

Notting Hill Housing Trust

Financial Statements for the year to 31 March 2013



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Notting Hill Housing
Homes for Londoners since 1963

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Board members, senior staff, advisers and bankers

Vice President

Lionel Morrison OBE

Board

Chairman

Paul Hodgkinson CBE

Vice Chairman

Alexander Phillips

Other Members

Bukky Bird

Linde Carr (Appointed 19 September 2012)

Sue Hunt (Appointed 19 September 2012)

Annabelle Louvros (Resigned 19 September 2012)

Barbara Matthews (Resigned 19 September 2012)

Alastair Moss

Sophie Warner

Mohan Yogendran

Debra Yudolph

Kate Davies

Paul Phillips

Andy Belton

Secretary

Andrew Nankivell

Executive Board

Chief Executive

Kate Davies

Group Finance Director

Paul Phillips

Group Development Director

John Hughes

Chief Operating Officer

Andy Belton

Group Corporate Services Director

Alastair Clegg (Resigned 31 August 2012)

Group Corporate Services Director

Andrew Muir (Appointed 1 September 2012)

Group Director of Asset Management

Kath King

Kate Davies, Paul Phillips and Andrew Belton are members of the Notting Hill Housing Trust Board.

John Hughes, Andrew Muir and Kath King are members of the Notting Hill Home Ownership Board.

Registered Office and Head Office

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Independent auditors

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Chartered Accountants and Statutory Auditors

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Principal Solicitors

Devonshires

30 Finsbury Circus

London EC2M 7DT

Principal Bankers

Barclays Bank plc

Business Banking

Floor 28

1 Churchill Place

London E14 5HP

Registrations

Registered Industrial and Provident Society Number:
IP16558R

Registered Provider Number: L0035

A charity exempt from registration

Regulated by The Homes and Communities Agency



Chairman's report April 2012 - March 2013

This report is not only a statutory document, but provides an important chance to update all our stakeholders, including shareholders, funders, residents, employees, regulators, local authorities, joint venture partners, suppliers, and of course, the communities in which we operate. The year to March 2013 has been a busy time for your Trust, with the organisation consolidating on the huge changes that it had introduced in 2010 and 2011. In particular, this was the first full year of operating from our new King Cross head office, along with associated offices in Hammersmith, Vauxhall and Stratford.

As I mentioned in my introduction last year, the Government introduced a new programme for financing affordable housing. Notting Hill was able to secure the largest programme in London (and the third largest in the country) for that period. Overall, we expect to invest about £469m, of which £58m will come from the Homes and Communities Agency. The balance will come from a combination of recycled grants (£25m), funds secured on the rental streams from the homes constructed (£187m), funds secured on increased rents on existing homes (£49m), sales of part of the equity in shared ownership homes (£123m) and finally, contributions from Notting Hill's existing resources (£27m). As can be seen from these numbers, every pound provided by Government to the Notting Hill development programme leads to eight pounds of investment in new homes for Londoners.

Our very active development programme inside London is one of the defining characteristics of the Trust. This programme will deliver about 2,200 rented and shared ownership homes in that period, with the homes to be completed by March 2015. A considerable amount of work has gone into progressing this during 2012/13. In particular, we acquired 2,145 plots. We are also supporting the construction industry – we started 981 new homes in 2012/13, leading to orders of £92m being placed for new construction, providing much needed support to the London economy. This is a smaller number than last year, but recent successes in terms of securing planning mean that we expect to increase the number of starts in 2013/14. We also completed 536 homes.

During 2012, we kept the status of the capital markets under review. Many Registered Providers accessed the markets during the year, but there were

far fewer late in the year. In September 2012, we decided that it would be sensible to secure the next tranche of debt to support the work of the Group. We mandated Barclays, Lloyds and Goldman Sachs to act as bookrunners and by December we were ready to proceed. We completed roadshows in early December and priced a £250m 20 year bond at an all in yield of 3.785% on 13 December 2012. This was the lowest fixed rate coupon paid by a Registered Provider to date and represented a margin of 1.08% above the underlying Government Gilt. The funds were received on 20 December 2012. The overall level of debt to asset value has been maintained at a conservative level, as these new funds have been used to repay bank debt and finance new stock at low long term interest costs. Since the year end all government linked credit ratings have been affected by a downgrade but our bonds, traded on the secondary market, have continued to maintain their value.

The amount of grant available to support new construction by Registered Providers was reduced from the beginning of the 2011-2015 programme. This means that we have had to charge higher rents, both on new homes completed under the new programme and on relets of existing homes. The new rents, called "affordable" rents are considerably more expensive than the older target rent levels. In Notting Hill's case, the average differential to date is about £87 per week. We have found that the demand for these properties, although lower than before, remains good and we have been able to let them quickly in most cases. Affordable rents are still at a significant discount to the market rents and therefore a social dividend is being delivered in making this stock available to our customers; but of course less than was the case before the current coalition government's budget adjustments.

In addition to increasing the levels of rents to be charged by developing Registered Providers, the Government is making modifications to the housing benefit system. In particular, from 1 April 2013, the housing benefit system will reduce the amount of benefit paid to some tenants who are under occupying their home by one or more bedroom. Our Altogether Better officers have spent much time in 2012/13 preparing for this change by advising tenants of the position and explaining the options open to them. The changes were

introduced in April 2013, but it is too early to say what the longer term implications will be.

Other changes, including an overall limit on the benefit payable per family and payment of benefits to tenants, rather than landlords, will follow.

We completed the disposal of our out of London homes early in the financial year with 522 homes being sold to Registered Providers who will be able to provide a more local service. Notting Hill will focus on London in future.

During the year, we also began to implement our active asset management strategy whereby we are disposing of smaller homes in expensive parts of London and replacing them with larger homes in outer London. Some of the disposals are outside the group and we hope to convert to market rent. Taken overall, we expect the five year strategy to consist of disposals of about 200 homes. The proceeds will be combined with additional debt and used to purchase around 650 family houses in outer London boroughs. We believe this is good use of our assets and fits with our aim of providing more housing for those who can't afford it.

Operationally, we have continued to develop our Altogether Better model, where housing officers take responsibility for 125 tenants and their properties. As mentioned above, this has been effective when discussing new benefit arrangements with our tenants and has allowed us to gain much more awareness and knowledge of our customer base. The result has been an improvement in the key performance indicators across the Board.

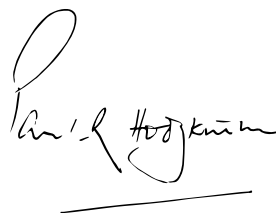
Last year, I discussed the new arrangements for day-to-day repairs. We entered into contracts with Lovells and with Willmott Dixon Partnerships. Unfortunately, however, our new contracting arrangements with Willmott Dixon Partnerships did not work well for either party and we parted company by mutual consent in 2012. The arrangement with Lovells was more successful, so they expanded the amount of work they did and smaller contracts were let to Mears and Linbrook. These arrangements are working more effectively, but we have not been able to deliver the cost savings we were seeking. This will be an area of particular focus in 2013.

The result of all this hard work and application has seen the Trust achieve an excellent result to March 2013. We had a strong underlying result with all product sectors delivering profits. We had particularly strong sales of shared ownership property alongside our traditional social and market rental activities.

During the year, two Board members, Barbara Matthews and Annabelle Louvros, stood down from their positions as Board members. I should like to take this opportunity of thanking them both for their contributions and hard work and wishing them well for their future careers.

We have a strong Executive Team, led by Kate Davies, and the year has seen a senior change with Alistair Clegg leaving and being replaced by an internal appointment of Andrew Muir. Strong focus in the year on the succession strategies of senior management has been reinforced by your Board regularly reviewing the team's resilience to potential change to ensure it has plans for succession and contingency planning.

Notting Hill Housing Trust was founded by Bruce Kenrick in 1963, so it celebrates its 50th anniversary in 2013. We are in good shape and very much looking forward to the next 50 years, and have an extensive programme of treats arranged for the end of 2013 anniversary to celebrate the Trust's work. Our aim continues to be based on providing high quality housing for those who can't afford to otherwise live in London; and as such we may be much larger than the organisation was 50 years ago, but we continue to work to the same values that the founders initiated.



Paul Hodgkinson CBE

Chairman

Report of the Board and operating and financial review

Introduction

The Group consists of two Registered Providers and a number of subsidiaries headed by Notting Hill Housing Trust, a charitable organisation founded in 1963.

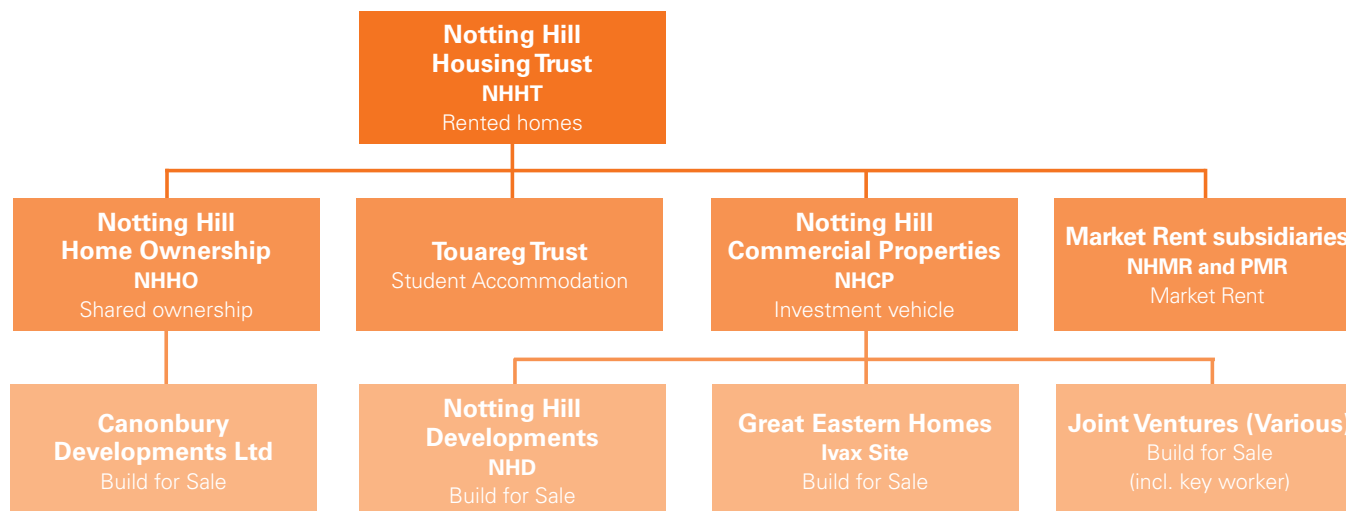
At 31 March 2013, the two Registered Providers in the Group were Notting Hill Housing Trust ('the Trust') and its subsidiary, Notting Hill Home Ownership ('NHHO'). The Trust is a charitable organisation with three main businesses:

- the provision of general needs housing accommodation at affordable rents for those in housing need ('Rented Social Housing')
- temporary housing for those who would otherwise be homeless ('Temporary Housing')
- supported housing and care for those who need additional support ('Supported Housing').

NHHO specialises in the provision of low cost home ownership homes, particularly shared ownership schemes, whereby residents own a percentage of the equity in their homes and rent the rest from NHHO ('Shared Ownership'). In 2009/2010, Pathway Housing Association, Croydon Peoples Housing Association and Presentation Housing Association ('PHA') joined the Group as subsidiaries, and subsequently transferred their engagements into the Trust through a merger. The Trust and NHHO have a number of subsidiary companies and limited liability partnerships, which develop housing for outright sale, invest in commercial property, provide market rent accommodation and supply student accommodation. A structure chart detailing the key legal entities is shown at Figure 1 and fuller details are at note 34 to the accounts.

The Group retained excellent ratings for governance and financial strength. These assessments were reviewed by the Homes and Communities Agency ('HCA') during the year and are necessary for receipt of funding for new developments. Figure 2 shows the mix of housing stock under management. The stock condition is considered by external consultants

Figure 1 – Key legal entities in the Notting Hill Housing Group



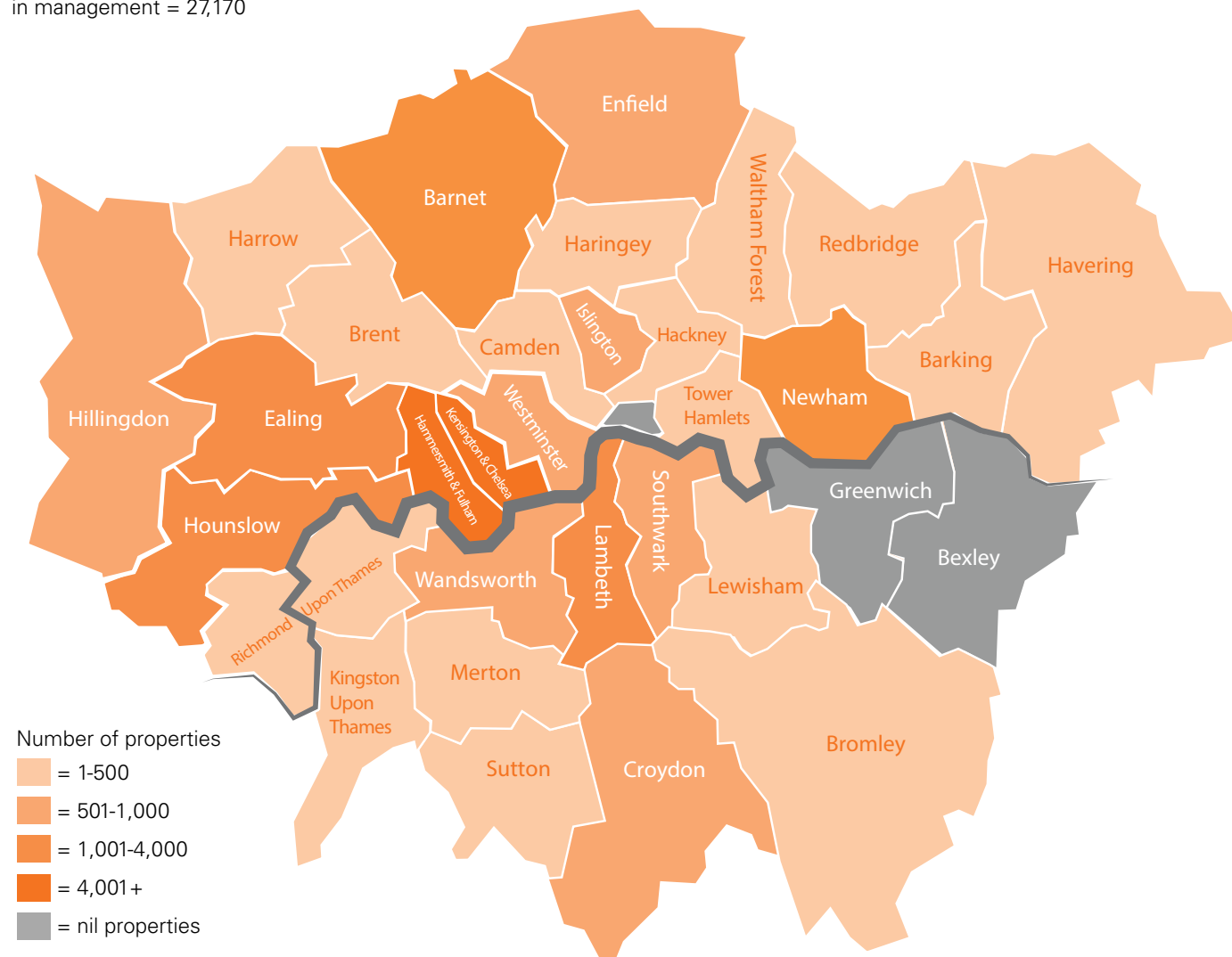
to be good. More than £27.2m was spent in the year on improvement and renewal. The Group operates across all of London and beyond, having grown significantly from its roots in the Royal Borough of Kensington & Chelsea and the London Borough of Hammersmith & Fulham. Figure 3 illustrates the distribution of the Group's stock throughout London.

Figure 2 – Housing Stock Managed by the Group as at 31 March

| | 2013 | 2012 |
|-------------------------|---------------|---------------|
| Rented Social Housing | 15,600 | 15,926 |
| Supported Housing | 1,415 | 1,348 |
| Temporary Housing | 2,125 | 2,298 |
| Shared Ownership | 4,700 | 4,406 |
| Student accommodation | 839 | 839 |
| Market Rent | 712 | 698 |
| Leasehold in management | 1,779 | 1,620 |
| Total | 27,170 | 27,135 |

Figure 3 – Notting Hill Housing Group Stock Map at 31 March 2013

Total number of properties in management = 27,170



320 properties outside of London

GOVERNANCE

The Trust is governed by a Board ('the Board') composed of nine non-executive members plus three executives. NHHO has a separate Board ('NHHO Board'), chaired by Alexander Phillips which consists of seven non-executive members and three executives with the meetings taking place concurrently with the Trust. Details of Board members are set out on page 1, who are drawn from a wide background. The Board delegates some of its responsibilities to functional committees, who each have a Group-wide remit. Each of these committees has clear terms of reference and delegated authority. They report back to the Board after each meeting, where their recommendations are fully considered and approved where appropriate. There are five main functional committees within the Group: the Audit Committee, the Treasury Committee, the Altogether Better Committee, the Development and New Business Committee and the Appointments and HR Committee.

The Audit Committee

The Audit Committee oversees the work of both the internal and external audit function and the risk management framework and internal control framework for the Group. The Committee reviews the audited financial statements for all parts of the Group and recommends them to the relevant Boards for approval. Through the reports it receives, the Audit Committee gains external assurance that the Group has appropriate systems of internal control and complies with the Homes and Community Agency's expectations in this area. The Audit Committee met four times during the year. It comprised Barbara Matthews (Chairman - until 19 September 2012), Sue Hunt (Chairman - from 20 September 2012) Alexander Phillips, Alastair Moss, Paul Dare (until 19 September 2012), Duncan Beardsley (from 20 September 2012) and David Fawcett (until 13 November 2012).

The Treasury Committee

The Treasury Committee undertakes an annual review of the Group's Treasury policy and hedging strategy. It also oversees the Group's treasury activities including, in particular, the strategy for sourcing of new finance. The Treasury Committee met four times during the year. It comprised Alexander Phillips (Chairman), Barbara Matthews (until 19 September 2012), Sue Hunt (from 20 September 2012), Alastair Moss, Paul Dare (until 19 September 2012), Duncan Beardsley (from 20 September 2012) and Paul Phillips.

The Altogether Better Committee

The Altogether Better Committee is responsible for overseeing the provision of services to the Group's residents and other customers.

