2017: £74m), of which £17.3m (2017: £25.5m) was capitalised as component replacements, the remainder was expensed.

13(b) Tangible fixed assets – housing properties – Association

	Housing properties held for letting £'000	Housing properties for letting under construction £'000	Completed shared ownership properties £'000	Shared ownership properties under construction £'000	Total housing properties £'000
Cost					
At 1 April 2017	2,355,285	56,184	295,958	29,444	2,736,871
Additions during year	20,656	91,350	39	63,521	175,566
Transfer to current assets	-	-	(1,300)	-	(1,300)
Transfer on completion	53,340	(53,340)	18,876	(18,876)	-
Transfer between tenures	102	-	(102)	-	-
Disposals - property	(3,805)	-	(8,124)	-	(11,929)
Disposals - components & demolition	(6,682)	-	-	-	(6,682)
At 31 March 2018	2,418,896	94,194	305,347	74,089	2,892,526
Depreciation & impairment					
At 1 April 2017	328,982	883	16,009	-	345,874
Depreciation charge for year	30,215	-	2,208	-	32,423
Disposals during year	(6,634)	-	(490)	-	(7,124)
Impairment release	(686)	-	(41)	-	(727)
At 31 March 2018	351,877	883	17,686	-	370,446
Net book value					
At 31 March 2018	2,067,019	93,311	287,661	74,089	2,522,080
At 31 March 2017	2,026,303	55,301	279,949	29,444	2,390,997

The cost of land included in the above not subject to depreciation is £763m (2017: £748m). The net book value of leasehold land and buildings included above is £297m (2017: £253m). Additions to housing properties in the course of construction during the year included capitalised interest of £5.2m (2017: £2.3m) at an average interest rate during the year of 4.28% (2017: 4.62%). The total expenditure on works to existing properties during the year was £72m (2017: £74m), of which £17.3m (2017: £25.5m) was capitalised as component replacements, the remainder was expensed.

14(a) Tangible fixed assets – other fixed assets

Group	Land and buildings £'000	Furniture and office equipment £'000	Computer equipment & software £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 April 2017	20,341	11,273	14,049	86	45,749
Additions during year	208	233	907	-	1,348
Disposal during year	-	(679)	(2,421)	(8)	(3,108)
Adjustment	330	-	-	-	330
At 31 March 2018	20,879	10,827	12,535	78	44,319
Depreciation					
At 1 April 2017	6,007	8,946	11,265	79	26,297
Charge for year	727	590	1,387	2	2,706
Disposal during year	-	(630)	(2,074)	(8)	(2,712)
Adjustment	311	-	-	-	311
At 31 March 2018	7,045	8,906	10,578	73	26,602
Net book value					
At 31 March 2018	13,834	1,921	1,957	5	17,717
At 31 March 2017	14,334	2,327	2,784	7	19,452

The cost of freehold land and buildings included in the above is £11.9m (2017: £12.5m). The cost of leasehold buildings included in the above is £0.6m (2017: £0.7m).

14(b) Tangible fixed assets – other fixed assets

Association	Land and buildings £'000	Furniture and office equipment £'000	Computer equipment & software £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 April 2017	20,341	11,267	14,049	86	45,743
Additions during year	208	233	907	-	1,348
Disposal during year	-	(679)	(2,421)	(8)	(3,108)
Adjustment	330	-	-	-	330
At 31 March 2018	20,879	10,821	12,535	78	44,313
Depreciation					
At 1 April 2017	6,007	8,940	11,265	79	26,291
Charge for year	727	590	1,387	2	2,706
Disposal during year	-	(630)	(2,074)	(8)	(2,712)
Adjustment	311	-	-	-	311
At 31 March 2018	7,045	8,900	10,578	73	26,596
Net book value					
At 31 March 2018	13,834	1,921	1,957	5	17,717
At 31 March 2017	14,334	2,327	2,284	7	19,452

The cost of freehold land and buildings included in the above is £11.9m (2017: £12.5m). The cost of leasehold buildings included in the above is £0.6m (2017: £0.7m).