The Altogether Better Committee met five times during the year. It comprised Debra Yudolph (Chairman), Annabelle Louvros, Michael Lerbalestier, Emmanuel Kotey, Debra Constance (until 21 May 2013), Alka Damania (until 21 May 2013), Gow Gibson (until 22 May 2012), Paul Mckay (from 1 September 2012), Robert Dyer (from 1 September 2012), and Emina Trozic (from 1 September 2012), Mary Ann Bowring (from 21 May 2013), John German (from 21 May 2013), Samantha Tennakoon (from 21 May 2013), Catherine Stevenson (from 21 May 2013) and Laura Wilkes (from 21 May 2013).

The Development and New Business Committee

The Development and New Business Committee is responsible for overseeing the effective risk management, control and delivery of major business development programmes and projects across the Group.

The Development and New Business Committee met seven times during the year. It comprised Sophie Warner (Chairman), Bukky Bird, Joanna Embling, John Bullough, Jon Manley (from 30 May 2012) and John Hughes.

The Appointments and HR Committee

The Appointments and HR Committee considers remuneration of board members and of the Executive Board. In addition

the Appointments and HR Committee oversees the process for board member appraisal and reviews the process for board member appointment and reviews significant HR and governance issues across the Group.

The Appointments and HR Committee met six times during the year. It comprised Mohan Yogendran (Chairman), Akin Adepoju, Paul da Gama, Angela Paradise and Romny Gray (from 22 May 2013).

The Executive Board ('the EB')

The Group is managed by the EB, headed by the Chief Executive and supported by Group Directors of Finance, Operations, Development, Corporate Services and Asset Management. Alastair Clegg resigned as Corporate Services Director with effect from 31 August 2012 and Andrew Muir was appointed to the same post with effect from 1 September. There were no other changes to the EB in 2012/2013.

Executives and other staff have no interest in the Trust's shares and act as executives within the authority delegated by the Board.

The Chief Executive and the EB members are on notice periods ranging from three to six months. Details of Board and EB remuneration are shown in note 31.

Board members, senior staff and committee members are insured against personal liability when acting on behalf of the Group. The EB members are either members of the Social Housing Pension Scheme or the Local Government Pension Scheme, which are both defined benefit final salary schemes.

Tenant Involvement

Tenants are actively encouraged to become involved in decision making by the Group, which promotes mechanisms through which tenants can influence operations. We have a Board member who is a tenant and one who is a leaseholder, and there are clear reporting arrangements between resident groups and the Board. There are also customers on other committees in the Group.

Code of Governance

The Group has adopted a code of governance from the National Housing Federation, 'Excellence in Governance' and has committed to uphold it and keep to the high standards expected. Compliance with it is reviewed annually by the Appointments and HR Committee. The Group complies with all areas of the Code apart from three, described further below.

- The code advises that the Board should delegate to a committee, responsibilities that include oversight of the appraisal of the Chief Executive and making a recommendation to the Board on a remuneration package for the Chief Executive. The committee must not include any executive members of the Board. In the Group's case, the Board does not decide the Chief Executive's remuneration package, but has delegated that to the Appointments and Human Resources Committee, which does not include executive members.
- The code requires the Group to use reasonable endeavours to ensure that contractors directly involved in delivering its business activities are obliged to comply with the relevant policies, procedures and codes of conduct. This is already a requirement of many contracts and over the coming year will be extended to all contracts.
- The code requires the Group to exercise due diligence in dealing with consultants, contractors, suppliers, joint venture partners and agents to ensure that they have anti-bribery and corruption policies and procedures that are consistent with its own. This is already a requirement of many contracts and over the coming year will be extended to all contracts.

Employees

The strength of the Group lies in the quality of all its employees. Our ability to meet our objectives and commitments to tenants in an efficient and effective manner depends on their contribution.

The Group shares information on its objectives, progress and activities through office and departmental meetings involving the EB and staff. During 2012/13 there has been a particular focus on presentation and discussion of the Group's strategic direction, given the changes in the operating environment.

The Group is committed to equal opportunities and in particular we support the recruitment of disabled people and the retention of employees who become disabled whilst in the employment of the Group. The Group has received recognition from the Department for Education and Skills for establishing policies of positive promotion of employment opportunities for candidates and employees with disabilities. The Group is an Investor In People.

STRATEGY, OBJECTIVES AND PERFORMANCE

Strategy

The strategy of the Group is set out in a strategic plan that is reviewed annually and approved by the Board. The business planning process includes an assessment of strengths and weaknesses, opportunities and threats, which are discussed by the Board. The Group's key strategic objectives focus on:

- customer satisfaction
- customers' homes
- people
- how we work
- growth

Objectives

The main business targets for 2012/13 and comments on their achievements are set out in Figure 4.

Figure 4 – Key objectives and their achievement

| Finance | Comment |
|--|--|
| To generate sufficient surpluses to maintain adequate financial strength, support the development programme and meet lenders' covenants. | The Board set a budget to achieve a surplus of £46.2m. The result was £55.5m, which is discussed further within the "Financial Review" section. |
| To secure sufficient private finance in the current markets to support the Group's funding needs. | New Finance of £250m was secured from a new bond issue. |
| Development | |
| To remain a preferred provider in receipt of Homes and Communities Agency ("HCA") capital grant and meet their delivery standards. | The Group maintained a strong relationship with the HCA through the continued development of new units for housing. |
| To progress the HCA programme from the HCA for 2011-15 and secure new capital support from public sector resources. | The Group secured London's largest HCA allocation for new housing, totalling £58.9m. We signed a £45m facility under the "Get Britain Building banner" to acquire 140 market rent homes from Berkeley Homes. |
| Asset management | |
| To introduce an active asset management strategy, whereby smaller homes are sold (or converted into market rent properties) and the proceeds are invested in family properties in cheaper parts of London. | By 31 March 2013, 12 sales had been completed. Also by 31 March 2013, 3 new homes had been secured with a further 14 by 30 June 2013. |
| To minimise the asset sales needed to meet reinvestment obligations. | The new asset management strategy does not rely on asset sales to finance reinvestment. |
| Customer service | |
| To roll out the altogether better model across the organisation. | The concept was introduced in our temporary housing and shared ownership businesses. |
| To introduce replacement arrangements for maintenance following the decision by Notting Hill and Willmott Dixon Partnerships (WDP) to end their contract. | Short term arrangements were put in place to replace WDP using Lovells, Mears and Linbrook. |

Performance:

Figure 5 sets out the key indicators used by the EB and the Board to monitor performance.

Figure 5 – Key performance indicators

| Indicator | 2012/13 Performance | 2012/13 Target | 2011/12 Performance | 2011/12 Target |
|--|------------------------|-------------------|------------------------|-------------------|
| Number of homes currently owned or managed | 28,583 | 28,791 | 28,164 | 29,220 |
| Number of defects per new home | 3.1 | 0.75 | 2.6 | 0.8 |
| Average overhead cost of developing a new home | £3,531 | £4,038 | £4,776 | £5,182 |
| Sales time to completion (weeks) | 10 | 12 | 14 | 12 |
| Rent collection rate over 12 months | 99% | 101% | 100% | 101% |
| Rent loss due to voids | 1.6% | 1.6% | 1.6% | 2.0% |
| Number of voids available for letting | 142 | 109 | 132 | 169 |
| Number of voids unavailable for letting | 152 | 78 | 938 | 450 |
| Customer satisfaction – overall | 75% | 78% | 74% | 76% |
| Customer satisfaction with sales process | 82% | 80% | 83% | 80% |
| Number of ombudsman investigations | 29 | 0 | 21 | 0 |
| Number of adverse findings by ombudsman | 7 | 0 | 1 | 0 |
| Number of homes with valid gas certificate | 99.8% | 100% | 99.97% | 100% |
| Plots acquired | 2,145 | 1,067 | 2,944 | 2,944 |
| Homes started | 981 | 1,967 | 942 | 1,200 |
| Homes completed | 536 | 757 | 1,580 | 917 |

Comments on performance.

The reasons for failing to meet some of the indicators are as follows.

- **Number of homes currently owned or managed** – The shortfall in terms of units was mainly due to a reduction in our temporary housing business.
- **Number of defects per new home** – We are working more closely with developers to check the accuracy of defect reporting and ensure that defects are being reported in a timely manner.

- **Rent collection rate over 12 months** – The Group collected 99% against a target of 101%. The shortfall was due to below target collections particularly due to delayed receipts of housing benefit late in the financial year.
- **Number of voids available for letting** - The over target figure was largely due to a high number of Supported Housing voids. This was caused by some boroughs' withdrawal of supported services, or new services yet to be commissioned. Much of the cost of this is borne by the boroughs.
- **Number of voids unavailable for letting** - We have a number of properties awaiting demolition or refurbishment as part of our regeneration of the North Circular Road. In addition, we have 99 properties unavailable for letting because they are part of a refurbishment programme or undergoing major works. Eleven properties are awaiting sale.
- **Customer Satisfaction** – Although customer satisfaction rose from 74% to 75% over the year, the final position was below the target of 78%. We believe that this was because of the difficulty in delivering a repairs service of an appropriate standard.
- **Number of ombudsman investigations and adverse findings by the ombudsman** - During 2012/13 we saw a rise in both the number of Ombudsman investigations and findings of maladministration. We were operating under the old complaints process for most of 2012/13 which was long and left a large number of customers dissatisfied at the end. The new complaints process has been live since February 2013, it is shorter and more straightforward therefore there should be fewer dissatisfied customers at the end of the process and a smaller margin for error in complaint handling during 2013/14.
- **Percentage of homes with a valid gas certificate** - although the Board seeks 100% compliance, in practice a small number of cases prove impossible to achieve due to access issues - the 99.8% figure is consistent with the performance achieved by other major landlords.
- **Homes Started** - While the number of starts lags behind our target due to the late implementation of the new Affordable Housing Programme we expect to accelerate the projects in our pipeline to correct this position over the next year.
- **Homes Completed** - The number of homes completed is below target as we accelerated our programme the previous year to maximise our completed homes under the Homes and Communities Agency's National Affordable Homes Programme.

VALUE FOR MONEY

For Notting Hill, Value for Money (VFM) is about being effective in how we plan, manage and operate our business. It means making the best use of the resources available to us to provide quality homes appropriate to London's needs. Value therefore means the number of homes, the appropriateness of those homes to London's needs, the quality of the homes and the quality of the services we provide which in turn lead to improved quality of life and wellbeing for our customers. In order to ensure that we can continue to deliver VFM we must also be aware of risks to the fulfilment of our purpose and manage them.

How do we approach VFM

The approach to VFM has been developed from the corporate strategy and corporate plan which is reviewed annually. The VFM strategy is agreed by the Board who also monitor performance on VFM in order to gain assurance that the strategy is being delivered. How we approach VFM and the results we achieve will be transparent. Over time our VFM standards will continue to rise. We will consult with residents to get their input to future development of the strategy.

Delivery of VFM

Our business planning uses the objectives and outcomes in the corporate strategy to drive the plan for each business. These plans are developed by each business team within a Group-wide process which ensures that the use of assets and resources required to meet service, quality and other non-financial objectives are recognised in financial plans and budgets. Because of the balance between the required objectives and the limited assets and other resources used to achieve them, it is essential that VFM is maximised. Our business planning process therefore helps ensure that resources and assets are used in the most appropriate way to deliver our purpose.

There has been a review of key strategies including Asset Management, Development, Investments, ICT and

Environment. These strategies determine how we decide on investment and how we will increase VFM.

Performance targets are based on the business plans. Non-financial and financial performance is reviewed monthly by the Executive board, quarterly by the Board and annually in Annual Standards Reports for residents. We use benchmarking to assess our performance relative to peers. We have set up four Local Scrutiny Panels which review local performance and priorities and give feedback to managers.

VFM Achievements - Return on assets

We have an active development programme and this has achieved 981 starts on site and 536 completions in the year.

We have several regeneration and major projects completed or in progress at Barham Park, Allen Court, Hilldene (London borough of Havering) and Gallions Quarter. The first phase of refurbishing 257 homes on the North Circular Road has been completed and the scheme has been shortlisted in the regeneration category of the RICS London Awards and for two categories in the constructing Excellence Awards.

Surpluses from sales and market rent as well as from student accommodation are used to support future growth in affordable housing. We believe that increasing our market rent portfolio will directly support our social purpose as we concentrate on growth of those homes in less expensive areas. This will mean London has more quality and affordable rented stock for people who need it. Figure 6 shows returns on capital employed.

Our active asset management strategy improves the use of our housing assets - selling older and more expensive inner London properties to provide more efficient and larger homes in cheaper areas. This strategy will also help to deal with the impact of welfare reforms where larger families may find it increasingly difficult to live in inner London and will increase opportunities for seriously overcrowded households.

Figure 6 - Return on capital employed by main business

| | Operating surplus | Capital deployed | Return % |
|--|-------------------|------------------|----------|
| Rented housing | £27.9m | £674m | 4.1 |
| Shared ownership | £10.4m | £187m | 5.6 |
| Market rent (before 3% unrealised gain) | £3.7m | £103m | 3.6 |
| Student housing | £3.6m | £41m | 8.8 |

To date we have sold 12 properties which have generated £3.5m to reinvest and we plan in the next 5 years to deliver a net gain of 650 largely family sized homes.

Notting Hill focuses on London's housing needs. This year we have completed our programme of transferring 867 properties in Luton, Bedfordshire and Kent to more local organisations, which returned gross proceeds of £51m to be invested in housing in London.

VFM Achievements - Service costs

We use Housemark to analyse our performance relative to peers, the Group of 15 large London providers of social housing (G15). We also track our unit costs using published accounts. Key results are shown in Table Figure 7.

Figure 7 - VfM Indicators for social homes from annual accounts and Housemark

| | NHHT 2013 | NHHT 2012 | G15 2012 Average | G15 Peer group 2012 Ranking | Housmark 2012 Ranking |
|---|--------------|--------------|------------------------|-----------------------------------|--------------------------|
| Operating cost per housing unit | £4,722 | £4,547 | £3,549 | 14 | |
| Maintenance costs per home - including capitalised repairs | £3,325 | £3,086 | £2,652 | 13 | 9 |
| Management costs per home | £921 | £1,130 | £913 | 7 | 4 |
| Service costs per home | £413 | £381 | £417 | 7 | - |
| Overheads as a % of income | 8.2% | 11.0% | - | - | 4 |
| Overheads per unit | £515 | £636 | - | - | - |
| Current rent arrears | 8.16% | 8.63% | - | - | - |
| Cash collection % | 99.3% | 99.2% | - | - | - |
| Bad debts per unit | £51 | £33 | - | - | - |
| Spend per unit on new supply | £5,648 | £8,929 | - | - | - |
| Debt per unit | £41,103 | £41,599 | - | - | - |
| Capital commitment as a % of fixed assets | 32% | 23% | - | - | - |

Operating cost per unit increased due to a larger cyclical maintenance programme, which added £252 per unit. There were also works carried out to improve fire safety, particularly in older converted street properties which added £342 per unit. Reductions were achieved on management costs, mostly as a result of lower overheads following the completion of the reorganisation of our office locations.

About half of our stock is in flat conversions within older properties (mostly Victorian) and this throws up particular maintenance and asset management challenges which we intend to quantify using more detailed benchmarking in the coming year.

The three year downward trend on operating costs excluding depreciation but including capitalised repairs did not continue due to the increase in planned maintenance.

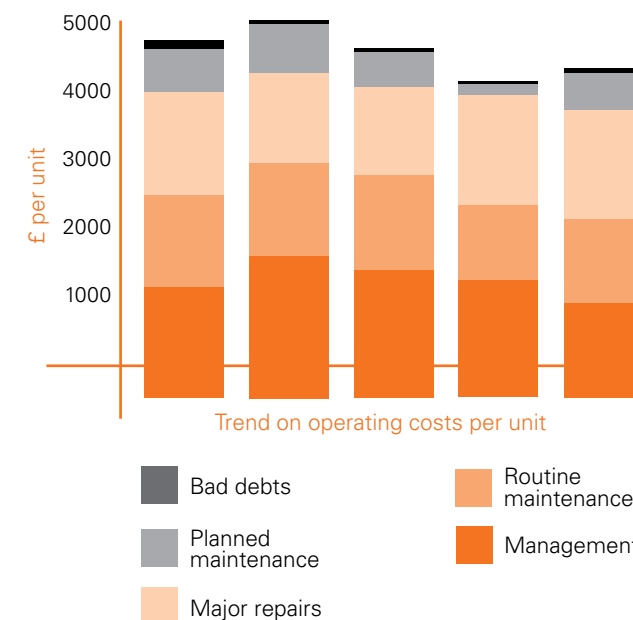
Figure 8 and the graph below it shows performance on costs over the last 5 years. In this case the full cost of repairs has been shown, including costs incurred on work charged to capital but depreciation has been excluded.

The other businesses within the group compete in the wider market, so we control costs by setting financial performance targets rather than benchmarking. VfM is essential for them to compete in their respective markets.

Notting Hill has significant exposure to liabilities from defined benefit pension arrangements for some of our employees. We recognise the value to employees of a guaranteed pension, but felt that the risk of future costs to fund them was becoming too great and have therefore decided, following staff consultation, to close these schemes altogether from 31 December 2013.

Figure 8 - Trend on operating costs

| Cost per unit | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|---------------------|---------------|---------------|---------------|---------------|---------------|
| Management | £1,063 | £1,489 | £1,356 | £1,130 | £921 |
| Routine maintenance | £1,476 | £1,585 | £1,429 | £1,206 | £1,271 |
| Major repairs | £1,496 | £1,247 | £1,349 | £1,613 | £1,577 |
| Planned maintenance | £561 | £595 | £450 | £267 | £508 |
| Bad debts | £98 | £72 | £33 | £33 | £51 |
| Total cost | £4,694 | £4,988 | £4,617 | £4,249 | £4,328 |



We use our financial strength to keep our cost of borrowing as low as possible and in December 2012 we made our third entry to the UK listed bond market issuing £250m for 20 years at an effective interest rate of 3.785%, the lowest fixed rate ever achieved by a social housing provider for a bond issue.

We actively raise charitable donations which are used to fund welfare for tenants in most need and other initiatives such as our Construction Training Initiative. We have a programme of recruiting and training volunteers which helps support service delivery and helps the volunteers into paid work.

VFM Plans

One of the main challenges to achieving our objectives is welfare reform. We feel that our Altogether Better approach to housing management which emphasises a one to one relationship between the tenant and the housing officer will help deal with the changes in a way that best protects us all. We have invested in preparing both staff and customers for the changes. We will focus teams on income collection, helping customers to stay in credit or get out of debt as quickly as possible.

Procurement has in the past been carried out within each business unit. We have recruited a small central procurement team who will add expertise and improved processes for purchasing goods and services.

We will improve VFM of our day-to-day and voids repairs service by procuring new contracts. We are currently trialling different models of delivery so that we can develop the best way to achieve both customer satisfaction and cost effectiveness.