15 Investment properties

Group	In management £'000	Under construction £'000	Total £'000
At 1 April 2017	106,206	1,410	107,616
Additions	4	29	33
Units completed	1,439	(1,439)	-
Net impairment	151	-	151
Revaluation in year	10,530	-	10,530

At 31 March 2018	118,330	-	118,330
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Association	In management £'000	Under construction £'000	Total £'000
At 1 April 2017	83,136	-	83,136
Revaluation in year	11,847	-	11,847

At 31 March 2018	94,983	-	94,983
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The Association's investment properties are valued annually on 31 March at fair value. They are determined by independent, professionally qualified valuers and undertaken in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual.

A rent capitalisation methodology was adopted coupled with an assessment of what an owner-occupier might pay with reference to respective rental and capital value markets. Where appropriate, for offices with obvious permitted development credentials, a high level residual appraisal was undertaken to underpin the valuation.

The surplus on revaluation of investment property arising of £11m (2017 - £nil) has been credited to the statement of comprehensive income for the year.

16 Investments

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
At 1 April	2	187	2,157	15
Revaluation in year	-	16	-	-
Additions	-	-	-	2,142
Disposed in year	-	(201)	(2,143)	-
At 31 March	2	2	14	2,157

The historic cost equivalents are not disclosed as the information to make the disclosure is not available. The investments were invested in the Charity Investment Fund (COIF).

17 Properties held for sale

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Completed	8,618	15,680	5,104	8,286
Under construction	29,277	14,580	29,511	13,633
	37,895	30,260	34,615	21,919

Capitalised interest is charged at an average interest rate during the year of 4.28% (2017: 3.1% - 4.68%).

18 Trade and other debtors

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Due within one year				
Rental and service charge arrears	7,838	10,979	7,780	11,007
Provision for doubtful debts	(1,898)	(1,917)	(1,898)	(1,917)
	5,940	9,062	5,882	9,090
Social Housing Grant receivable	581	685	581	685
Trade debtors	6,581	7,243	4,574	5,059
Other debtors	1,024	1,093	1,013	1,091
Amounts owed by subsidiary undertakings	-	-	591	4,815
Prepayments and accrued income	9,920	5,095	11,130	5,056
Amounts due from related parties	605	605	605	605
	24,651	23,783	24,376	26,401
Due after more than one year				
Leaseback schemes	2,852	3,043	2,852	3,043
Service charge debtor	5,471	5,441	5,454	5,382
Liquidity fund	3,219	248	3,219	248
Other debtors	485	347	486	347
Amounts owed by subsidiary undertakings	-	-	2,490	13,415
	12,027	9,079	14,501	22,435
Total debtors	36,678	32,862	38,877	48,836

19 Short term investments

There were no deposits not accessible within three months (2017: £nil).

At 31 March 2018, there was £6.5m (2017: £9.0m) 'ring-fenced' cash in interest bearing bank accounts relating to cash sums held by the Association for specific purposes.

20 Cash and cash equivalents

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Cash and cash equivalents	104,232	144,605	96,509	138,488
	104,232	144,605	96,509	138,488

Total Group cash and short term investment balance of £104.2m (2017: £144.6m) includes £7.2m (2017: £5m) held in separate accounts for sinking funds on behalf of leaseholders.

21 Creditors: amounts falling due within one year

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Corporation tax	-	275	-	-
Social Housing Grant (note 23)	9,745	9,696	9,674	9,624
Interest payable	5,678	4,943	5,678	4,943
Loan repayments (note 27)	32,574	21,123	32,147	20,791
Taxation and social security	194	1,235	194	1,235
Rent & service charge in advance	14,124	14,557	13,783	14,572
Creditors and accruals	51,392	54,748	49,184	54,850
Handback creditor	56	235	56	235
Amounts due to subsidiary undertakings	-	-	1,092	6,312
SHPS pension creditor (note 35)	2,186	2,027	2,186	2,027
Disposal Proceed Fund (note 26)	158	138	158	138
Recycled Capital Grant Fund (note 25)	3,040	3,912	2,923	3,856
	119,147	112,889	117,075	118,583