Income in the supported housing and care businesses is under extreme pressure. We are carrying out a review in order to improve financial performance without compromising services.

The way we deliver Asset Management has been improved, with emphasis on quality and planning, professional services and commercial services. More of the work is being done by

in-house teams rather than consultants. We will also improve the quality of data which supports control of this major area of expenditure.

There are several IT projects underway which will improve efficiency and support the delivery of services.

Assurance gained by Board

The Board contains executive board members as well as non-executive members who have expertise in finance, development and customer service. It considers performance reports and management accounts quarterly and an annual efficiency report which includes benchmarking data. The Board also approves strategies which impact on VFM and plans and budgets.

KEY EVENTS DURING THE YEAR

Development programme

We made good progress on the development programme achieving 2,145 acquisitions, 981 starts and 536 completions. We also secured £45m from the Homes and Communities agency for the purchase of market rented accommodation from Berkeley Homes.

Financing

The Group's rating provided by Moody's Investors Service ('Moody's') was confirmed in August 2012 as 'Aa3' with a negative outlook. In February 2013, Moody's downgraded the rating of the UK Government as a whole. Given that Notting Hill has a high dependence on the UK Government, our rating was downgraded to A1 but placed under review as Moody's wished to reassess the position in relation to UK Government support. The review was completed on 17 May 2013 and our rating was confirmed as A2 with a stable outlook. Both downgrades reflect Moody's changed view of the probability and impact of UK Government support, rather than any change of opinion in relation to Notting Hill's business itself. The changes have been applied to virtually all rated Registered Providers registered with the HCA. The A2 rating is defined

by Moody's as indicating upper medium grade and subject to low credit risk.

On 13 December 2012, the Trust issued a £250m 3.75% bond due 20 December 2032 at an all in rate of 3.785%.

Affordable rents

The new grant arrangements mean that the Group has introduced affordable rents, where the rents will average about 65% of market rent and the tenancy term is typically set as five years. As at 31 March 2013, we had issued 289 such tenancies.

London focus

The Board decided to focus on investing in London in future. As a result, 867 out of London properties acquired when Presentation Housing Association joined the Group, were disposed of. The sales were all to other housing associations with a stronger local presence and contracts were exchanged for all the sales during 2011/12. The total sales proceeds were £51m, of which £23m was received in 2011/12 and the balance in 2012/13.

Repairs

Following the year end, the Group and Wilmott Dixon Partnerships (WDP) mutually agreed to end a responsive repairs contract which covered most of our stock. The two organisations worked closely together during the transition period to ensure our residents continued to receive a quality repairs service with minimal disruption. Most of the work covered by WDP was transferred to Lovells and some to Mears and to Linbrook.

STATEMENT OF BOARD'S RESPONSIBILITIES

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

The Friendly and Industrial and Provident Societies Act 1968 and registered social housing legislation 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 Trust and the Group and of the 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 the going concern basis unless it is inappropriate to presume that the Trust and the Group will continue in business.

The board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Trust and the Group and to enable it to ensure that the financial statements comply with the Friendly and Industrial and Provident Societies Act 1968 and the Industrial and Provident Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Registered Providers of Social Housing 2012. It has general responsibility for taking reasonable steps to safeguard the assets of the Trust and the Group and to prevent and detect fraud and other irregularities.

The board is responsible for the maintenance and integrity of the Trust's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The board is responsible for the maintenance and integrity of the society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INTERNAL CONTROL

The Board has overall responsibility for establishing and maintaining the whole system of internal control for the Group and for reviewing its effectiveness.

The Board recognises that no system of internal control can provide absolute assurance against material misstatement or loss or eliminate all risk of failure to achieve business objectives. The system of internal control is designed to manage key risks and to provide reasonable assurance that planned business objectives and outcomes are achieved. It also exists to give reasonable assurance about the preparation and reliability of financial and operational information and the safeguarding of the Group's assets and interests.

In meeting its responsibilities, the Board has adopted a risk-based approach to internal controls which is embedded within the normal management and governance process. This approach includes the regular evaluation of the nature and extent of risks to which the Group is exposed and is consistent with Turnbull principles.

The process adopted by the Board in reviewing the effectiveness of the system of internal control, together with some of the key elements of the control framework includes:

Identification and evaluation of key risks

Management responsibility has been clearly defined for the identification, evaluation and control of significant risks. There is a formal and ongoing process of management review in each area of the Group's activities. The EB regularly considers and receives reports on significant risks facing the Group and the Chief Executive is responsible for reporting to the Board any significant changes affecting key risks.

Monitoring and corrective action

A process of control, self-assessment and regular management reporting on control issues provides hierarchical assurance to successive levels of management and to the Board. This includes a rigorous procedure for ensuring that corrective action is taken in relation to any significant control issues, particularly those that may have a material impact on the financial statements and delivery of our services.

Control environment and control procedures

The Board retains responsibility for a defined range of matters covering strategic, operational, financial and compliance issues including treasury strategy and large new investment projects. The Board has adopted, and disseminated to all employees a Code of Conduct for Employees. This sets out the Group's policies with regard to the quality, integrity and ethics of its employees. It is supported by a framework of policies and procedures with which employees must comply. These cover issues such as delegated authority, segregation of duties, accounting, treasury management, health and safety, data and asset protection and fraud prevention and detection.

Information and financial reporting systems

The Board approves a strategic plan in each financial year, which includes longer term financial plans and limits on investment in its various activities. Financial reporting procedures include detailed budgets for the year ahead, management accounts produced monthly and forecasts for the remainder of the financial year, all of which are reviewed in various levels of detail by appropriate staff and in summary on a quarterly basis by the Board. The Board also regularly reviews progress towards the achievement of key business objectives, targets and outcomes.

Fraud

The Board has a policy on fraud covering prevention, detection and reporting of fraud and the recovery of assets. A register is maintained of any frauds or potential frauds. The Audit Committee reviews the Fraud Register at each meeting and

has taken the results of these reviews into account in its report to the Board.

Anti-bribery policy statement

Notting Hill Housing seeks to maintain the highest standards of ethics and integrity in the way we conduct our business. We recognise that bribery and corruption, in all its forms, is illegal and unacceptable. Our Bribery Policy Statement has been integrated into our Code of Conduct and our Gifts and Hospitality Policy, adopted by the board, signed by the Chairman and Chief Executive and made available on our corporate website. We expect our business partners to adopt a similar approach to bribery or corruption and make this a condition for new contracts awarded.

Audit assurance

During the year, KPMG acted as internal auditors. The internal control framework and the risk management process are subject to regular review by the internal auditors who advise the executive directors and report to the Audit Committee.

An audit plan was agreed by the Audit Committee for 2012/2013 and was completed. The internal auditors have direct access to the Audit Committee and met with the Audit Committee during the year without the presence of any of the paid staff or executive directors. The Audit Committee met four times during the financial year and considered internal control and risk at each of its meetings.

The Group has appointed PricewaterhouseCoopers LLP as external auditors. The Group receives a memorandum from the external auditors identifying any internal control weaknesses that may have come to their attention in the course of their duties. This letter is considered by the Audit Committee and the Board. In line with best practice guidance, the Audit Committee met with the external auditors during the year without the presence of any of the paid staff or executive directors.

The Audit Committee conducts an annual review of the effectiveness of the system of internal control and takes

account of any changes that may be needed to maintain the effectiveness of the risk management and control process. The Audit Committee makes an annual report to the Board, which the Board has received.



RISK

The Board has identified the following risks to the delivery of the Group's plans.

Figure 9 - Key risks

| Risk | Comments | Mitigation |
|---------------------------------------|---|--|
| Government funding risk | Approximately 30% of the Group's income is dependent on Government support through housing benefit. Welfare reform changes are expected in 2013, resulting in reductions in benefit paid to those who are regarded as under occupying their homes. It is also expected that the total amount of benefit payable to out of work families will be limited to £500 per week and that housing benefit may not be payable direct to landlords. | We have assessed the occupancy of our homes and will make offers of smaller accommodation to at risk households. We set rents for our new homes in such a way as they are likely to be affordable to those who find their total income capped. The effects of direct payment to residents are being assessed by the Government through a series of demonstration projects. We await the outcome and, if the effects on arrears are severe, we will lobby for changes that protect our position. |
| Downturn in the housing market | A large part of the Group's development programme relates to low cost home ownership and outright sale. The Group's ability to deliver this will be adversely affected if there is a lack of demand for the resulting homes at the right price. | The Group keeps the level of work in progress and completed unsold, homes under review. Appraisal assumptions allow for falls in value and delays in sales. |
| Availability of finance | There is little in the way of new long-term money available to Registered Providers from banks at the present time, although other options are currently available via the capital markets. If finance becomes unavailable, the Group's plans could be put at risk. | Commitments are monitored against available facilities. The Group has established itself in the capital markets, which offer long term finance and are prepared to invest in highly rated organisations like the Trust. At 31 March 2013, we had £461m in committed, undrawn facilities, which is sufficient for the Group's operations for over 12 months. The bond markets have been open, as have other, less competitive sources of finance. If this changes significantly, the Group may need to adapt its plans. |
| Health and Safety | Given the death in 2008 of one of our residents from carbon monoxide poisoning, we remain concerned about health and safety. | The Group continues to monitor this area closely. All new schemes are fitted with carbon monoxide detectors and fire prevention measures are reviewed regularly. |
| Interest rates | At the year end, the Group had £110.4m of variable rate borrowings, so each 1% increase in prevailing interest rates costs about £1.1m. Of the Group's total debt, 81% is fixed, 8% is variable and 11% is inflation linked. | The Group has in place a treasury policy which sets out the limits of fixed, variable and inflation linked debt as well as how to manage the exposure to other treasury risks. This is approved annually by the Board and is prepared jointly with our treasury advisors. |

INVESTMENT FOR THE FUTURE

In addition to investing in its existing stock the Board has approved a significant new build housing programme.

In order to achieve this, the Board has approved a land bank facility of £200m. This has enabled advantage to be taken of low prices and maximise its investment/acquisition opportunities across London. At the year end, the Group had invested £108.7m in undeveloped sites.

FINANCIAL REVIEW

Going concern

After making enquiries, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of twelve months after the date on which the report and financial statements are signed. For this reason, it continues to adopt the going concern basis in the financial statements.

Key accounting policies

Accounting policies are set out on pages 24 to 27. The Group adheres to the requirements of the Statement of Recommended Practice: Accounting by registered social housing providers Update 2010 (the SORP 2010), which is mandatory for registered providers of social housing.

Following the issue of the Notting Hill bond and its subsequent listing on the London Stock Exchange in 2010, the Group adopted Financial Reporting Standard 26 "Financial Instruments: Recognition and Measurement" (FRS 26) and Financial Reporting Standard 29 "Financial Instruments: Disclosures" (FRS 29).

The application of FRS 26 means that the Group's derivative transactions (which consist wholly of interest rate swaps and embedded instruments), must be held at market value, or at amortised cost on its balance sheet.

These derivatives are entered into to manage the Group's interest rate risk (and other risks) and hence to provide

increased certainty of cash flows for the Group. The financial assets and liabilities can also be accounted for using hedge accounting, which matches the accounting treatment of the derivatives and hence negate the potential volatility that results from changes in market value. In accordance with accounting standards, hedge accounting is only permitted under very limited circumstances and to specific instruments. As such, the Group is not always able to apply hedge accounting. Where hedge accounting is not applied, market value movements are recorded in the income and expenditure account as a gain or loss on financial derivatives.

Other accounting policies that are critical to the results are:

- the method of accounting for capital grant which is deducted in the balance sheet from the cost of assets
- capitalisation of interest
- capitalisation of repairs
- administration costs in carrying out the development programme are added to the cost of new homes
- the calculation of housing property depreciation
- impairment
- shared ownership sales

RESULTS

Five year trends for the Group are set out on page 18.

Turnover for 2012/13 (£340.4m) was sharply higher than 2011/12 (£216.0m). This arose from higher property sales.

The surplus for the year at £55.5m after interest and payments to a minority investor was above the approved budget of £46.2m. The key reasons for this were as follows.

- The surplus from sales, including sales of properties held for sale, as well as sales of fixed assets was £20.6m above budget.

- Interest costs were £4.9m below budget as a result of the continuing low interest rate environment.
- The costs of mark to market movements at £8.9m were unbudgeted for.
- Our core permanent rented housing business did not perform as well as budgeted, delivering an operating surplus of £5.5m below budget, with £1.7m of this arising from the costs of reprocurring our day to day repairs following the disengagement with WDP and £3.1m arising from improvement to fire safety in our homes.

After transfer of the surplus for the year of £55.5m (2012: £31.6m), Group reserves at the year end amounted to £342.3m (2012: £284.4m).

CAPITAL STRUCTURE AND TREASURY POLICY

Borrowings at the year end were £997.6m (2012: £1,008.6m) and undrawn facilities were an additional £461.3m. This debt is borrowed from banks and building societies in the UK as well as from the capital markets through bond issuance.

Borrowings management is the responsibility of the Group Finance Director. The treasury strategy is set annually and approved by the Board. The current interest rate strategy, along with the year end position is set out in Figure 10.

Figure 10 - Interest rate strategy

| Item | Target | | | Actual |
|------------------|--------|---------|-------|----------|
| | Lower | Central | Upper | Position |
| Floating | 0% | 15% | 40% | 8% |
| Inflation linked | 0% | 10% | 20% | 11% |
| Fixed | 40% | 75% | 95% | 81% |

The above interest rate targets were set by the Board following the issue of the Notting Hill bond in 2012. The intention is to reduce the proportion of debt that is on a fixed rate basis and

duration within these targets, with a view to reconsidering them by 31 March 2014.

The figure shown as 'lower' is the minimum approved by the Board and the figure shown as 'upper' is the maximum. The Group Finance Director is authorised to enter into interest rate derivatives to modify the Group's exposures provided they remain within this range. The Group also has a target duration of 10 years and a permitted range of 8 - 13 years. The year end position was 12.9 years.

Figure 11 provides an analysis of when the debt falls due for repayment:

Figure 11 - Debt maturity

| Maturity | Group £m | Trust £m |
|---------------|--------------|--------------|
| 0 - 1 years | 4.8 | 3.6 |
| 1 - 2 years | 9.7 | 4.0 |
| 2 - 5 years | 21.0 | 14.0 |
| 5 - 10 years | 81.9 | 50.5 |
| 10 - 20 years | 469.3 | 324.5 |
| 20 - 30 years | 410.9 | 352.2 |
| | 997.6 | 748.8 |

The Group has entered into stand-alone derivatives with various counter parties. All of these are interest rate swaps, and the gross notional value at 31 March 2013 was £268.6m (2012: £243.8m).

The Group's policy in relation to cash surpluses is to preserve capital. Cash surpluses are thus invested in money market funds rated AAAmf and approved UK institutions rated ukA1 by Standard and Poor's.

Under the terms of its interest rate swap agreements, the Group can be required to put up cash or property as security for future payments. The amount of security is assessed by the counterparty banks on a regular (weekly or monthly, according to the bank) basis.

The maximum amount of cash and properties pledged as security during the financial year was £2.6m (2012: £nil) and the amount at 31 March 2013 was £0.9m (2012: £nil). The Group borrows and lends only in sterling and so does not have any currency risk. All loans are secured by first fixed charges over housing properties. The Trust and NHHO have a policy of not granting floating charges, although this policy does not extend to subsidiaries.

Housing properties

Housing properties are held at cost in the balance sheet. At 31 March 2013, the Board was of the opinion that the value of the completed housing properties owned by the Group, compared with their cost is as detailed in Figure 12.

Figure 12 – Property valuation

| Item | Rented social housing* £m | Shared ownership housing* £m | Total £m |
|--|---------------------------|------------------------------|----------|
| Cost (excluding depreciation and social housing grant) | 1,826.8 | 381.5 | 2,208.3 |
| Net book value | 714.6 | 186.8 | 901.4 |
| Value | | | |
| - on a vacant possession basis | 5,575.3 | 1,262.1 | 6,837.4 |
| - on a market value subject to tenancy basis | 3,349.0 | 354.6 | 3,703.6 |
| - on an existing use for social housing basis | 1,279.3 | 354.6 | 1,633.9 |

* Valuation of the shared ownership properties is based on the equity share retained by the Group, which typically represents 60% of the whole property, with the balance owned by the leaseholder.

INDEPENDENT AUDITORS AND AGM

At the date of this report each Board member confirms the following:

- so far as each Board member is aware, there is no relevant information needed by the Trust’s auditors in connection with preparing their report of which the Trust’s auditors are unaware
- each Board member has taken all the steps that they ought to have taken as a Board member in order to make themselves aware of any relevant information needed by the Group’s auditors in connection with preparing their report and to establish that the Group’s auditors are aware of that information. The Group’s auditor is automatically reappointed on an annual basis, and PricewaterhouseCoopers LLP has expressed willingness to continue in office.

STATEMENT OF COMPLIANCE

In preparing the Operating and Financial Review the Board has followed the principles set out in the Statement of Recommended Practice (SORP) – Accounting by registered social landlords – 2010.