22 Creditors: amounts falling due after more than one year

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Loans & borrowings (note 27)	1,050,821	1,043,682	1,041,139	1,029,338
Derivative financial instruments	146,232	170,588	143,649	167,340
Lease Premium Grant Subsidy	370	440	370	440
Service charge creditor	3,714	3,857	3,699	3,491
Social Housing Grant (note 23)	879,075	877,927	875,052	873,795
Recycled Capital Grant Fund (note 25)	23,333	22,449	23,169	22,218
Disposal Proceeds Fund (note 26)	810	944	810	944
SHPS pension creditor (note 35)	11,033	13,031	11,033	13,031
Other creditors	372	252	266	252
	2,115,760	2,133,170	2,099,187	2,110,849

23 Social Housing Grant received

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Total Social Housing Grant received or receivable to date is as follows:				
Capital grant – housing properties	888,820	887,623	884,726	883,419
Recycled Capital Grant Fund (note 25)	26,373	26,361	26,092	26,074
Disposals Proceeds Fund (note 26)	968	1,082	968	1,082
Revenue grant cumulative amortised	166,281	157,798	165,005	156,582
	1,082,442	1,072,864	1,076,791	1,067,157

24 Social Housing Grant

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
At 1 April	887,623	889,801	883,419	885,425
Grants received during the year	13,087	13,259	13,087	13,259
Grants recycled	204	(5,169)	198	(5,169)
Disposals	(2,476)	(1,163)	(2,333)	(1,062)
Grants amortised during the year	(9,618)	(9,105)	(9,645)	(9,034)
At 31 March	888,820	887,623	884,726	883,419
Social Housing Grant	888,820	887,623	884,726	883,419
Cumulative amount amortised	166,281	159,895	165,005	158,678

25 Recycled Capital Grant Fund (RCGF)

Group	2018		2017	
	HE £'000	GLA £'000	HE £'000	GLA £'000
At 1 April	6,141	20,220	5,856	19,535
Grants recycled	558	3,936	1,584	4,451
Transfers	(219)	219	-	-
Interest accrued	21	78	18	70
New developments and repairs to existing properties	-	(4,573)	(1,317)	(3,836)
Other	(2)	(6)	-	-
At 31 March	6,499	19,874	6,141	20,220
Amount due for repayment to the HE/GLA				
Within one year	282	2,758	1,451	2,461
Within 2 to 3 years	6,217	17,116	4,690	17,759
	6,499	19,874	6,141	20,220
Association				
	2018	2018	2017	2017
	HE	GLA	HE	GLA
	£'000	£'000	£'000	£'000
At 1 April	6,141	19,933	5,856	19,303
Grants recycled	558	3,886	1,584	4,336
Transferred from other Group members	(219)	275	-	60
Interest accrued	21	78	18	70
New developments and repairs to existing properties	-	(4,573)	(1,317)	(3,836)
Other	(2)	(6)	-	-
At 31 March	6,499	19,593	6,141	19,933
Amount due for repayment to the HE/GLA				
Within one year	282	2,641	1,451	2,405
Within 2 to 3 years	6,217	16,952	4,690	17,528
	6,499	19,593	6,141	19,933

26. Disposal Proceeds Fund (DPF)

Group and Association	2018		2017	
	HE £'000	GLA £'000	HE £'000	GLA £'000
At 1 April	577	505	159	631
Grants recycled	208	-	417	287
Interest	2	1	1	-
New developments and repairs to existing properties	-	(325)	-	(413)
At 31 March	787	181	577	505

2016/17 was the final year Disposals Proceeds Fund was operated.
Remaining unspent funds after 6 April 2020 will be amalgamated into Optivo's Recycled Capital Grant Fund.