Kate Davies
Chief Executive



Paul Phillips
Group Finance Director



Report of the Board and operating and financial review

Group highlights – five year summary

For the year ended 31 March

| | 2013 £m | 2012 Reclassified £m | 2011 £m | 2010 £m | 2009 £m |
|---|---------------|----------------------------|---------------|---------------|---------------|
| Group income and expenditure account | | | | | |
| Total turnover | 340.4 | 216.0 | 250.3 | 213.8 | 162.3 |
| Income from lettings | 175.5 | 170.9 | 177.5 | 161.2 | 134.9 |
| Depreciation and amortisation of housing properties | 14.3 | 15.7 | 9.9 | 4.7 | 3.1 |
| Operating surplus | 87.6 | 47.7 | 40.9 | 29.7 | 19.1 |
| Surplus after interest, tax and minority interest | 55.5 | 31.6 | 9.8 | 8.1 | 5.9 |
| Surplus/(deficit) before asset sales | 6.6 | 4.7 | (12.2) | (3.7) | (1.9) |
| Group balance sheet | | | | | |
| Housing properties | 2,399.9 | 2,329.5 | 2,226.0 | 2,129.6 | 1,278.6 |
| Capital grant | (1,301.7) | (1,291.1) | (1,237.8) | (1,145.8) | (741.3) |
| Net current assets | 144.2 | 155.2 | 69.3 | 58.8 | 96.7 |
| Indebtedness | 997.6 | 1,008.6 | 832.0 | 811.1 | 436.2 |
| Total reserves | 342.3 | 284.4 | 240.1 | 209.9 | 188.2 |
| Accommodation managed at year end | | | | | |
| | Number | Number | Number | Number | Number |
| Rented social housing | 15,600 | 15,926 | 15,628 | 14,606 | 10,267 |
| Supported housing | 1,415 | 1,348 | 1,233 | 1,296 | 1,025 |
| Temporary housing | 2,125 | 2,298 | 2,382 | 2,432 | 2,520 |
| Student accommodation | 839 | 839 | 839 | 839 | – |
| Leased housing accommodation | – | – | 102 | 179 | 102 |
| Market rent accommodation | 712 | 698 | 482 | 312 | 140 |
| Intermediate market rent accommodation | – | – | 54 | 54 | – |
| Total rented housing | 20,691 | 21,109 | 20,720 | 19,718 | 14,054 |
| Shared ownership housing | 4,700 | 4,406 | 4,523 | 4,360 | 3,822 |
| Leasehold in management | 1,779 | 1,620 | 1,579 | 2,183 | 1,267 |
| Total housing | 27,170 | 27,135 | 26,822 | 26,261 | 19,143 |
| Statistics | | | | | |
| Surplus for the year as % of turnover | 16% | 15% | 4% | 4% | 4% |
| Surplus for the year as % of income from lettings | 32% | 19% | 6% | 5% | 4% |
| Operating margin | 26% | 22% | 16% | 14% | 12% |
| Operating margin – social housing lettings | 26% | 24% | 19% | 17% | 17% |
| Rent losses (voids and bad debts as % of rent and service charges receivable) | 2% | 2% | 1% | 4% | 4% |
| Rent arrears (gross arrears as % of rent and service charges receivable) | 11% | 11% | 12% | 14% | 10% |
| Gearing (total loans as % housing properties at cost) | 42% | 43% | 37% | 38% | 34% |
| Interest cover (surplus before interest payable and depreciation and amortisation of housing properties as % of net interest payable) | 338% | 243% | 206% | 144% | 154% |

The reported figures for the year ended 31 March 2010 include the results of Presentation Housing Association following its entry into the Group. The figures for previous years exclude Presentation Housing Association.

Independent Auditors' report to the members of Notting Hill Housing Group Limited for the year ended 31 March 2013

We have audited the financial statements (the "financial statements") of Notting Hill Housing Trust for the year ended 31 March 2013 which comprise the Consolidated and Trust Income and Expenditure Account, the Consolidated and Trust Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated and Trust Statement of Total Recognised Surpluses and Deficits and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the Board and auditors

As explained more fully in the Statement of the Group Board's Responsibilities set out on page 12, the Board is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Trust's members as a body in accordance with Section 9(1) and Section 13(5) of the Friendly and Industrial and Provident Societies Act 1968 and the Housing and Regeneration Act 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Trust's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant

accounting estimates made by the board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Trust's affairs as at 31 March 2013 and of the Group's and Trust's income and expenditure and the group's cash flows for the year then ended; and
- have been properly prepared in accordance with the Industrial and Provident Societies Acts, 1965 to 2002, and the Industrial and Provident Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Social Housing in England 2012 .

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts, 1965 to 2002 require us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Trust has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all the information and explanations we need for our audit.



Kim Green (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 July 2013

The maintenance and integrity of the Notting Hill Housing Trust website is the responsibility of the board; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated and trust income and expenditure account for the year ended 31 March 2013

| | Notes | Group | | Trust | |
|---|-------|------------|------------|------------|------------|
| | | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Turnover - continuing activities | 2 | 340.4 | 216.0 | 184.8 | 189.9 |
| Cost of sales | 2 | (95.6) | (12.9) | (15.1) | (26.7) |
| Operating costs | 2 | (157.2) | (155.4) | (135.0) | (133.9) |
| Operating surplus – continuing activities | 2 | 87.6 | 47.7 | 34.7 | 29.3 |
| Share of operating profit in joint venture | 34 | 0.4 | (0.2) | – | – |
| Profit on sale of other fixed assets | 4 | 12.9 | 23.5 | 5.3 | 13.1 |
| Other income | 5 | – | – | 35.7 | 2.5 |
| Surplus before interest | | 100.9 | 71.0 | 75.7 | 44.9 |
| Interest receivable and other income | 6 | 1.8 | 0.9 | 5.6 | 3.7 |
| Interest payable and similar charges | 7 | (35.7) | (36.6) | (29.6) | (28.5) |
| Loan break costs | | – | – | – | – |
| (Losses)/gains in respect of financial derivatives | | (9.0) | (3.7) | (6.3) | (0.8) |
| Surplus on ordinary activities before taxation | 8 | 58.0 | 31.6 | 45.4 | 19.3 |
| Minority interest | 15 | (2.5) | – | – | – |
| Surplus for the year | | 55.5 | 31.6 | 45.4 | 19.3 |

Statement of total recognised surpluses (deficits) for the year ending 31 March

| | Notes | Group | | Trust | |
|--|-------|------------|------------|------------|------------|
| | | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Surplus for the year after taxation | 25 | 55.5 | 31.6 | 45.4 | 19.3 |
| Surplus on revaluation | 11 | 9.6 | 7.9 | 2.0 | 4.7 |
| Actuarial surplus (deficit) | 25 | (0.1) | (0.3) | (0.1) | (0.3) |
| Disposal of quoted investments | 25 | (0.1) | – | (0.1) | – |
| (Losses)/gains in respect of financial derivatives | 25 | (14.6) | (16.6) | (12.3) | (14.6) |
| Total recognised surpluses for the year | | 50.3 | 22.6 | 34.9 | 9.1 |

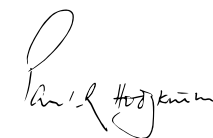
The notes on pages 24 to 55 form part of these financial statements. Historical cost surpluses and deficits were identical to those shown in the income and expenditure account. All amounts relate to continuing activities.

Consolidated and trust balance sheet at 31 March 2013

Notes to the financial statements year ended 31 March 2013

| | Notes | Group | | Trust | |
|--|-------|----------------|----------------------------|----------------|----------------------------|
| | | 2013 £m | 2012 Reclassified £m | 2013 £m | 2012 Reclassified £m |
| Tangible fixed assets | | | | | |
| Housing Properties at cost | 10 | 2,399.9 | 2,330.4 | 1,853.1 | 1,803.4 |
| Less Grants | 10 | (1,301.7) | (1,296.4) | (1,090.0) | (1,090.0) |
| Net book value of housing properties | | 1,098.2 | 1,034.0 | 763.1 | 713.4 |
| Investment properties | 11 | 145.5 | 129.3 | 38.9 | 37.0 |
| Other fixed assets | 12 | 41.5 | 44.2 | 41.4 | 44.1 |
| Investment in Homebuy and Home Options | 13 | 40.1 | 42.0 | 0.7 | 0.9 |
| Less Homebuy and Temporary Housing grant repayable | 13 | (40.1) | (42.0) | (0.7) | (0.9) |
| Investments | 15 | – | 2.3 | 145.0 | 146.9 |
| Investment in joint ventures | | | | | |
| – share of gross assets | 35 | 1.4 | 9.0 | – | – |
| – share of gross liabilities | 35 | (1.4) | (9.0) | – | – |
| | | – | – | – | – |
| Total fixed assets | | 1,285.2 | 1,209.8 | 988.4 | 941.4 |
| Current assets | | | | | |
| Properties in the course of sale | 16 | 136.1 | 178.2 | 12.1 | 24.1 |
| Debtors falling due within one year | 17 | 25.3 | 51.3 | 40.3 | 46.9 |
| Debtors falling due after one year | 18 | 2.9 | 4.4 | 2.2 | 4.2 |
| Current asset investment | 19 | 11.9 | 0.8 | 0.1 | 0.2 |
| Cash at bank and in hand | | 43.9 | 15.9 | 35.7 | 1.7 |
| | | 220.1 | 250.6 | 90.4 | 77.1 |
| Current liabilities | | | | | |
| Amounts falling due within one year | 20 | (75.9) | (91.0) | (55.2) | (63.4) |
| Net current assets/(liabilities) | | 144.2 | 159.6 | 35.2 | 13.7 |
| Total assets less current liabilities | | 1,429.4 | 1,369.4 | 1,023.6 | 955.1 |
| Creditors | | | | | |
| Amounts falling due after more than one year | 21 | 1,028.5 | 1,038.4 | 753.7 | 738.9 |
| Pension deficit | 29 | 0.8 | 0.7 | 0.8 | 0.7 |
| Derivative financial instruments | 38 | 56.6 | 44.7 | 40.0 | 33.5 |
| | | 1,085.9 | 1,083.8 | 794.5 | 773.1 |
| Provisions for liabilities and charges | 23 | 1.2 | 1.2 | 1.2 | 1.2 |
| Capital and reserves | | | | | |
| Share capital | 24 | – | – | – | – |
| General reserves | 25 | 316.4 | 261.0 | 247.1 | 201.8 |
| Revaluation reserves | 25 | 56.4 | 46.9 | 7.7 | 5.8 |
| Cash flow hedge reserve | 25 | (31.2) | (28.2) | (26.9) | (26.8) |
| | | 341.6 | 279.7 | 227.9 | 180.8 |
| Minority interest | 35 | 0.7 | 4.7 | – | – |
| | | 342.3 | 284.4 | 227.9 | 180.8 |
| | | 1,429.4 | 1,369.4 | 1,023.6 | 955.1 |

The notes on pages 24 to 55 form part of these financial statements. The financial statements were authorised and approved by the Board on 24 July 2013 and signed on its behalf by



Paul Hodgkinson CBE
Chairman



Paul Phillips
Group Finance Director



Andrew Nankivell
Secretary

Consolidated cash flow statement for the year ended 31 March 2013

| | Notes | 2013 £m | 2012 £m |
|--|-------|---------------|----------------|
| Net cash inflow from operating activities | 26 | 137.4 | 19.2 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 1.8 | 0.9 |
| Interest paid (including capitalised interest) | | (32.2) | (34.6) |
| Joint venture income | | 0.4 | – |
| Gain on disposal of financial derivatives | | – | 2.1 |
| Net cash outflow from returns on investments and servicing of finance | | (30.0) | (31.6) |
| Taxation | | | |
| Corporation tax | | – | – |
| Capital expenditure | | | |
| Purchase and construction of housing properties | | (132.7) | (289.8) |
| Sale of housing properties | | 52.9 | 54.7 |
| Social Housing Grant received | | 30.8 | 79.1 |
| Other grant received | | – | 0.8 |
| Purchase of other fixed assets | | (0.8) | (17.3) |
| Net cash outflow from capital expenditure | | (49.8) | (172.5) |
| Net cash inflow/(outflow) before use of liquid funds and financing | | 57.6 | (184.9) |
| Management of liquid resources- (Increase)/Decrease in cash deposit | 27 | (11.1) | 4.1 |
| | | (11.1) | 4.1 |
| Financing | | | |
| Loans received | | 317.0 | 214.3 |
| Loans repaid | | (329.0) | (37.9) |
| Minority interests (outflow) | | (6.5) | – |
| Net cash (outflow)/inflow from financing | | (18.5) | 176.4 |
| Increase/(Decrease) in cash and equivalents | | 28.0 | (4.4) |

The notes on pages 24 - 55 form part of these financial statements.



Notes to the financial statements for the year ended 31 March 2013

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items, which are considered to be material in relation to the financial statements of Notting Hill Housing Trust (the Trust) and Notting Hill Housing Group (the Group).

Basis of accounting

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain properties and financial instruments. They also comply with the Accounting Direction 2012, applicable accounting and financial reporting standards and follow the recommendations of the Statement of Recommended Practice Accounting by Registered Social Landlords Update 2010, issued in October 2010 (SORP 2010). They have been prepared on a going concern basis and in accordance with the applicable accounting standards in the United Kingdom. These have been consistently applied.

Basis of consolidation

The Group financial statements are the result of the consolidation of the financial statements of the Trust and its subsidiaries. The basis of consolidation is the acquisition method. Uniform accounting policies have been used throughout the Group.

Transfer of engagements

The engagements of Presentation Housing Association were transferred to Notting Hill Housing Trust on 8 July 2010. Upon transfer Presentation Housing Association's assets and liabilities were transferred to Notting Hill Housing Trust at fair value to the Group. No consideration was paid to Presentation Housing Association.

Turnover

Turnover comprises rental and service charges, income from shared ownership first tranche sales, revenue grants from local authorities, and proceeds of properties developed for sale. All income is recognised on a receivable basis and sales of property are recognised at completion. Income is recognised on delivery of service. Inter-group charges are on an arm's length basis and are eliminated on consolidation.

Value added tax

The Group charges value added tax (VAT) on some of its income and is able to recover part of the VAT it incurs on expenditure. The financial statements include VAT on costs to the extent that it is suffered by the Group and not recoverable from HM Revenue and Customs. The balance of VAT payable or recoverable at the year-end is included as a current liability or asset.

Interest payable

Interest is capitalised on a fair proportion of total borrowings on development costs during the period of development.

Other interest payable is charged to the income and expenditure account in the year by the effective interest rate method.

Pensions

The Group participates in three funded multi-employer defined benefit schemes, the Social Housing Pension Scheme ('SHPS'), The London Borough of Richmond Pension Fund (LBRPF) and The London Borough of Islington Pension Fund (LBIPF).

For the SHPS, it has not been possible to identify the share of underlying assets and liabilities belonging to individual participating employers. The income and expenditure charge represents the employer contribution payable to the scheme for the accounting period.

For the LBRPF and LBIPF, the operating costs of providing retirement benefits to participating employees are recognised in the accounting periods in which the benefits are earned. The related finance costs, expected return on assets and any other changes in fair value of the assets and liabilities, are recognised in the accounting period in which they arise. The operating costs, finance costs and expected return on assets are recognised in the income and expenditure account with any other changes in fair value of assets and liabilities being recognised in the statement of total recognised surpluses and deficits.

The Group also operates a defined contribution scheme. The contributions paid are charged to the income and expenditure account as incurred.

Donated land

Land donated by local authorities for development purpose is added to cost at the valuation of the donation made for the land, and the amount equivalent to the value is credited to other grants.

Other grants

Other grants are receivable from local authorities and other organisations. Capital grants are utilised to reduce the capital costs of housing properties, including land costs. Grants in respect of revenue expenditure are credited to the income and expenditure account in the same period as the expenditure to which they relate.

Properties for sale

Shared ownership first tranche sales, completed properties and properties under construction for outright sale are valued at the lower of cost and net realisable value. Cost comprises materials, direct labour, direct development overheads and interest capitalised. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

Current asset investments

Current asset investments are classified as financial assets. Financial assets and financial liabilities are measured initially at fair value adjusted by transaction costs, except for financial assets and financial liabilities carried at fair value through profit and loss, which are measured initially at fair value.

Liquid resources

Liquid resources are readily disposable current asset investments. They include some money market deposits, held for more than 24 hours that can only be withdrawn without penalty on maturity or by giving notice of more than one working day.

Revaluation reserve

The revaluation reserve is used to reflect fluctuations in the market value of investments and investment properties to the extent that this is greater than the historical cost.

1. ACCOUNTING POLICIES (continued)

Housing properties

Housing properties are principally properties available for rent and shared ownership, which are held at cost less depreciation and Social Housing Grant ("SHG").

Housing properties in the course of development are stated at cost less SHG and other grants.

Housing properties other than shared ownership properties have been split between their land and structure costs and a specific set of major components which require periodic replacement. Refurbishment or replacement of such components is capitalised and depreciated over the estimated useful life of the component (excluding land and grant) as follows:

| Component | Useful economic life (years) |
|------------|------------------------------|
| Land | Not depreciated |
| Structure | 100 |
| Roof | 60 |
| Heating | 15 |
| Windows | 30 |
| Electrical | 30 |
| Bathroom | 30 |
| Kitchen | 20 |
| Lift | 40 |

Housing properties for market rent are stated at market value subject to tenancies (MV-STT). Full revaluations of the properties are undertaken on an annual basis. The value of components is estimated to be equivalent to their depreciated historic cost.

Cost includes the cost of acquiring land and buildings, cost of construction, capitalised interest, administration costs and expenditure incurred in improving or reinvesting in existing properties. Only directly attributable project management costs relating to successful developments are capitalised as part of the costs of those properties.

Shared ownership properties in the course of development are split proportionally 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, and the remaining element is classed as a fixed asset and included in housing properties at cost, less any provisions needed for depreciation or impairment.

Freehold land is not depreciated. Depreciation is charged on completed housing properties, excluding the land element and relevant SHG, on a straight line basis over the useful economic life of the component.

Reinvestment expenditure is capitalised where the works increase the net rental stream over that expected at the outset. An increase in the net rental stream may arise through an increase in the rental income, a reduction in future maintenance cost, or a significant extension in the life of the property. Where the works are either repair or replacement with no additional utility, the costs are charged to the income and expenditure account.

Interest incurred on a loan financing a development is capitalised up to the date of the practical completion of the scheme.

Properties that are sold to the Trust at a discount to market value as a result of a planning requirement under S106 Town and Country Planning Act 1990 are recorded in the financial statements at cost. Properties held as investments are revalued annually and the aggregate surplus or deficit is transferred to the revaluation reserve. Any excess deficit over the balance on the revaluation reserve is charged through the income and expenditure account to the extent that this represents a permanent diminution in value of the property. No depreciation is provided in respect of investment properties.

Investment properties are included in the Balance Sheet at their open market value. This has been determined in accordance with the Guidance Notes on the Valuation of Assets issued by the Royal Institute of Chartered Surveyors.

Other fixed assets

Other fixed assets are stated at historical purchase cost less accumulated depreciation or valuation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided on a straight line basis as follows:

- Freehold offices and buildings 50 years.
- Leasehold offices and buildings over the life of the lease.
- Other tangible assets 2 to 5 years.

Impairment

Housing properties, which are depreciated over a period in excess of 50 years, are, in accordance with Financial Reporting Standard No 15 and SORP 2010, subject to impairment reviews annually. Impairment reviews are also carried out on investment properties. Other assets will be reviewed for impairment if there is an indication that impairment may have occurred.

Where there is evidence of impairment, a review is conducted to ascertain whether its effect is to reduce the value of the property beyond that which meets the internal criteria for the approval of schemes. Deficits that fall within these criteria are regarded as planned internal subsidies, and are not treated as impairments. If an impairment above the acceptable level exists, a charge is made to the income and expenditure account to the extent that the impairment exceeds the acceptable deficit.

Homebuy

Homebuy transactions are grants received from the Homes and Communities Agency (formerly the Housing Corporation) and passed on to an eligible beneficiary. The Group has the benefit of a fixed charge on the property entitling the Group to a share of the proceeds on the sale of the property by the beneficiary. These are classified as investments and are carried at historical cost with the linked finance cost (the grant received) being deducted from the gross amount of the Homebuy asset.