27 Loans and borrowings

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Housing loans are repayable:				
Within one year	32,574	21,123	32,147	20,791
One to two years	26,247	40,645	25,755	40,218
Two to five years	75,283	85,781	73,421	84,159
More than five years	656,915	770,394	649,481	762,343
Deferred financing costs	(8,810)	(4,686)	(8,705)	(4,686)
	782,209	913,257	772,099	902,825

Loans repayable by instalments, some of which fall due to be repaid in more than five years:

Loans	785,797	911,075	775,582	900,643
Index linked loans	5,222	6,868	5,222	6,868
Deferred financing costs	(8,810)	(4,686)	(8,705)	(4,686)
	782,209	913,257	772,099	902,825

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Housing loans:				
Loans and debentures	783,958	909,204	773,743	458,773
Index linked loans	5,222	6,868	5,222	6,868
Deferred interest loans	76	81	76	81
Loan premiums	1,763	1,790	1,763	1,790
Deferred financing costs	(8,810)	(4,686)	(8,705)	(4,686)
Net housing loans due within one year and after more than one year	782,209	913,257	772,099	462,826
Inter-company loan	-	-	301,187	587,303
Bond	300,000	150,000	-	-
Bond premium	4,157	4,245	-	-
Bond set up costs	(2,971)	(2,697)	-	-
Net bond balance	301,186	151,548	-	-
Net borrowings	1,083,395	1,064,805	1,073,286	1,050,129

27 Loans and borrowings (continued)

Optivo Group has £1.4bn loan facilities (excluding the bonds) (2017: £1.1bn). This includes undrawn committed loan facilities of £605.9m (2017: £189m), of these committed loan facilities £305.9m were fully secured at the balance sheet date and available to draw at short notice. Loans bear fixed rates of interest ranging from 1.76% to 11.5% or variable rates based on a margin above LIBOR (2017: 3.78% to 11.5%).

In addition to the above, the Group issued £250m 2048 corporate bond of which £150m were sold on 22 March 2018 at 3.283%, with £100m retained for sale within the next three years. The Group has existing £150m corporate bonds issued between 2012/2014. Included in net housing loans and net bond balance are set up costs of £11,781k (2017: £7,383k) capitalised and net of amortisation.

The Group has interest rate swap agreements in place to mitigate the risk of interest rate increases in its floating rate debt. The mark to market liability in respect of the Group's derivative portfolio is £146.2m (2017: £167m). Adjustment is made to fair value for credit risk where this is considered material. The majority of interest rate swap arrangements are on simple terms requiring payment of a fixed rate ranging from 2.85% to 4.76% and receiving a variable rate from the counterparty. In the majority of cases the variable rate is linked to LIBOR. Our swap portfolio has maturity dates ranging from 2018 to 2037. On maturity it is expected that no swap arrangements will attract a significant settlement cost.

Drawn funding bears interest, after taking in to account the impact of derivatives as follows:

	2018 £'000	2017 £'000
Fixed rate	978,820	695,370
Index linked	5,222	6,686
Floating rate	74,795	173,218
Capped	30,000	40,000
	1,088,837	915,274

A total movement on the fair value of the derivative financial instrument portfolio of £165m (2017: £11.3m) has been recognised in other comprehensive income in the year and £(140.7)m has been recognised as a deficit for the year (2017: surplus £0.7m). Fair value is determined by reference to the mark-to-market position of the derivative instruments at each reporting date.

At 31 March 2018 28,999 (2017: 23,695) homes are charged as security to lenders valued at £2.9bn (2017: £2.1bn) (based on a mix of existing use value - social housing (EUV-SH) and market values subject to tenancies (MV-T)). Homes and offices are charged to derivative counterparties to meet our mark to market exposure to the extent that this exceeds a threshold agreed between the counterparties.

The Board recognises the key risk faced by the Group relates to the ability of the Association to repay loans as they fall due. The Association is exposed to fluctuations in interest rates. The key risks and mitigation strategies are:

- The Group uses derivatives to manage interest rate risk
- The Group undertakes regular revaluation of the property portfolio, ensuring the asset cover required to secure borrowings is maintained. The majority of borrowing is secured against the market value of properties subject to tenancies;
- The Group regularly monitors actual and projected compliance with financial covenants, and uses sensitivity analysis to ensure price, liquidity, credit and interest rate risk will not affect the ability of the Group to repay debt to the lender as it falls due or that mitigating actions are taken where appropriate.

28 Financial instruments

The Group's financial instruments are analysed as follows:

	2018 £'000	2017 £'000
Financial assets measured at historic or amortised cost		
- Trade receivables	6,580	1,093
- Other receivables	7,676	11,530
- Investments in subsidiaries and joint ventures	2	2
- Net rental and service charge debtors	11,412	15,539
- Cash and cash equivalents	104,232	144,605
Financial assets measured at fair value through profit or loss		
- Derivative financial instruments	(140,684)	216
Financial liabilities measured at amortised cost		
- Loans payable	(1,083,395)	(1,095,445)
Financial liabilities measured at historic cost		
- Trade creditors	(3,377)	(17,332)
- Other creditors	(74,611)	(42,646)
Derivative financial instruments designated as cash flow hedges of variable interest rate risk	(2,583)	(167,586)

29 Provisions

Group and Association	Handback provision £'000
At 1 April 2017	776
Decrease in year	(23)
At 31 March 2018	753

30 Contingent liabilities

As the timing of any future disposal is uncertain, no provision has been recognised in these financial statements in relation to repayment of grant that may arise in the event of a disposal. We hold £36.6m grant (2017: £36.6m) relating to stock swaps which would be repayable to the grant provider in the event that this stock is disposed.

31 Non-equity share capital

Association	2018 £	2017 £
At 1 April	87	94
Issued in year	5	2
Cancelled in year	(19)	(9)
At 31 March	73	87

Every member of the Association holds one share of £1. These shares carry no dividend rights and, on cessation of membership of the Association, are cancelled and the amount paid becomes the property of the Association. Each member has the right to vote at members' meetings.

32 Capital commitments**Commitments for expenditure on developments**

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Capital expenditure contracted for but not provided for in the financial statements	355,946	175,161	320,482	168,126
Capital expenditure which has been authorised by the Board but not yet contracted for	108,735	110,889	108,735	110,889

The amount contracted for at 31 March 2018 will be funded from grants approved by HE / GLA 5% (2017: 9%) or will be financed from property sales 39% (2017: 34%) and private loans / cash generated from the business 56% (2017: 57%). Under regulations approved by Board, expenditure to certain levels may be authorised by appropriate officers, and such authorised expenditure is included above.

Commitments for expenditure on components

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Capital expenditure – contracted for but not provided for in the financial statements	25,994	24,049	25,866	22,951
Capital expenditure – replacement components authorised by the Board but not yet contracted for	3,523	2,933	2,550	2,057

The amount contracted for at 31 March 2018 will be funded by cash generated from the business.

33 Commitments under operating leases

At 31 March 2018 the Group and Association had total commitments under non-cancellable operating leases as follows:

	Group		Association	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Land and buildings				
Leases expiring within one year	873	916	873	914
Two to five years	2,044	2,349	2,044	2,349
Over five years	2,862	2,795	2,862	2,795
	5,779	6,060	5,779	6,058
Other				
Leases expiring within one year	399	444	394	439
Two to five years	387	301	387	295
	786	745	781	734
Total	6,565	6,805	6,560	6,792

34 Related party disclosures

The ultimate controlling party of the Group is Optivo a registered social housing provider. There is no ultimate controlling party of Optivo.

Optivo considers the key management personnel to be the Board and Executive Team. The only transactions between Optivo and the key management personnel are remuneration which is set out in notes 7 and 8.

Optivo participates in six defined benefit pension schemes. The transactions with these pension schemes are set out in note 35.

The following managed undertakings are subsidiaries by virtue of the ability of the Association to control the composition of their Board or by holding the majority of shares, in accordance with financial reporting standards, the results of the undertakings are incorporated in the consolidated accounts. Where indicated, subsidiaries are Registered Providers of Social Housing (RPSH).