1. ACCOUNTING POLICIES (continued)

Social Housing and Other Grants

Where developments have been financed wholly or partly by SHG and other grants the cost of the development is shown gross with the amount of grant receivable as a deduction. SHG and other grants are split proportionally between land and structure with none allocated to components unless there is an excess. SHG and other grants which have not yet been received where claims have been submitted are recognised as debtors.

Where expenditure included in the income and expenditure account is wholly or partly financed by SHG and other grants, the relevant amount of SHG and other grants receivable is shown as revenue grant in the income and expenditure account.

In the event that SHG and other grants shown as receivable in respect of the current development programme exceed the cost incurred to date, or that SHG and other grants are repayable, the amount is shown as a creditor. SHG and other grants may be repayable where a property is sold or the development of a property is not completed.

Rental debtors

Rental debtors are stated gross of amounts paid in advance and overpayments, which are shown in other creditors.

Taxation

The Trust has charitable status and is not subject to Corporation Tax on surpluses in furtherance of charitable objectives. The profits of trading subsidiaries are subject to Corporation Tax.

Deferred taxation

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Except as noted below, full provision for deferred taxation is made under the incremental liability method on all timing differences that have arisen, but not reversed by the balance sheet date.

In accordance with FRS 19, deferred tax is not provided for gains on the sale of non-monetary assets, if the taxable gain will probably be rolled over. Deferred tax is measured at the tax

rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Deficit/surplus agreements

Certain agreements entered into by the Trust have been guaranteed by local authorities so that any capital deficits or revenue deficits/surpluses are refundable by/to the local authority. Deficits or surpluses arising from these schemes are recorded either as debtors/creditors falling due within one year or as debtors/creditors falling due after more than one year.

Provisions

Provisions have been included in the financial statements only to the extent that there is a present legal or constructive obligation to transfer economic benefits.

In the temporary housing business, under the terms of the lease, funds are set aside on acquisition of property in order to meet contractual obligations.

Leases

Rentals paid under operating leases are charged to the income and expenditure account on an accruals basis.

Loan issue costs

Costs incurred in raising loan finance are recorded as a deduction from the gross proceeds of the loan and subsequently amortised in the income and expenditure account over the term of the loan.

Intra-Group donations

Charitable donations made between Group entities are shown in the financial statements at the value of the donation. Within the Group such transactions are eliminated.

Supported Housing Services

Where the Trust and the Group hold the support contract with the Supporting People Administering Authority and carry the financial risk, all the project's income and expenditure are included in the Trust's and the Group's income and expenditure account (see note 3).

Joint ventures

Joint ventures are accounted for in accordance with Financial Reporting Standard 9 'Associates and Joint Ventures' in the consolidated financial statement using the 'gross equity' methods. Further information on the financial transactions and background can be found in note 34.

Investment in subsidiaries

Investments in subsidiaries are shown at cost.

Debtor is falling due after more than one year

Debtors falling due after more than one year either relate to amounts due as a result of agreements entered into by the Trust (see note on deficits/surplus agreements) or the obligation to refurbish properties transferred from the Local Authorities under stock transfer arrangements. The VAT saving under this agreement will be shared between the Trust and Local Authority.

Derivative financial instruments and hedging activities

Derivatives are initially accounted for and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on remeasurement is taken to the income or expenditure account except where the derivative is a designated cash flow hedging instrument. The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to. The group designates derivatives as:

- A hedge of the fair value of an asset or liability ('fair value hedge').
- A hedge of the income/cost of a highly probable forecasted transaction or commitment ('cash flow hedge').

In order to qualify for hedge accounting, the group is required to document in advance the relationship between the item being hedged and the hedging instrument. The group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective.

1. ACCOUNTING POLICIES (continued)

on an ongoing basis. This effectiveness testing is re-performed at each period end to ensure that the hedge remains highly effective.

Gains or losses on fair value hedges that are regarded as highly effective are recorded in the income and expenditure account with the gain or loss on the hedged item attributable to the hedged risk.

Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. Where the forecast transaction results in a financial asset or financial liability, only gains or losses previously recognised in equity are reclassified to income or expenditure in the same period as the asset or liability affects income or expenditure. Where the forecasted transaction or commitment results in a non-financial asset or a non-financial liability, any gains or losses previously deferred in equity are included in the cost of the related asset or liability. If the forecasted transaction or commitment results in future income or expenditure, gains or losses deferred in equity are transferred to the income and expenditure account in the same period as the underlying income or expenditure. The ineffective portions of the gain or loss on the hedging instrument are recognised in income and expenditure account.

For the portion of hedges deemed ineffective or transactions that do not qualify for hedge accounting under FRS 26, any change in assets or liabilities is recognised immediately in the income and expenditure account. Where a hedge no longer meets the effectiveness criteria, any gains or losses deferred in equity are only transferred to the income and expenditure account when the committed or forecasted transaction is recognised in the profit and loss account. However, where an entity applied cash flow hedge accounting for a forecasted or committed transaction that is no longer expected to occur, the cumulative gain or loss that has been recorded in equity is transferred to the profit and loss account. When a hedging instrument expires or is sold, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account.

Financial instruments

The Group categorises its financial assets and liabilities in accordance with FRS 26 "Financial Instruments: Recognition and measurement". This has become effective from the year ended 31 March 2011 as a result of the Trust issuing a listed bond during the year.

Financial assets

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

Fair value through income and expenditure

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

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate. Provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the receivable item.

Financial liabilities

The Group classifies its financial liabilities into one of the following categories depending on the purpose for which the liability was acquired. Other than financial liabilities in a qualifying hedging relationship, the Group's accounting policy for each category is as follows.

Fair value through income and expenditure

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

Other financial liabilities

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes the amortisation of initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Derivatives embedded in host debt contracts are not accounted for separately where they are considered to be closely related.

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Service Charges

Fixed service charge income is recognised in the period to which it relates. Variable service charge income is recognised in the period the related cost is recognised.

Accommodation owned but not managed

Where accommodation is owned by the Group but managed by third parties, the Supported Housing Management Grant is accounted for on an accruals basis.

2. TURNOVER AND OPERATING SURPLUS BEFORE TAXATION

Group – continuing activities

| Year ended 31 March 2013 | Turnover £m | Cost of sales £m | Operating costs £m | Operating surplus £m |
|---|----------------|------------------------|--------------------------|----------------------------|
| Social housing lettings (note 3) | 175.5 | – | (132.3) | 43.2 |
| Other social housing activities | | | | |
| Development services | – | – | (1.8) | (1.8) |
| Sales and marketing services | 0.4 | – | (2.9) | (2.5) |
| Neighbourhood activities | 0.6 | – | (0.8) | (0.2) |
| First tranche on shared ownership sales | 51.9 | (37.2) | – | 14.7 |
| Impairment | – | – | (0.6) | (0.6) |
| Supporting people and care | 9.7 | – | (10.3) | (0.6) |
| Other income | 3.0 | – | – | 3.0 |
| | 65.6 | (37.2) | (16.4) | 12.0 |
| Non-social housing activities | | | | |
| Properties built for sale | 80.2 | (58.4) | (0.5) | 21.3 |
| Charitable fundraising activities | 0.3 | – | (0.2) | 0.1 |
| Commercial activities | 4.0 | – | (2.4) | 1.6 |
| Student accommodation | 8.9 | – | (3.2) | 5.7 |
| Market rent | 5.9 | – | (2.2) | 3.7 |
| | 99.3 | (58.4) | (8.5) | 32.4 |
| Total | 340.4 | (95.6) | (157.2) | 87.6 |

In 2013, the intermediate market rental income and expenditure, supporting people and care income and expenditure and other income have been reclassified. These have changed to social housing activity and other social housing activity respectively. This is in accordance with the Accounting Direction issued by the Homes and Communities Agency. The comparatives have been adjusted accordingly.

Group – continuing activities
reclassified

| Year ended 31 March 2012 | Turnover £m | Cost of sales £m | Operating costs £m | Operating surplus £m |
|---|----------------|------------------------|--------------------------|----------------------------|
| Social housing lettings (note 3) | 166.6 | – | (129.2) | 37.4 |
| Other social housing activities | | | | |
| Development services | 2.4 | (2.4) | (1.6) | (1.6) |
| Sales and marketing services | 0.4 | – | (4.4) | (4.0) |
| Neighbourhood activities | 0.6 | – | (1.0) | (0.4) |
| First tranche on shared ownership sales | 11.4 | (8.0) | – | 3.4 |
| Impairment | – | – | (0.9) | (0.9) |
| Supporting people and care | 10.0 | – | (10.7) | (0.7) |
| Other income | 4.3 | – | – | 4.3 |
| | 29.1 | (10.4) | (18.6) | 0.1 |
| Non-social housing activities | | | | |
| Properties built for sale | 2.6 | (2.5) | (0.4) | (0.3) |
| Charitable fundraising activities | 0.3 | – | (0.3) | – |
| Commercial activities | 3.7 | – | (1.9) | 1.8 |
| Student accommodation | 8.3 | – | (3.2) | 5.1 |
| Market rent | 5.4 | – | (1.8) | 3.6 |
| | 20.3 | (2.5) | (7.6) | 10.2 |
| Total | 216.0 | (12.9) | (155.4) | 47.7 |

2. TURNOVER AND OPERATING SURPLUS BEFORE TAXATION (continued)

Trust – continuing activities

| Year ended 31 March 2013 | Turnover £m | Cost of sales £m | Operating costs £m | Operating surplus £m |
|---|----------------|------------------------|--------------------------|----------------------------|
| Social housing lettings (note 3) | 152.2 | – | (119.5) | 32.7 |
| Other social housing activities | | | | |
| Development services | 15.5 | (15.1) | (1.1) | (0.7) |
| Neighbourhood activities | 0.6 | – | (0.8) | (0.2) |
| First tranche on shared ownership sales | – | – | – | – |
| Supporting people and care | 9.7 | – | (10.3) | (0.6) |
| Other income | 1.2 | – | – | 1.2 |
| | 27.0 | (15.1) | (12.2) | (0.3) |
| Non-social housing activities | | | | |
| Commercial properties | 3.2 | – | (2.0) | 1.2 |
| Charitable fundraising activities | 0.3 | – | (0.2) | 0.1 |
| Market rent | 2.1 | – | (0.7) | 1.4 |
| Impairment | – | – | (0.4) | (0.4) |
| | 5.6 | – | (3.3) | 2.3 |
| Total | 184.8 | (15.1) | (135.0) | 34.7 |

In 2013, the intermediate market rental income and expenditure, supporting people and care income and expenditure and other income have been reclassified. These have changed to social housing activity and other social housing activity respectively. This is in accordance with the Accounting Direction issued by the Homes and Communities Agency. The comparatives have been adjusted accordingly.

Trust – continuing activities
reclassified

| Year ended 31 March 2012 | Turnover £m | Cost of sales £m | Operating costs £m | Operating surplus £m |
|---|----------------|------------------------|--------------------------|----------------------------|
| Social housing lettings (note 3) | 144.9 | – | (116.7) | 28.2 |
| Other social housing activities | | | | |
| Development services | 26.0 | (26.0) | (0.5) | (0.5) |
| Neighbourhood activities | 0.6 | – | (1.0) | (0.4) |
| First tranche on shared ownership sales | 0.8 | (0.7) | – | 0.1 |
| Supporting people and care | 10.0 | – | (10.7) | (0.7) |
| Other income | 2.0 | – | – | 2.0 |
| | 39.4 | (26.7) | (12.2) | 0.5 |
| Non-social housing activities | | | | |
| Commercial properties | 3.2 | – | (1.6) | 1.6 |
| Charitable fundraising activities | 0.3 | – | (0.3) | – |
| Market rent | 2.1 | – | (0.7) | 1.4 |
| Impairment | – | – | (2.4) | (2.4) |
| | 5.6 | – | (5.0) | 0.6 |
| Total | 189.9 | (26.7) | (133.9) | 29.3 |

3. INCOME AND EXPENDITURE FROM SOCIAL LETTINGS

| Group | Rented Social Housing £m | Shared Ownership £m | Temporary Housing £m | Supported Housing £m | 2013 Total £m | 2012 Total Reclassified £m |
|---|-----------------------------------|---------------------------|----------------------------|----------------------------|---------------------|-------------------------------------|
| Year ended 31 March 2013 | | | | | | |
| Income from lettings | | | | | | |
| Rent receivable | 93.5 | 16.8 | 38.3 | 10.3 | 158.9 | 150.8 |
| Service charges receivable | 5.1 | 6.1 | – | 4.3 | 15.5 | 14.2 |
| Net rents receivable | 98.6 | 22.9 | 38.3 | 14.6 | 174.4 | 165.0 |
| Other grants | 0.6 | – | – | 0.5 | 1.1 | 1.6 |
| Total income from social housing lettings | 99.2 | 22.9 | 38.3 | 15.1 | 175.5 | 166.6 |
| Expenditure | | | | | | |
| Management | (14.5) | (4.6) | (5.0) | (6.0) | (30.1) | (31.7) |
| Service charges | (6.5) | (6.1) | – | (1.4) | (14.0) | (14.6) |
| Routine maintenance | (20.0) | (0.1) | (1.7) | (0.9) | (22.7) | (21.9) |
| Planned maintenance | (8.0) | – | – | (0.8) | (8.8) | (3.9) |
| Major repairs expenditure | (12.7) | – | – | (1.6) | (14.3) | (10.0) |
| Bad debts | (0.8) | – | (0.4) | (0.1) | (1.3) | (1.0) |
| Lease charges | – | – | (26.2) | – | (26.2) | (26.4) |
| Depreciation of housing properties | (11.8) | (1.1) | (0.1) | (1.3) | (14.3) | (15.7) |
| Impairment of housing properties | – | (0.6) | – | – | (0.6) | (3.2) |
| Other | – | – | – | – | – | (0.8) |
| Total expenditure on lettings activities | (74.3) | (12.5) | (33.4) | (12.1) | (132.3) | (129.2) |
| Operating surplus on social housing lettings | 24.9 | 10.4 | 4.9 | 3.0 | 43.2 | 37.4 |
| Void losses | 1.3 | – | 0.7 | 0.5 | 2.5 | 2.0 |

In 2013, the intermediate market rental income and expenditure, supporting people and care income and expenditure and other income have been reclassified. These have changed to social housing activity and other social housing activity respectively. This is in accordance with the Accounting Direction issued by the Homes and Communities Agency. The comparatives have been adjusted accordingly.

3. INCOME AND EXPENDITURE FROM SOCIAL LETTINGS (continued)

| Trust | Rented Social Housing £m | Temporary Housing £m | Supported Housing £m | 2013 Total £m | 2012 Total Reclassified £m |
|---|--------------------------------|----------------------------|----------------------------|---------------------|-------------------------------------|
| Year ended 31 March 2013 | | | | | |
| Income from lettings | | | | | |
| Rent receivable | 93.6 | 37.8 | 10.3 | 141.7 | 134.8 |
| Service charges receivable | 5.1 | – | 4.3 | 9.4 | 8.8 |
| Net rents receivable | 98.7 | 37.8 | 14.6 | 151.1 | 143.6 |
| Other grants | 0.6 | – | 0.5 | 1.1 | 1.3 |
| Total income from social housing lettings | 99.3 | 37.8 | 15.1 | 152.2 | 144.9 |
| Expenditure | | | | | |
| Management | (14.8) | (5.0) | (6.0) | (25.8) | (27.5) |
| Service charges | (6.4) | – | (1.4) | (7.8) | (9.2) |
| Routine maintenance | (20.0) | (1.7) | (0.9) | (22.6) | (21.3) |
| Planned maintenance | (8.0) | – | (0.8) | (8.8) | (3.8) |
| Major repairs expenditure | (12.7) | – | (1.6) | (14.3) | (10.0) |
| Bad debts | (0.8) | (0.4) | (0.1) | (1.3) | (0.7) |
| Lease charges | – | (25.8) | | (25.8) | (25.7) |
| Depreciation of housing properties | (11.7) | (0.1) | (1.3) | (13.1) | (14.5) |
| Impairment of housing properties | – | – | – | – | (3.2) |
| Other | – | – | – | – | (0.8) |
| Total expenditure on lettings activities | (74.4) | (33.0) | (12.1) | (119.5) | (116.7) |
| Operating surplus on social housing lettings | 24.9 | 4.8 | 3.0 | 32.7 | 28.2 |
| Void losses | 1.3 | 0.7 | 0.5 | 2.5 | 2.1 |

In 2013, the intermediate market rental income and expenditure, supporting people and care income and expenditure and other income have been reclassified. These have changed to social housing activity and other social housing activity respectively. This is in accordance with the Accounting Direction issued by the Homes and Communities Agency. The comparatives have been adjusted accordingly.