Name of undertaking	Country of registration	Principal activity
Amicus Group Ltd	UK RPSH	Dormant
AmicusHorizon Group Financing Ltd	UK	Group financing vehicle
Optivo Finance Plc	UK PLC	Bond issuing vehicle
Avenue Lettings & Management Ltd	UK	Dormant
Crystal Palace Housing Association Ltd	UK RPSH	Registered social housing provider
Eason Gruaz Homes	UK Charity	Social housing provider
The Fresh Visions People Ltd	UK Charity	Registered Charity
Charity of Julia Spicer for Almshouse	UK RPSH	Registered social housing provider
Lamborn Estates Ltd	UK	Property development
Shared Horizons Ltd	UK	Dormant
Neighbourhood Homes Ltd	UK	Dormant
SLD Architects & Surveyors Ltd	UK	Dormant
Middlesex First Ltd	UK	Manages student accommodation
Optivo Development Services Ltd	UK	Property development
Horn Lane Development Ltd	UK	Dormant
Viridian Property Investments Ltd	UK	Dormant
Viridian Facilities Management Ltd	UK	Dormant
Viridian Commercial Enterprises Ltd	UK	Dormant
Viridian Homes For All Ltd	UK	Dormant
Optivo Homes Ltd	UK	Dormant
Optivo Enterprise Ltd	UK	Dormant

Investments

	2018 £'000	2017 £'000
Amounts owed by related parties at year end	1,690	1,269

Amounts due from related parties disclosed in note 18 relates to a loan of £604,800 given to Ealing Care Alliance (Holdings) Limited. Interest accrues at 13.5% pa (£81,648 pa) and the loan is considered to be due on demand. A one off dividend of £120,000 was received from ECA in the year ended 31 March 2018.

The Group provided care services to Ealing Care Alliance Limited, the wholly owned subsidiary of Ealing Care Alliance (Holdings) Limited, at a cost of £10,016,235 (2017: £10,571,000).

34 Related party disclosures (continued)

The Association is a member of Ink Development Co Ltd, a vehicle set up with West Kent Housing Association and Russet Homes to jointly acquire sites and develop schemes. Russet Homes ceased membership in 2014. The following transactions took place during the year:

	2018 £'000	2017 £'000
Net sales and purchases of goods and services	9,921	6,507
Debtors due to Ink	865	1,534
Creditors due from Ink	613	335
Administration fees	291	240

The Group provides central management services to its subsidiaries. The quantum of the 2017/18 charges applied for these services to each subsidiary is as follows:

	2018 £'000	2017 £'000
Middlesex First Ltd	335	2,595
Optivo Development Services Ltd	2,800	1,045
Crystal Palace Housing Association Ltd	229	229
Eason Gruaz Homes	2	3
The Fresh Visions People Ltd	3	3
Charity of Julia Spicer for Almshouse	6	7
Total	3,375	3,882

The Group transacted with the following entities which are not themselves registered providers:

Name of the undertaking	Nature of the Transaction	2018 £m	2017 £m
AmicusHorizon Group Financing Ltd	Inter-company housing loans	-	(450.0)
Optivo Finance Plc	Inter-company loan to Optivo		
	– Bond issue	(297.0)	(147.3)
	– Concessionary loan	(4.2)	-
Optivo Development Services Ltd	Development cash flow	-	11.5
Middlesex First Ltd	Operational cash flow	1.9	1.9
Horn Lane Developments Ltd	Settlement of third party debt	-	2.0
Ealing Care Alliance Limited	Care services	10.0	10.6

Interest on the Optivo Finance plc loan is charged at the same equivalent rate of the external loans with no mark up by Optivo plc of £7.9m (2017: Optivo Finance plc £7.9m and AmicusHorizon Group Financing Ltd £17.1m).

35 Pension commitments

Optivo operates six defined benefit schemes for its employees including Social Housing Pension Scheme (SHPS), Horizon Housing Group Pension Scheme (HHGPS) and four Local Government Pension Schemes: East Sussex County Council Pension Fund (ESCC), Kent County Council Scheme (KCCS) the London Borough of Barnet Scheme (LBB) and London Borough of Ealing Scheme (LBE). The assets of the schemes are held separately from those of the Group and are managed by trustees. The contributions are determined on the basis of triennial valuations using the projected unit method. These schemes are all closed to new members.