4. SURPLUS ON SALE OF FIXED ASSETS

| Group | Housing properties | Office property | Quoted investments | 2013 Total | 2012 Total |
|--------------------------------|--------------------|-----------------|--------------------|-------------|-------------|
| | £m | £m | £m | £m | £m |
| Disposal proceeds | 52.8 | – | 0.2 | 53.0 | 54.3 |
| Social Housing Grant | 20.1 | – | – | 20.1 | 21.0 |
| Carrying value of fixed assets | (58.6) | – | (0.1) | (58.7) | (51.8) |
| Other costs | (1.5) | – | – | (1.5) | – |
| At 31 March | 12.8 | – | 0.1 | 12.9 | 23.5 |

| Trust | Housing properties | Office property | Quoted investments | 2013 Total | 2012 Total |
|--------------------------------|--------------------|-----------------|--------------------|------------|-------------|
| | £m | £m | £m | £m | £m |
| Disposal proceeds | 33.8 | – | 0.2 | 34.0 | 55.0 |
| Social Housing Grant | 20.1 | – | – | 20.1 | 21.0 |
| Carrying value of fixed assets | (47.5) | – | (0.1) | (47.6) | (62.9) |
| Other costs | (1.2) | – | – | (1.2) | – |
| At 31 March | 5.2 | – | 0.1 | 5.3 | 13.1 |

5. OTHER INCOME

| | Group | | Trust | |
|---|------------|------------|------------|------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Cash donations from other Group entities - gift aid | – | – | 35.7 | 2.5 |

6. INTEREST RECEIVABLE AND SIMILAR INCOME

| | Group | | Trust | |
|---------------|------------|------------|------------|------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Bank deposits | 1.8 | 0.9 | 1.6 | 0.4 |
| Intercompany | – | – | 4.0 | 3.3 |
| | 1.8 | 0.9 | 5.6 | 3.7 |

7. INTEREST PAYABLE AND SIMILAR CHARGES

| | Group | | Trust | |
|---|--------------|--------------|--------------|--------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Indexation on loans | 1.0 | 1.2 | 1.0 | 1.2 |
| Other loans | 31.6 | 32.5 | 29.3 | 29.0 |
| Interest paid derivatives | 6.9 | 6.5 | – | – |
| Loan set-up costs | 1.0 | 0.2 | 0.8 | 0.1 |
| | 40.5 | 40.4 | 31.1 | 30.3 |
| Less: interest capitalised on developments | (4.8) | (3.8) | (1.5) | (1.8) |
| | 35.7 | 36.6 | 29.6 | 28.5 |
| Interest is capitalised at weighted average cost of capital | 3.98% | 3.89% | 4.60% | 4.42% |

8. SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION

| | Group | | Trust | |
|---|--------------|--------------|--------------|--------------|
| | 2013 | 2012 | 2013 | 2012 |
| | £m | £m | £m | £m |
| Surplus on ordinary activities before taxation is stated after charging: | | | | |
| Depreciation on housing properties | 14.3 | 15.7 | 13.1 | 14.5 |
| Depreciation on other fixed assets | 3.5 | 3.4 | 3.4 | 3.3 |
| Impairment | 1.2 | 4.1 | 0.4 | 5.6 |
| Operating leases | | | | |
| – Office accommodation | – | 2.5 | – | 2.5 |
| – Computer hire | 0.2 | 0.3 | 0.2 | 0.3 |
| – Rent on Temporary housing leases (These properties are leased from private landlords for three to five years to house homeless families nominated through local authority partners.) | 26.2 | 26.4 | 25.8 | 25.7 |
| | £'000 | £'000 | £'000 | £'000 |
| Auditors remuneration: | | | | |
| Audit services | 101.2 | 90.3 | 55.0 | 41.0 |
| Non audit services | | | | |
| – Bond issue | 11.0 | – | 11.0 | – |
| – Training | 2.0 | – | 2.0 | – |
| – Loan finance | 3.0 | – | 3.0 | – |

9. TAX ON SURPLUS ON ORDINARY ACTIVITIES

| | Group | | Trust | |
|--|----------|----------|----------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| | £m | £m | £m | £m |
| Current tax | | | | |
| UK corporation tax on surplus for the year | – | – | – | – |
| | | | | |
| | Group | | Trust | |
| | 2013 | 2012 | 2013 | 2012 |
| | £m | £m | £m | £m |
| Current tax reconciliation | | | | |
| Surplus on ordinary activities before tax | 58.0 | 31.6 | 45.4 | 19.3 |
| Theoretical tax at UK corporation tax rate 24% (2012: 26%) | 13.9 | 8.2 | 10.9 | 5.0 |
| Capitalised interest | (0.2) | (0.5) | – | – |
| Charitable activities | (9.6) | (5.4) | (10.9) | (5.0) |
| Losses carried forward | (0.1) | (1.1) | – | – |
| Benefit of wear and tear allowances | (0.1) | (0.1) | – | – |
| Differences between accounting profit and capital disposals for tax purposes | (3.9) | (1.0) | – | – |
| Current year LLP taxable income in excess of financial statements | – | 0.9 | – | – |
| Depreciation in excess of/(less than) capital allowances | 0.3 | 0.3 | – | – |
| Impairment of fixed assets | – | (0.1) | – | – |
| Expenses not deductible for tax purposes | 0.2 | (1.2) | – | – |
| Minority interest joint venture | (0.5) | – | – | – |
| Current tax charge | – | – | – | – |

10. HOUSING PROPERTIES

| Group | Completed properties held for letting £m | Market rent accommodation at valuation £m | Letting properties in the course of development £m | Completed Shared ownership properties £m | Shared ownership properties in the course of development £m | Total £m |
|---|---|--|---|---|--|----------------|
| Cost or valuation as previously stated | 1,770.5 | 71.2 | 189.8 | 369.2 | 72.5 | 2,473.2 |
| Reclassification (See note 11, 12 and 25) | 0.3 | (71.2) | – | (1.7) | – | (72.6) |
| At 1 April 2012 | 1,770.8 | – | 189.8 | 367.5 | 72.5 | 2,400.6 |
| Additions | – | – | 94.2 | – | 38.4 | 132.6 |
| Impairment | – | – | – | – | (0.6) | (0.6) |
| Works to existing properties | 12.9 | – | – | – | – | 12.9 |
| Properties completed | 91.5 | – | (91.5) | 25.2 | (25.2) | – |
| Disposals | (48.4) | – | (2.3) | (11.2) | – | (61.9) |
| At 31 March 2013 | 1,826.8 | – | 190.2 | 381.5 | 85.1 | 2,483.6 |
| Accumulated depreciation | | | | | | |
| Depreciation as previously stated | 66.3 | – | – | 2.9 | – | 69.2 |
| Reclassification | 1.0 | – | – | – | – | 1.0 |
| At 1 April 2012 | 67.3 | – | – | 2.9 | – | 70.2 |
| Charge for the year | 13.3 | – | – | 1.0 | – | 14.3 |
| Disposals | (0.8) | – | – | – | – | (0.8) |
| At 31 March 2013 | 79.8 | – | – | 3.9 | – | 83.7 |
| Depreciated cost | | | | | | |
| At 31 March 2013 | 1,747.0 | – | 190.2 | 377.6 | 85.1 | 2,399.9 |
| At 31 March 2012 | 1,703.5 | – | 189.8 | 364.6 | 72.5 | 2,330.4 |
| Grants | | | | | | |
| Social housing grant | (992.4) | – | (91.7) | (184.0) | (23.0) | (1,291.1) |
| Other grants | – | – | (5.0) | – | – | (5.0) |
| Grants as previously stated | (992.4) | – | (96.7) | (184.0) | (23.0) | (1,296.1) |
| Reclassification | (0.9) | – | – | 0.6 | – | (0.3) |
| At 1 April 2012 | (993.3) | – | (96.7) | (183.4) | (23.0) | (1,296.4) |
| Additions | – | – | (20.5) | – | (10.3) | (30.8) |
| Schemes completed | (59.6) | – | 59.6 | (12.4) | 12.4 | – |
| Disposals | 20.1 | – | – | – | – | 20.1 |
| Transferred to recycled capital grant fund | 0.4 | – | – | 5.0 | – | 5.4 |
| At March 2013 | (1,032.4) | – | (57.6) | (190.8) | (20.9) | (1,301.7) |
| Social housing grant | (1,032.4) | – | (52.6) | (190.8) | (20.9) | (1,296.7) |
| Other grant | – | – | (5.0) | – | – | (5.0) |
| | (1,032.4) | – | (57.6) | (190.8) | (20.9) | (1,301.7) |
| Net book value | | | | | | |
| At 31 March 2013 | 714.6 | – | 132.6 | 186.8 | 64.2 | 1,098.2 |
| At 31 March 2012 | 710.2 | – | 93.1 | 181.2 | 49.5 | 1,034.0 |

For particulars of charges over assets (see note 22).

10. HOUSING PROPERTIES (continued)

| Trust | Completed housing properties £m | Housing properties in the course of development £m | Market rent accommodation at valuation £m | Total £m |
|--|---------------------------------------|---|--|--------------|
| Cost as previously stated | 1,716.3 | 152.5 | 34.1 | 1,902.9 |
| Reclassified (See note 11 and 12) | 0.3 | – | (34.1) | (33.8) |
| At 1 April 2012 | 1,716.6 | 152.5 | – | 1,869.1 |
| Additions | – | 99.6 | – | 99.6 |
| Work to existing properties | 12.9 | – | – | 12.9 |
| Properties completed | 91.4 | (91.4) | – | – |
| Disposals and stock transfers | (48.3) | (2.2) | – | (50.5) |
| At 31 March 2013 | 1,772.6 | 158.5 | – | 1,931.1 |
| Accumulated depreciation | | | | |
| Depreciation as previously stated | 64.7 | – | – | 64.7 |
| Reclassification | 1.0 | – | – | 1.0 |
| At 1 April 2012 | 65.7 | – | – | 65.7 |
| Charge for the year | 13.1 | – | – | 13.1 |
| Disposals | (0.8) | – | – | (0.8) |
| At 31 March 2013 | 78.0 | – | – | 78.0 |
| Depreciated cost | | | | |
| At 31 March 2013 | 1,694.6 | 158.5 | – | 1,853.1 |
| At 31 March 2012 | 1,650.9 | 152.5 | – | 1,803.4 |
| Grants | | | | |
| Social Housing Grant | (992.4) | (91.7) | – | (1,084.1) |
| Other grants | – | (5.0) | – | (5.0) |
| Grants previously stated | (992.4) | (96.7) | – | (1,089.1) |
| Reclassification | (0.9) | – | – | (0.9) |
| At 1 April 2012 | (993.3) | (96.7) | – | (1,090.0) |
| Additions | – | (20.5) | – | (20.5) |
| Schemes completed | (59.6) | 59.6 | – | – |
| Transferred to recycled capital grant fund | 0.4 | – | – | 0.4 |
| Disposals | 20.1 | – | – | 20.1 |
| At 31 March 2013 | (1,032.4) | (57.6) | – | (1,090.0) |
| Social Housing Grant | (1,032.4) | (52.6) | – | (1,085.0) |
| Other grants | – | (5.0) | – | (5.0) |
| | (1,032.4) | (57.6) | – | (1,090.0) |
| Net book value | | | | |
| At 31 March 2013 | 662.2 | 100.9 | – | 763.1 |
| At 31 March 2012 | 657.6 | 55.8 | – | 713.4 |

For particulars of charges over assets (see note 22).

10. HOUSING PROPERTIES (continued)

| | Group | | Trust | |
|-------------------------------------|----------------|----------------------------|----------------|----------------------------|
| | 2013 £m | 2012 Reclassified £m | 2013 £m | 2012 Reclassified £m |
| Housing Properties comprise: | | | | |
| Freeholds | 2,298.5 | 2,229.0 | 1,812.2 | 1,762.5 |
| Long leaseholds | 101.1 | 101.1 | 40.6 | 40.6 |
| Short leaseholds | 0.3 | 0.3 | 0.3 | 0.3 |
| | 2,399.9 | 2,330.4 | 1,853.1 | 1,803.4 |

| | Group | | Trust | |
|--|------------|------------|------------|------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Additions to properties include: | | | | |
| Capitalised interest | 4.8 | 3.8 | 1.5 | 1.8 |
| Capitalised development salaries and overheads | 3.8 | 6.3 | 1.7 | 2.1 |

The amount of cumulative interest capitalised in housing properties is not separately identifiable.

11. INVESTMENT IN PROPERTIES

| Group | Market Rent £m | Commercial Buildings £m | Total £m |
|--|-------------------|----------------------------|--------------|
| Valuation as previously stated | – | – | – |
| Reclassified (see note 10, 12 and 25) | 93.4 | 36.0 | 129.4 |
| At 1 April | 93.4 | 36.0 | 129.4 |
| Additions | 6.0 | 1.3 | 7.3 |
| Disposals | (0.1) | – | (0.1) |
| Revaluation of property | 6.9 | 2.7 | 9.6 |
| At 31 March 2013 | 106.2 | 40.0 | 146.2 |
| Impairment as previously stated | – | – | – |
| Reclassified | 0.1 | – | 0.1 |
| At 1 April 2012 | 0.1 | – | 0.1 |
| Provision for impairment | 0.2 | 0.4 | 0.6 |
| At 31 March 2013 | 0.3 | 0.4 | 0.7 |
| Net book value | | | |
| At 31 March 2013 | 105.9 | 39.6 | 145.5 |
| At 31 March 2012 (reclassified) | 93.3 | 36.0 | 129.3 |

The financial statements include market rent accommodation at open market value commercial basis subject to tenancies. These were valued by Jones Lang LaSalle, Members of the Royal Institute of Chartered Surveyors at 31 March 2013.

The financial statements include commercial properties at open market value with vacant possession. These were valued by Dunphys Ltd, Savills, Jones Lang LaSalle, and Tuckerman Chartered Surveyors, Members of the Royal Institute of Chartered Surveyors at 31 March 2013.

Reclassification

In the previous year commercial properties were shown under the heading of "other fixed assets" and market rent properties were shown under the heading of "housing properties" These have been reclassified as Investment Properties. The comparatives have been adjusted accordingly.

| Trust | Market Rent £m | Commercial Buildings £m | Total £m |
|--|-------------------|----------------------------|-------------|
| Valuation as previously stated | – | – | – |
| Reclassified (see note 10 and 12) | 35.8 | 1.3 | 37.1 |
| At 1 April | 35.8 | 1.3 | 37.1 |
| Additions | 0.1 | 0.1 | 0.2 |
| Revaluation of property | 1.9 | 0.1 | 2.0 |
| At 31 March 2013 | 37.8 | 1.5 | 39.3 |
| Impairment as previously stated | – | – | – |
| Reclassified | 0.1 | – | 0.1 |
| At 1 April 2012 | 0.1 | – | 0.1 |
| Provision for impairment | (0.1) | 0.4 | 0.3 |
| At 31 March 2013 | – | 0.4 | 0.4 |
| Net book value | | | |
| At 31 March 2013 | 37.8 | 1.1 | 38.9 |
| At 31 March 2012 (reclassified) | 35.7 | 1.3 | 37.0 |

Details of reclassification of market rent and commercial properties are set out below.

| | Group £m | Trust £m |
|---|-------------|-------------|
| Housing Properties (note 10) | | |
| Cost | (72.6) | (33.8) |
| Depreciation | (1.0) | (1.0) |
| Grant | (0.3) | (0.9) |
| Investment properties (note 11) | | |
| Cost | 129.4 | 37.1 |
| Impairment | (0.1) | (0.1) |
| Other land and buildings (note 12) | | |
| Cost | (33.6) | (1.3) |
| Revaluation reserve (note 25) | (21.8) | – |
| Total | – | – |

12. OTHER FIXED ASSETS

| Group | Commercial buildings Reclassified £m | Other land and buildings Reclassified £m | Other tangible assets £m | Total assets Reclassified £m |
|--------------------------------------|--|---|--------------------------------|---------------------------------------|
| Cost as previously stated | 34.0 | 45.7 | 26.4 | 106.1 |
| Reclassified (See note 10 and 11) | (34.0) | 0.4 | – | (33.6) |
| At 1 April 2012 | – | 46.1 | 26.4 | 72.5 |
| Additions | – | 0.1 | 0.7 | 0.8 |
| At 31 March 2013 | – | 46.2 | 27.1 | 73.3 |
| Accumulated depreciation | | | | |
| At 1 April 2012 | – | 5.3 | 23.0 | 28.3 |
| Charge for the year | – | 1.8 | 1.7 | 3.5 |
| At 31 March 2012 | – | 7.1 | 24.7 | 31.8 |
| Net book value | | | | |
| At 31 March 2013 | – | 39.1 | 2.4 | 41.5 |
| At 31 March 2012 | – | 40.8 | 3.4 | 44.2 |

| Trust | Commercial buildings Reclassified £m | Other land and buildings Reclassified £m | Other tangible assets £m | Total assets Reclassified £m |
|--------------------------------------|--|---|--------------------------------|---------------------------------------|
| Cost as previously stated | 1.7 | 45.7 | 24.8 | 72.2 |
| Reclassified (See note 10 and 11) | (1.7) | 0.4 | – | (1.3) |
| At 1 April 2012 | – | 46.1 | 24.8 | 70.9 |
| Additions | – | 0.1 | 0.6 | 0.7 |
| At 31 March 2013 | – | 46.2 | 25.4 | 71.6 |
| Accumulated depreciation | | | | |
| At 1 April 2012 | – | 5.2 | 21.6 | 26.8 |
| Charge for the year | – | 1.9 | 1.5 | 3.4 |
| At 31 March 2012 | – | 7.1 | 23.1 | 30.2 |
| Net book value | | | | |
| At 31 March 2013 | – | 39.1 | 2.3 | 41.4 |
| At 31 March 2012 | – | 40.9 | 3.2 | 44.1 |

12. OTHER FIXED ASSETS (continued)

Group other land buildings comprises

| | 2013 Other land and buildings £m | Total £m | 2012 Other land and buildings £m | Total £m |
|-----------------|---|-------------|---|-------------|
| Freehold | 38.6 | 38.6 | 40.0 | 40.0 |
| Short leasehold | 0.5 | 0.5 | 0.8 | 0.8 |
| Total | 39.1 | 39.1 | 40.8 | 40.8 |

Trust other land and buildings

| | 2013 Other land and buildings £m | Total £m | 2012 Other land and buildings £m | Total £m |
|-----------------|---|-------------|---|-------------|
| Freehold | 38.6 | 38.6 | 40.1 | 40.1 |
| Short leasehold | 0.5 | 0.5 | 0.8 | 0.8 |
| Total | 39.1 | 39.1 | 40.9 | 40.9 |

13. INVESTMENT IN HOMEBUY AND TEMPORARY HOUSING ACTIVITIES

| Group | Homebuy loans to customers £m | Temporary housing cost of lease £m | Total |
|-------------------------|--|---|--------------|
| At 1 April 2012 | 41.1 | 0.9 | 42.0 |
| Paid in year | (1.7) | – | (1.7) |
| Written off in the year | – | (0.2) | (0.2) |
| At 31 March 2013 | 39.4 | 0.7 | 40.1 |

| | Homebuy grants receivable £m | Temporary housing grants receivable £m | Total £m |
|--------------------------|---|---|---------------------|
| At 1 April 2012 | (41.1) | (0.9) | (42.0) |
| Received in year | 1.7 | – | 1.7 |
| Written back in the year | – | 0.2 | 0.2 |
| At 31 March 2013 | (39.4) | (0.7) | (40.1) |

| Trust | Temporary housing cost of lease £m | Total £m |
|-------------------------|---|---------------------|
| At 1 April 2012 | 0.9 | 0.9 |
| Written off in the year | (0.2) | (0.2) |
| At 31 March 2013 | 0.7 | 0.7 |

| | Temporary housing grants receivable £m | Total £m |
|--------------------------|---|---------------------|
| At 1 April | (0.9) | (0.9) |
| Written back in the year | 0.2 | 0.2 |
| At 31 March 2013 | (0.7) | (0.7) |

14. NUMBER OF DWELLINGS UNDER DEVELOPMENT AND IN MANAGEMENT

| | Group | | Trust | |
|---|----------------|--------------------------------|----------------|--------------------------------|
| | 2013 Number | 2012 Number Reclassified | 2013 Number | 2012 Number Reclassified |
| In the development programme | | | | |
| Commercial property | 21 | 12 | – | 4 |
| Rented social housing | 2,064 | 2,082 | 2,064 | 1,806 |
| Shared Ownership housing | 2,236 | 1,899 | – | – |
| Outright sales | 1,426 | 1,244 | – | 157 |
| Market rent | 483 | 122 | 483 | 122 |
| | 6,230 | 5,359 | 2,547 | 2,089 |
| Rented social housing includes affordable housing units | 1,344 | 552 | 1,344 | 552 |
| In management at the end of the year | | | | |
| Rented social housing | 15,600 | 15,926 | 15,581 | 15,907 |
| Shared ownership housing | 4,700 | 4,406 | 53 | 49 |
| Temporary housing | 2,125 | 2,298 | 2,125 | 2,268 |
| Market rent accommodation | 712 | 698 | 392 | 365 |
| Student accommodation | 839 | 839 | – | – |
| Supported housing and housing for older people | 1,415 | 1,348 | 1,415 | 1,348 |
| Leasehold in management | 1,779 | 1,620 | 401 | 369 |
| | 27,170 | 27,135 | 19,967 | 20,306 |
| Rented social housing includes affordable housing units | 289 | 52 | 289 | 52 |
| Owned but not managed | | | | |
| General needs rented housing | 463 | 464 | 463 | 464 |
| Supported housing and housing for older people | 542 | 565 | 542 | 565 |
| Leasehold in management | 201 | 156 | 60 | 60 |
| | 1,206 | 1,185 | 1,065 | 1,089 |

During the year the total amount of Supported Housing Management Grant payable to managing agents was £1,060,000 (2012: £1,064,000)

In 2013 the intermediate market rent accommodation has been treated as social housing activity in accordance with the Accounting Direction issued by the Homes and Communities Agency. The comparatives have been adjusted accordingly.