Optivo also operates a group pension plan which is accounted for as a defined contribution scheme.

Three commercial properties have a charge to secure the liabilities on HHGPS. The respective properties are valued at £2m.

SHPS - The Pensions Trust

Optivo participates in The Pensions Trust – Social Housing Pension Scheme SHPS (the Scheme). It's a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK. It is not possible for the Association to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore the Association is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid from all employers, to the scheme as follows:

Deficit contributions

Tier 1 From 1 April 2016 to 30 September 2020:	£40.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)
Tier 2 From 1 April 2016 to 30 September 2023:	£28.6m per annum (payable monthly and increasing by 4.7% each year on 1st April)
Tier 3 From 1 April 2016 to 30 September 2026:	£32.7m per annum (payable monthly and increasing by 3.0% each year on 1st April)
Tier 4 From 1 April 2016 to 30 September 2026:	£31.7m per annum (payable monthly and increasing by 3.0% each year on 1st April)

35 Pension commitments (continued)

The scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 and 3 deficit contributions.

Where the scheme is in deficit and where the Association has agreed to a deficit funding arrangement, the Association recognises a liability for this obligation. The amount recognised is the net present value of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using a discount rate of 2.2%. The unwinding of the discount rate is recognised as a finance cost.

Group and Association	2018 £'000	2017 £'000
SHPS pension liability		
At 1 April	15,058	16,087
Unwinding of the discount factor (interest expense)	281	383
Deficit contributions paid	(2,027)	(1,940)
Remeasurements – SLDHA/ Other	(93)	528
At 31 March	13,219	15,058

Triennial valuations

The triennial valuations were last undertaken as at 31 March 2016 for the ESCC, KCC, LBB and LBE schemes and at 31 March 2017 for HHGPS.

The disclosures on the following pages are the aggregate of the KCC, ESCC, LBE, LBB & HHG defined benefit pension schemes excluding SHPS.

Split of plan assets

The major categories of plan assets as a percentage of total plan assets are as follows:

Year ended	Range	
	31 March 2018	31 March 2017
Equities	39% - 79%	70% - 88%
Gilts	0% - 1%	1.0%
Bonds	10% - 31%	10% - 14%
Property	0% - 13%	0% - 12%
Target return portfolio	0% - 7%	4.0%
Cash	0.2% - 30%	0.3% - 3%

Mortality

Life expectancy is based on the S1PA S2PA tables and the CMI2012 and CMI2020 models. Based on these assumptions, the average future life expectancies from retirement age are summarised below:

	Range	
	Males	Females
Current pensioners	20.9 – 23.1 years	22.8 – 26.0 years
Future pensioners	22.0 – 25.3 years	24.0 – 28.3 years

Financial assumptions

The main financial assumptions at 31 March each year were as follows:

Range	31 March 2018	31 March 2017
	Rate of general long term increase in salaries	2.8% - 4.1%
Rate of increase in pension payment	2.0% - 3.2%	2.4% - 3.3%
Discount rate	2.5% - 2.7%	2.5% - 2.6%
Inflation assumption (CPI)	2.3% - 2.4%	2.4% - 2.5%

35 Pension commitments (continued)**Balance sheet**

	31 March 2018 £'000	31 March 2017 £'000
Year ended		
Fair value of employer assets	102,029	93,756
Present value of funded liabilities	(127,790)	(119,548)
	(25,761)	(25,792)
Present value of unfunded liabilities	(343)	(371)
Net liability	(26,104)	(26,163)

Funding position at 31 March

	31 March 2018 £'000	31 March 2017 £'000
Share of assets	102,782	99,764
Estimated liabilities	(128,040)	(126,424)
Net deficit	(25,258)	(26,660)

Experience (losses)/gains on scheme assets and liabilities

	31 March 2018 £'000	31 March 2017 £'000
Assets	(153)	11,993
Liabilities	(3,278)	2,737

Analysis of amounts charged to Operating Surplus for each year ended 31 March

	31 March 2018 £'000	31 March 2017 £'000
Current service cost	838	667
Total operating charge	838	667

Analysis of amount charged to interest and financing costs for each year ended 31 March