15. INVESTMENTS

| | Group | | Trust | |
|--------------------------|------------|------------|--------------|--------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Cost | | | | |
| At 1 April 2012 | 2.3 | 0.8 | 154.3 | 106.3 |
| Additions | – | 1.5 | 14.5 | 48.0 |
| Repayment | (2.3) | – | (16.4) | – |
| At 31 March 2013 | – | 2.3 | 152.4 | 154.3 |
| Impairment | | | | |
| At 1 April 2012 | – | – | 7.4 | 5.1 |
| Provision for impairment | – | – | – | 2.3 |
| At 31 March 2013 | – | – | 7.4 | 7.4 |
| Net book value | | | | |
| At 31 March 2013 | – | 2.3 | 145.0 | 146.9 |
| At 1 April 2012 | 2.3 | 0.8 | 146.9 | 101.2 |

Investment in subsidiaries

As required by statute, the financial statements consolidate the results of Notting Hill Housing Trust and its subsidiaries at 31 March 2013 (see note 34). The Trust has the right to appoint members to the boards of all of its subsidiaries, thereby exercising control.

Notting Hill Commercial Properties Limited made loans to KLA Twickenham LLP and Brenley Park LLP in the amount of nil (2012: £2.3m) at 12% per annum for development of two sites.

- It has invested £51,000 as shares and loans in Notting Hill Pocket LLP, a joint venture with Pocket Living Limited. This investment has been made to facilitate the development of small affordable flats in London. The company owns 51% of Notting Hill Pocket LLP and jointly controls it with Pocket Living Limited. The investment was impaired last year.
- It had invested £14.3m as shares in Seward Street Developments LLP, a partnership with Mount Anvil PLC. This investment was made to fund the development of 107 private sale units. The company owns 75% of Seward Street Developments LLP. During the year the private units were sold and £12m was disinvested and profits of £2.5m were distributed.

During the year the Trust provided management services for Notting Hill Developments Limited, Notting Hill Home Ownership Limited, Notting Hill Commercial Properties Limited, Touraeg Trust Limited, Notting Hill Market Rent Limited and Presentation Market Rent Limited and charged them £4.0m (2012: £3.3m).

The Board believe that the carrying value of the investment is supported by their underlying net asset.

16. PROPERTIES IN THE COURSE OF SALE

| | Group | | Trust | |
|-------------------------------|--------------|--------------|-------------|-------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Properties under construction | 75.3 | 94.5 | 3.8 | 13.5 |
| Completed properties | 15.6 | 20.4 | 0.6 | – |
| Landbank | 45.2 | 63.3 | 7.7 | 10.6 |
| | 136.1 | 178.2 | 12.1 | 24.1 |

17. DEBTORS FALLING DUE WITHIN ONE YEAR

| | Group | | Trust | |
|---|-------------|-------------|-------------|-------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Rental debtors | 19.5 | 18.4 | 16.7 | 15.9 |
| Less provision | (9.3) | (8.8) | (8.7) | (8.2) |
| | 10.2 | 9.6 | 8.0 | 7.7 |
| Trade debtors | 0.4 | 1.4 | 0.2 | 1.2 |
| Social Housing Grant receivable | 6.2 | 24.7 | 3.1 | 19.5 |
| Amounts receivable from local authorities | 0.7 | 1.9 | 0.6 | 1.8 |
| Amounts owed by subsidiary undertakings | – | – | 22.6 | 10.8 |
| Value added tax receivable | 0.6 | 7.1 | – | – |
| Stock transfer (see note 20) | 2.4 | 3.6 | 2.4 | 3.6 |
| Other debtors | 2.0 | 1.8 | 1.6 | 1.4 |
| Prepayments and accrued income | 2.8 | 1.2 | 1.8 | 0.9 |
| | 25.3 | 51.3 | 40.3 | 46.9 |

18. DEBTORS DUE AFTER MORE THAN ONE YEAR

| | Group | | Trust | |
|--------------------------------------|------------|------------|------------|------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Barnet surplus and deficit agreement | 1.2 | 3.4 | 1.2 | 3.4 |
| Other long term debtors | 1.7 | 1.0 | 1.0 | 0.8 |
| | 2.9 | 4.4 | 2.2 | 4.2 |

The Trust has entered into an agreement with London Borough of Barnet which guarantees any capital deficits/surpluses and revenue deficits/surpluses and are refundable by/to the local authority.

19. CURRENT ASSET INVESTMENTS

| | Group | | Trust | |
|---|-------------|------------|------------|------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Investments listed on a recognised stock exchange | – | 0.2 | – | 0.2 |
| Short term deposits | 11.9 | 0.6 | 0.1 | – |
| | 11.9 | 0.8 | 0.1 | 0.2 |

The above mentioned listed investments had a cost of £nil (2012:£73,000) and were stated at market value.

20. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group | | Trust | |
|------------------------------------|-------------|-------------|-------------|-------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Housing loans (note 22) | 4.8 | 4.8 | 3.6 | 4.0 |
| Trade creditors | 6.1 | 7.8 | 3.5 | 5.7 |
| Amounts owed to Group undertakings | – | – | 11.9 | 3.0 |
| Other taxes and social security | 0.9 | 3.4 | 0.9 | 3.4 |
| Stock transfer (see note below) | 2.4 | 3.6 | 2.4 | 3.6 |
| Other creditors | 17.3 | 18.2 | 7.9 | 9.4 |
| Accruals and deferred income | 44.4 | 53.2 | 25.0 | 34.3 |
| | 75.9 | 91.0 | 55.2 | 63.4 |

The stock transfer figure relate to a works programme to be undertaken on the Bolney Meadow estate, which was transferred from the London Borough of Lambeth. The amount represents the Group's prepayment for assets for which it has legally binding obligation to the London Borough of Lambeth to undertake the works under the refurbishment contract. The VAT saving under this agreement will be shared between the Group and the Local Authority.

21. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | Group | | Trust | |
|-----------------------------|----------------|----------------|--------------|--------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Housing loans (note 22) | 992.8 | 1,003.8 | 745.2 | 727.2 |
| Recycled capital grant fund | 30.7 | 26.4 | 3.5 | 3.5 |
| Disposal proceeds fund | 5.0 | 8.2 | 5.0 | 8.2 |
| | 1,028.5 | 1,038.4 | 753.7 | 738.9 |

Recycled capital grant fund

| | Group | | Trust | |
|-------------------------------|-------------|-------------|------------|------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| At 1 April | 26.4 | 21.1 | 3.5 | 3.8 |
| Homebuy redemption | 1.7 | 2.6 | – | – |
| Grants recycled | 5.4 | 4.5 | 0.4 | – |
| Interest accrued | 0.2 | 0.1 | – | – |
| Used to finance new provision | (3.0) | (1.9) | (0.4) | (0.3) |
| At 31 March | 30.7 | 26.4 | 3.5 | 3.5 |

Disposals proceeds fund

| | Group | | Trust | |
|---|------------|------------|------------|------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| At 1 April | 8.2 | 9.8 | 8.2 | 9.8 |
| Surplus on social homebuy and right to acquire properties | – | 0.1 | – | 0.1 |
| Grants recycled | 0.1 | 0.3 | 0.1 | 0.3 |
| Used to finance new provision | (3.3) | (2.0) | (3.3) | (2.0) |
| At 31 March | 5.0 | 8.2 | 5.0 | 8.2 |

No grants were due for repayment to the Homes and Communities Agency and Greater London Authority.

22. LOANS

| | Group | | Trust | |
|---------------------------------|--------------|----------------|--------------|--------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Secured loans and overdrafts | 982.7 | 987.9 | 733.9 | 710.5 |
| Non-recourse secured bank loans | 14.9 | 20.7 | 14.9 | 20.7 |
| Housing loans | 997.6 | 1,008.6 | 748.8 | 731.2 |

Analysis of loan repayments

| | | | | |
|----------------------------------|--------------|----------------|--------------|--------------|
| Repayable on maturity | | | | |
| - in five years or more | 590.0 | 340.0 | 590.0 | 340.0 |
| Repayable by annual installments | | | | |
| - within one year or on demand | 4.8 | 4.8 | 3.6 | 4.0 |
| - between one and two years | 9.7 | 16.2 | 4.0 | 3.3 |
| - within two to five years | 21.0 | 17.5 | 14.0 | 12.4 |
| - in five years or more | 372.1 | 630.1 | 137.2 | 371.5 |
| | 997.6 | 1,008.6 | 748.8 | 731.2 |

The loans are secured by fixed charges on individual properties. The number of charged properties for the Group is 15,226 and the Trust is 10,137. (2012: Group is 15,465 and Trust is 10,256)

The bank and other loans are repaid in quarterly and half-yearly instalments at rates and variable rates of interest ranging from 0.48% to 11.30%. The final monthly instalments fall to be repaid in the period 2013 to 2042.

At 31 March 2013 the Group had undrawn loan facilities of £461.3m (2012: £225.5m). Included within the undrawn loan facilities is an undrawn loan facility of £45.1m from the Homes and Communities Agency to Notting Hill Housing Trust under the Get Britain Building programme to be used for the acquisition of properties for private rental purposes.

Surplus cash is either used to repay short

term or other variable rate loans or deposited on the money market at varying maturities. Any cash deposited is spread amongst a number of financial institutions that exceed a minimum rating approved by the Board or placed in a money market fund.

The Group loan balance of £997.6m includes £3.3m for the fair value of loans due to the acquisition of Presentation and has been netted off by loan arrangement fees of £8.5m, which are written off over the term of each loan.

On 20 December 2012 the Trust raised £250m via the issue of a bond due 2032 at a coupon of 3.750%. The bond was priced at 1.08% over the bench mark gilt giving an effective interest of 3.785%.

The Trust loan amount of £748.8m has been netted off by loan arrangement fees which are written off over the term of each loan.

22. LOANS (Continued)

As at the year end, £242m (2012:£279m) of the Group's variable rate debt had its interest rate hedged by standalone interest rate swaps. As at the year end £80m (2012:£nil) of the Group's fixed debt had its interest rate hedged by standalone swaps.

Note 38 includes an analysis of the anticipated contractual cash flows including interest payable for the Group's financial liabilities on an undiscounted basis. Interest is calculated on drawn debt held as at 31 March 2013.

23. PROVISIONS FOR LIABILITIES AND CHARGES

| Group and Trust | Group and Trust | |
|-------------------------|-------------------------|-------------|
| | Short term leases £m | Total £m |
| At 1 April 2012 | 1.2 | 1.2 |
| Utilised in the year | 0.3 | 0.3 |
| Release of provision | (0.3) | (0.3) |
| At 31 March 2013 | 1.2 | 1.2 |

During the year £300,000 (2012: £200,000) was set aside for future repairs and £300,000 (2012: £200,000) was utilised to carry repairs to properties that were handed back during the year. All provisions are attributable to the Trust.

24. CALLED UP SHARE CAPITAL

| | 2013 £ | 2012 £ |
|--------------------------|-----------|-----------|
| At 1 April | 96 | 97 |
| Issued during the year | 5 | 8 |
| Redeemed during the year | (13) | (9) |
| At 31 March | 88 | 96 |

The shares are non transferable and do not carry a right to interest or dividends and are cancelled on death or withdrawn from the Trust. The shares do not have any redemption value, and on cancellation the amount paid becomes the property of the Trust.

25. RESERVES

Group

| | | | | | | | |
|---|--------------|-------------|----------|---------------|----------|------------|--------------|
| Group as previously stated | 249.3 | 25.0 | 0.1 | (16.6) | 0.1 | 4.7 | 262.6 |
| Reclassification | 11.6 | 21.8 | – | (11.6) | – | – | 21.8 |
| At 1 April 2012 | 260.9 | 46.8 | 0.1 | (28.2) | 0.1 | 4.7 | 284.4 |
| Disposal of quoted investments | – | – | (0.1) | – | – | – | (0.1) |
| Surplus in the year | 55.5 | 9.6 | – | – | – | (4.0) | 61.1 |
| Fair value movements on hedging instruments | – | – | – | (12.4) | – | – | (12.4) |
| Recycled to income and expenditure on cash flow | – | – | – | 4.5 | – | – | 4.5 |
| Recycled to income and expenditure on cessation of hedge accounting | – | – | – | 4.9 | – | – | 4.9 |
| Actuarial deficit | – | – | – | – | (0.1) | – | (0.1) |
| At 31 March 2013 | 316.4 | 56.4 | – | (31.2) | – | 0.7 | 342.3 |

Trust

| | | | | | | | |
|---|--------------|------------|----------|---------------|----------|----------|--------------|
| Trust as previously stated | 189.5 | 5.7 | 0.1 | (14.6) | 0.1 | – | 180.8 |
| Reclassification | 12.2 | – | – | (12.2) | – | – | – |
| At 1 April 2012 | 201.7 | 5.7 | 0.1 | (26.8) | 0.1 | – | 180.8 |
| Disposal of quoted investments | – | – | (0.1) | – | – | – | (0.1) |
| Surplus in the year | 45.4 | 2.0 | – | – | – | – | 47.4 |
| Fair value movements on hedging instruments | – | – | – | (8.2) | – | – | (8.2) |
| Recycled to income and expenditure on cash flow | – | – | – | 3.3 | – | – | 3.3 |
| Recycled to income and expenditure on cessation of hedge accounting | – | – | – | 4.8 | – | – | 4.8 |
| Actuarial deficit | – | – | – | – | (0.1) | – | (0.1) |
| At 31 March 2013 | 247.1 | 7.7 | – | (26.9) | – | – | 227.9 |

The revaluation reserve relates to the surplus of current open market value over historical cost of market rent accommodation and commercial buildings (see note 11) and quoted investments. The reclassification in the revaluation reserve relates to restatement of market rent properties which were previously stated at cost in the group financial statements.

The reclassification in the cash flow hedge reserve relates to restatement of FRS26 deferred losses which were previously included in general reserves.

26. RECONCILIATION OF GROUP OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | Group | |
|--|--------------|-------------|
| | 2013 £m | 2012 £m |
| Operating surplus | 87.6 | 47.7 |
| Depreciation | 17.8 | 19.1 |
| Impairment | 1.2 | 4.1 |
| Amortisation of loan set up costs | 1.0 | 0.2 |
| Decrease/(Increase) in properties and other assets in the course of sale | 42.0 | (50.1) |
| Decrease in debtors | 11.3 | 0.9 |
| (Decrease) in creditors | (23.5) | (2.7) |
| Net cash inflow from operating activities at 31 March | 137.4 | 19.2 |

27. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | Group | |
|--|--------------|--------------|
| | 2013 £m | 2012 £m |
| (Increase)/decrease in cash | (28.0) | 4.4 |
| Cash flow from (increase)/decrease in liquid resources | (11.1) | 4.1 |
| Cash flow from (decrease)/increase in debt and lease finance | (12.0) | 176.4 |
| Non cashflow changes | 1.0 | 0.2 |
| Total changes in net debt for the year | (50.1) | 185.1 |
| Net debt at 1 April 2012 | 991.9 | 806.8 |
| Net debt at 31 March 2013 | 941.8 | 991.9 |

28. ANALYSIS OF CHANGES IN DEBT

| | 1 April 2012 £m | Cash flow £m | Non cashflow changes £m | 31 March 2013 £m |
|----------------------------|-----------------------|-----------------|-------------------------------|------------------------|
| Cash at bank and in hand | 15.9 | 28.0 | – | 43.9 |
| Current asset investment | 0.8 | 11.1 | – | 11.9 |
| Loans | | | | |
| Short term loans | (4.5) | (0.3) | – | (4.8) |
| Long term loans | (997.5) | 9.0 | (1.0) | (989.5) |
| Financial derivatives | (6.6) | – | 3.3 | (3.3) |
| Changes in net debt | (991.9) | 47.8 | 2.3 | (941.8) |

29. PENSION OBLIGATIONS

The Trust's employees are members of London Borough of Richmond Pension Fund (LBRPF), London Borough of Islington Pension fund (LBIPF) or of the Social Housing Pension Scheme (SHPS). The employees of other Group members are members of the SHPS. Further information on each scheme (apart from LBIPF, where figures are not material to the financial statements) is given below. The group also contributes to a number of other defined contribution pension schemes for certain employees. Contributions to these schemes are immaterial. Consequently details of the schemes are not provided.

Social Housing Pension Scheme (Group and Trust)

SHPS is a defined benefit scheme. It is not possible in the normal course of events to identify on a consistent and reasonable basis the share of underlying assets and liabilities belonging to individual participating employers. This is because the scheme is the multi-employer scheme where the scheme assets are co-mingled for investment purposes, and benefits are paid from total scheme assets. Accordingly, due to the nature of the scheme, the accounting charge for the period under FRS17 represents the employer contribution payable.

The Trustees commission an actuarial valuation of the scheme every three years. The main purpose of the valuation is to determine the financial position of the scheme in order to address the level of future contributions required so that the scheme can meet its pension obligations as they fall due.

The last formal valuation of the scheme was performed as at 30 September 2011 by a professionally qualified actuary using the Projected Unit Method. The market value of the scheme's assets at the valuation date was £2,062m. The valuation revealed a shortfall of assets compared with the value of liabilities of £1,035m, equivalent to a past service funding level of 67%.

The scheme actuary has prepared an actuarial report that provides an approximate update on the funding position of the scheme as at 30 September 2012. Such a report is required by legislation for years in which a full actuarial valuation is not carried out. The funding update revealed an increase in the assets of the scheme to £2,327m and indicated an increase in the shortfall of assets compared to liabilities to approximately £1,241m, equivalent to a past service funding level of 65%.