	31 March 2018 £'000	31 March 2017 £'000
Net charge	645	1,029

Analysis of amount recognised in the statement of comprehensive income for each year ended 31 March

	31 March 2018 £'000	31 March 2017 £'000
Actual return less expected return on pension schemes	(153)	11,993
Experience (losses) and gains on the scheme liabilities	(3,278)	2,737
Past service cost	-	(183)
Changes in underlying assumptions	2,287	(16,611)
Total actuarial loss	(1,144)	(2,064)

35 Pension commitments (continued)**Analysis of movement in surplus during each year to 31 March**

	31 March 2018 £'000	31 March 2017 £'000
Deficit at the beginning of the year	(26,660)	(26,344)
Total contributions	3,921	3,597
Service costs	(812)	(666)
Other finance costs	(950)	(1,162)
Actuarial losses	(757)	(2,085)
Deficit at the end of the year	(25,258)	(26,660)

Reconciliation of opening and closing balances of the fair value of scheme assets as at 31 March

	31 March 2018 £'000	31 March 2017 £'000
Opening fair value of assets	99,764	83,717
Expected return on assets	2,557	2,912
Actuarial (losses)/gains on assets	(148)	12,056
Other losses	189	524
Contributions by the employer	3,921	3,597
Contributions by the participants	192	189
Administration expense	(5)	(6)
Net benefits paid out	(3,688)	(3,225)
Closing fair value of assets	102,782	99,764

Reconciliation of opening and closing balances of the present value of scheme liabilities as at 31 March

	31 March 2018 £'000	31 March 2017 £'000
Opening present value of liabilities	126,424	110,061
Service costs	838	666
Change in assumptions	(442)	2,522
Interest costs	3,202	3,768
Contributions by participants	192	189
Actuarial gains on liabilities	1,240	12,143
Net benefits paid out	(3,388)	(2,925)
Loss on curtailments	(26)	-
Closing present value of liabilities	128,040	126,424

36 Merger accounting

Analysis of comprehensive income 2017/18

Association

	Pre merger		Post merger	Total 2018 £'000
	Amicus Horizon £'000	Viridan £'000	Optivo £'000	
Operating surplus	13,871	6,620	96,414	116,905
Surplus on other sales	-	-	3,551	3,551
Interest receivable	46	168	754	968
Interest and financing costs	(4,697)	(2,155)	(34,945)	(41,797)
Movement in fair value of investment property	-	-	11,847	11,847
Movement in fair value of financial instruments	-	-	23,647	23,647
Hedge reserve write off	-	-	(164,331)	(164,331)
Surplus for the year	9,220	4,633	(63,063)	(49,210)
Actuarial loss in respect of pension schemes	-	-	(757)	(757)
Change in fair value of hedged financial instruments	-	-	164,331	164,331
Total comprehensive income for the year	9,220	4,633	100,511	114,364

At 22 May 2017 AmicusHorizon had net assets of £130m and Viridian had net assets of £321m. No material adjustments were required to align accounting policies.

Analysis of comprehensive income 2016/17

Association

	Amicus Horizon 2017 £'000	Viridan 2017 £'000	Total 2017 £'000
Turnover	188,305	145,881	334,186
Cost of sales	(6,353)	(11,014)	(17,367)
Operating expenditure	(104,631)	(94,343)	(198,974)
Surplus on disposal of housing property	21,478	6,667	28,145
Operating surplus	98,799	47,191	145,990
Surplus on other sales	486	-	486
Interest receivable	866	1,502	2,368
Interest and financing costs	(31,204)	(12,194)	(43,398)
Movement in fair value of investment property	667	-	667
Movement in fair value of financial instruments	(122)	320	198
Surplus for the year	69,492	36,819	106,311
Actuarial loss in respect of pension schemes	(2,064)	(21)	(2,085)
Change in fair value of hedged financial instruments	(621)	(10,363)	(10,984)
Total comprehensive income for the year	66,807	26,435	93,242