The Trustees of SHPS have asked members to contribute to meeting the deficit. The Group is required to make a series of payments to meet its share of the shortfall. The payments are spread over a number of years from 1 April 2013 to 30 September 2026. The payment to be made in the year to 31 March 2014 is £1.9m and the aggregate of all the payments is £24.5m.

29. PENSION OBLIGATIONS (continued)

London Borough of Richmond Pension Fund (LBRPF)

The LBRPF is a multi-employer scheme, administered by London Borough of Richmond under the regulations governing the Local Government Pension Scheme, a defined benefit scheme. The most recent formal actuarial valuation was completed as at 31 March 2010 by a qualified independent actuary. The amounts recognised in the consolidated balance sheet are as follows:

| | 2013 | 2012 |
|--|--------------|--------------|
| | £m | £m |
| Year ended 31 March | | |
| Fair value of plan assets | 2.7 | 2.4 |
| Present value of funded retirement benefit obligations | (3.5) | (3.1) |
| Net liability | (0.8) | (0.7) |

The cumulative actuarial (deficit)/gains recognised in the statement of total recognised surpluses and deficits at 31 March 2013 was (£64,000) (2012: £79,000). The charge to the income and expenditure account was £4,000 (2012: (£20,000)).

Contributions to pension schemes

| Group | Rate | 2013 | | 2012 | |
|-----------------------------|--------------|------------|--------------|------------|----|
| | | Rate | £m | Rate | £m |
| SHPS | 8.8%-10% | 2.0 | 8.8%-10% | 1.8 | |
| London Borough of Islington | 18.1% | – | 18.1% | – | |
| London Borough of Richmond | 24.4% | – | 24.4% | 0.1 | |
| Defined contribution scheme | 4.5% - 13.5% | 0.3 | 4.5% - 13.5% | 0.4 | |
| Total | | 2.3 | | 2.3 | |

| Trust | Rate | 2013 | | 2012 | |
|-----------------------------|--------------|------------|--------------|------------|----|
| | | Rate | £m | Rate | £m |
| SHPS | 8.8%-10% | 1.8 | 8.8%-10% | 1.7 | |
| London Borough of Islington | 18.1% | – | 18.1% | – | |
| London Borough of Richmond | 24.4% | – | 24.4% | 0.1 | |
| Defined contribution scheme | 4.5% - 13.5% | 0.3 | 4.5% - 13.5% | 0.3 | |
| Total | | 2.1 | | 2.1 | |

30. EMPLOYEE INFORMATION

The number of full time equivalent persons (including part time staff) employed on a weekly average basis was:

| | Group | | Trust | |
|--|------------|------------|------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| | Number | Number | Number | Number |
| Staff engaged in managing or maintaining housing stock | 340 | 327 | 306 | 296 |
| Staff engaged in developing or selling housing stock | 80 | 75 | 42 | 42 |
| Staff providing central administration services | 147 | 146 | 147 | 146 |
| Staff providing care and support | 280 | 276 | 280 | 276 |
| | 847 | 824 | 775 | 760 |

Staff costs for the above persons:

| | Group | | Trust | |
|-----------------------------------|-------------|-------------|-------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | £m | £m | £m | £m |
| Wages and salaries | 29.4 | 27.8 | 26.5 | 25.4 |
| Social security costs | 2.9 | 2.6 | 2.6 | 2.4 |
| Other pension costs (see note 29) | 2.3 | 2.3 | 2.1 | 2.1 |
| | 34.6 | 32.7 | 31.2 | 29.9 |

Redundancy payments of £789,000 (2012: £618,000) were made during the year.

| | 2013 | 2012 |
|-----------------------|-------|-------|
| | £'000 | £'000 |
| Salary range | | |
| Lowest paid employee | 14 | 15 |
| Highest paid employee | 183 | 180 |

30. EMPLOYEE INFORMATION (Continued)

Remuneration banding for employees earning over £60,000 is set out below

| £'000 | 2013 number | 2012 number |
|-----------|----------------|----------------|
| 60 - 70 | 17 | 17 |
| 70 - 80 | 14 | 14 |
| 80 - 90 | 6 | 4 |
| 90 - 100 | 3 | 4 |
| 100 - 110 | 6 | 4 |
| 110 - 120 | 1 | – |
| 120 -130 | – | 1 |
| 130 -140 | – | 1 |
| 140 -150 | – | 1 |
| 150 - 160 | 2 | 1 |
| 160 - 170 | – | – |
| 170 - 180 | – | 1 |
| 180 - 190 | 1 | – |
| 190 - 200 | 1 | 1 |

Remuneration paid to current Board members is set out below. Allowance levels are reviewed annually and set by the Board for different roles. Only one allowance is paid regardless of the number of roles held.

| | 2013 £'000 | 2012 £'000 |
|--|---------------|---------------|
| Current Non-executive Board members | | |
| Bukky Bird | 5.5 | 5.5 |
| Linde Carr (Appointed 19 September 2012) | 2.9 | – |
| Paul Hodgkinson (Chairman) | 16.5 | 16.5 |
| Sue Hunt (Appointed 19 September 2012) | 4.4 | – |
| Annabelle Louvros (Resigned 19 September 2012) | 2.6 | 5.5 |
| Barbara Matthews (Resigned 19 September 2012) | 3.9 | 8.3 |
| Alastair Moss | 5.5 | 3.3 |
| Alexander Phillips | – | – |
| Sophie Warner | 8.3 | 8.3 |
| Mohan Yogendran | 8.3 | 8.3 |
| Debra Yudolph | 8.3 | 8.3 |

31. BOARD AND EXECUTIVE DIRECTORS' EMOLUMENTS

| | Group | |
|---|---------------|---------------|
| | 2013 £'000 | 2012 £'000 |
| The emoluments of the members of the Board and the Executive Directors was: | | |
| Fees for members of the Board | 66 | 64 |
| Fees for Committee members | 14 | 11 |
| Management services of Executive Directors (including pension contributions and benefits in kind). | 905 | 880 |
| Emoluments for management services (excluding pension contributions) includes the amount paid to the highest paid Director. (The Chief Executive was the highest paid director) | 183 | 180 |

The payments to current non-executive Board members represents 0.02% (2012:0.03%) of turnover. Board members are appraised on an annual basis and there is an annual review of Board member payments.

31. BOARD AND EXECUTIVE DIRECTORS' EMOLUMENTS (continued)

Executive Board members

| | Salaries £'000 | Car benefits £'000 | Pension costs £'000 | Bonus £'000 | 2013 Total £'000 | 2012 Total £'000 |
|--|-------------------|--------------------------|---------------------------|----------------|------------------------|------------------------|
| Kate Davies, Group Chief Executive | 165 | 11 | 14 | 7 | 197 | 194 |
| John Hughes, Group Director of Development and New Business | 129 | 8 | 31 | 14 | 182 | 174 |
| Paul Phillips, Group Finance Director | 129 | 8 | 11 | 7 | 155 | 148 |
| Alastair Clegg, Group Corporate Services Director (Resigned 31 August 2012.) | 42 | 3 | 10 | 7 | 62 | 123 |
| Andrew Muir, Group Corporate Services Director (Appointed 1 September 2012.) | 59 | – | 5 | – | 64 | – |
| Andrew Belton, Chief Operating Officer | 129 | 8 | 11 | 7 | 155 | 154 |
| Kath King, Group Director of Asset Management | 83 | – | 7 | – | 90 | 87 |
| | 736 | 38 | 89 | 42 | 905 | 880 |

The Chief Executive is an ordinary member of the pension scheme operated by the Social Housing Pension Scheme on behalf of all qualifying employees. No special or enhanced terms apply to her membership of the scheme.

32. CAPITAL COMMITMENTS

| | Group | | Trust | |
|--|------------|----------------------------|------------|------------|
| | 2013 £m | 2012 Reclassified £m | 2013 £m | 2012 £m |
| Capital expenditure that has been contracted for but has not been provided for in the financial statements | 209.7 | 181.0 | 56.4 | 60.7 |
| Capital expenditure that has been authorised by the Board but has not yet been contracted for | 198.1 | 95.2 | 148.9 | 45.6 |

Capital commitments will be funded by a combination of Social Housing Grant, draw down of existing or new loan facilities, issuing of bonds and or by internal resources. The previous year's figures were restated to remove intercompany developments.

33. OPERATING LEASES

The payment which the Group and Trust is committed to make in the next year under operating leases are as follows: These are annual commitments under non-cancellable operating leases.

| | Group and Trust | |
|--------------------------|-----------------|------------|
| | 2013 £m | 2012 £m |
| Computers | | |
| – Less than one year | 0.2 | 0.2 |
| – One to five years | 0.1 | 0.2 |
| | 0.3 | 0.4 |
| | Group | |
| | 2013 £m | 2012 £m |
| Temporary housing leases | 13.3 | 12.7 |
| – Less than one year | 12.9 | 13.7 |
| – One to five years | | |
| | Trust | |
| | 2013 £m | 2012 £m |
| Temporary housing leases | | |
| – Less than one year | 12.9 | 12.0 |
| – One to five years | 12.9 | 13.7 |

34. INCORPORATION, SUBSIDIARIES AND JOINT VENTURES

Notting Hill Housing Trust is incorporated in England under the Industrial and Provident Societies Act 1965 and is required by statute to prepare Group financial statements. The Trust is a Registered Housing Provider as defined by the Housing and Regeneration Act 2008 and is the ultimate parent.

Notting Hill Housing Trust and its subsidiaries have throughout the year held balances with each other. These balances relate to normal trading transactions between each of the entities.

Notting Hill Housing Trust, has taken advantage of the exemption contained in Financial Reporting Standard 8 – "Related Party Disclosures" (FRS 8), and has therefore not disclosed transactions or balances with wholly owned subsidiaries.

All shares held as investments are held as ordinary shares with the exception of shares held in:

- Notting Hill Commercial Properties Limited - Ordinary shares and redeemable ordinary shares
- Great Eastern Quay Limited - Ordinary shares and redeemable ordinary shares

34. INCORPORATION, SUBSIDIARIES AND JOINT VENTURES (continued)

The Trust has the following subsidiaries.

| Company (Subsidiaries) | Principal activity | Parent | Country of registration |
|---|---|---|--------------------------------|
| Notting Hill Home Ownership Limited | Performs the activities of a registered housing association. It is registered with the Homes and Communities Agency | The Trust owns one of seven shares and controls the Board. The remaining six shares are held in trust for the Trust. It is a wholly owned subsidiary of the Trust | England and Wales |
| Notting Hill Commercial Properties Limited | Develops and lets commercial properties | The Trust – 100% shares | England and Wales |
| Notting Hill Developments Limited | Develops and sells properties | Notting Hill Commercial Properties Limited – 100% shares | England and Wales |
| Notting Hill Market Rent Limited | Rents properties at market rents | The Trust – 100% shares | England and Wales |
| Great Eastern Quay Limited | Investment in company | The Trust – 100% shares | England and Wales |
| Great Eastern Homes LLP | Develops and sells properties | Jointly owned by Notting Hill Commercial Properties Limited and Great Eastern Quay Limited | England and Wales |
| Canonbury Developments Limited | Dormant company | Notting Hill Home Ownership Limited | England and Wales |
| Arawak Developments Limited | Develops properties | The Trust – 100% shares | England and Wales |
| Presentation Market Rent Limited | Rents properties at market rents | The Trust – 100% shares | England and Wales |
| Touareg Trust | Provides student accommodation | The Trust is sole guarantee member and controls the Board | England and Wales |
| Notting Hill Home Options Limited | Rents properties for social housing | The Trust – 100% shares | England and Wales |
| Seward Street Developments LLP | Develops and sells properties | Notting Hill Commercial Properties Limited – 75% control | England and Wales |
| Goat Wharf Limited | Develops and sells properties | Notting Hill Home Ownership Limited – 100% shares | England and Wales |
| Grange Walk Notting Hill Limited | Develops and sells properties | Notting Hill Home Ownership Limited – 100% shares | England and Wales |
| Igloo Insurance Protected Captive Cell NOT6 | Provides insurance services | The Trust – 100% shares | Guernsey |

34. INCORPORATION, SUBSIDIARIES AND JOINT VENTURES (continued)

Canonbury Developments Limited did not trade during the year to 31 March 2013.

Notting Hill Home Ownership Limited has a joint venture with Wandsworth Parkside LLP, KLA Twickenham LLP, and Brenley Park LLP companies registered in England and Wales (see below).

Notting Hill Commercial Properties Limited has a joint venture with Notting Hill Pocket LLP, a company registered in England and Wales. The company also has a joint venture with Seward Street Development LLP, a company registered in England and Wales (see note below).

Seward Street Developments LLP commenced trading on 6 October 2010. The Partnership is accounted for as a subsidiary of the Group, as the group share of the partnership is 75%. The remaining 25% is owned by Mount Anvil plc, whose share is represented by a minority interest of £0.7m at 31 March 2013 (2012: £4.7m).

The Group's investment in joint venture projects amounted to nil (2012: £2.3m). Details of these investments are shown below.

Joint venture income of £0.4m (2012:(£0.2m)) was received during the year.

The contingent liability is limited to the amount invested.

Presentation Housing Association (which transferred engagements into NHHT in 2010) in 1999 entered into partnership with two other Registered Providers in order to fund the Estate Renewal Challenge Fund (ERCF) transfer of the 1,044 homes on the St. Martins Estate in South London. Upon transfer of engagements to Notting Hill Housing Trust, this partnership has continued. Notting Hill Housing Trust has accounted for its share of income and assets (18.36% ownership) in accordance with FRS 9 as a JANE (Joint Arrangement Not an Entity).

| Name | Nature of business | Share of capital commitments | Proportion of holding | Year ended | Assets 2013 £m | Liabilities 2013 £m | Assets 2012 £m | Liabilities 2012 £m |
|-------------------------|---|------------------------------|-----------------------|-------------|-------------------|------------------------|-------------------|------------------------|
| Wandsworth Parkside LLP | Development of 159 shared ownership, permanent rented, affordable keyworker and private for sale residential accommodation. | Nil | 50% | 31 March | 0.2 | (0.2) | 0.4 | (0.4) |
| KLA Twickenham LLP | Development of 280 shared ownership, permanent rented, affordable keyworker and private for sale residential accommodation. | Nil | 50% | 31 March | – | – | 0.2 | (0.2) |
| Notting Hill Pocket LLP | Development of affordable housing | Nil | 51% | 31 March | – | – | – | – |
| Brenley Park LLP | Development of 169 shared ownership, permanent rented and private for sale residential accommodation | Nil | 50% | 31 December | 1.2 | (1.2) | 8.4 | (8.4) |
| Total | | | | | 1.4 | (1.4) | 9.0 | (9.0) |

35. TRANSACTIONS WITH RELATED PARTIES

At 31 March 2013 there was one member on the Board who had a tenancy with the Trust. The tenancy agreement had been granted on the same terms as for all other tenants, and the housing management procedures, including those relating to management of arrears have been applied consistently to this tenant. At 31 March 2013 there was one member on the board who had a lease with NHHO. The lease had been granted on the same terms as for all other leases and the housing management procedures including those relating to management of arrears have been applied consistently to this leaseholder.

At 31 March 2013 there was one member on the Board who was also a Councillor with the City of Westminster. A joint protocol with the Council has been agreed to avoid conflicts of interest occurring.

During the year Notting Hill Home Ownership Limited charged Seward Street Developments LLP £50,000 (2012: £29,000) in respect of administration costs. At the year end date £149,000 (2012: £89,000) was owed to Notting Hill Home Ownership Limited by Seward Street Developments LLP.

During the year Notting Hill Housing Trust had invested £30.2m (2012:£41.9m) in the share capital of its non regulated subsidiaries and £76.3m (2012:£64.4m) in loans to its non regulated subsidiaries. For further information see note 15. All subsidiaries are shown on note 34. Details of other transactions between Notting Hill Housing Trust and its non-regulated subsidiaries during the year are shown below.

| | 2013 | 2012 |
|-------------------------------------|-------------|--------------|
| | £m | £m |
| Other inter company transactions | | |
| Cash receipts for services provided | 4.3 | 0.7 |
| Excess cash invested | 20.1 | 2.4 |
| Purchases | (1.3) | (1.9) |
| Overhead recharges | (0.3) | (0.3) |
| Payroll | (0.2) | (0.3) |
| Rent transfers | (0.5) | (0.8) |
| Total | 22.1 | (0.2) |

- Cash receipts relates to cash paid by the subsidiaries for services provided.
- In accordance with the Treasury policy, excess cash is invested in the Trust to manage the interest charges
- Purchases relate to invoices that are charged to Trust but relate to other Group companies. They include temporary staff costs, utility bills and courier charges.

- Overhead recharges are recharges made by the Trust to the rest of the Group based on the budget taking into account staff numbers, floor space and turnover per subsidiary.
- Payroll relates to payroll costs for specific staff who work directly for the said subsidiaries.
- Rent transfer relates to cash received by the Trust relating to tenants in other subsidiaries

36. LEGAL STATUS

The Trust is registered under the Industrial and Provident Societies Act 1965 and is registered with the Homes and Communities Agency as a social landlord.

37. POST BALANCE SHEET

There have been no significant events between the year end date and the date of approval of these financial statements which would require an adjustment to, or disclosure in, the financial statements.

On 25 June 2013 Notting Hill Pocket LLP was dissolved.

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Loans and receivables

| | 2013 | 2012 |
|------------------------------------|-------------|-------------|
| | £m | £m |
| Current asset investments | 11.9 | 0.8 |
| Cash | 43.9 | 15.9 |
| Debtors | 21.9 | 43.0 |
| Debtors falling due after one year | 2.9 | 4.4 |
| | 80.6 | 64.1 |

value cannot be measured reliably, the fair value is considered to approximate to the carrying value of the instrument at historic cost less impairment.

Credit Risk is assessed on all financial instruments in the tables above. Because the Group maintains a formal counterparty policy and reviews the credit worthiness of counterparties, it is not considered that any material credit risk attaches to the financial instruments and as such they are not subject to impairment.

A comparison of the book value to the fair value of the Group's long-term borrowings at 31 March is set out below.

| | 2013 | | 2012 | |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Book value | Fair value | Book value | Fair value |
| | £m | £m | £m | £m |
| Current portion of long term debt | 4.8 | 4.8 | 4.8 | 4.8 |
| Long term debt | 994.8 | 992.8 | 997.2 | 1,003.8 |
| | 999.6 | 997.6 | 1,002.0 | 1,008.6 |

| | Financial liabilities at fair value | | Financial liabilities at amortised cost | |
|--|--|-------------|--|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | £m | £m | £m | £m |

| | | | | |
|---|-------------|-------------|----------------|----------------|
| Trade and other payables | – | – | 75.9 | 91.0 |
| Loans and borrowings | – | – | 997.6 | 1,008.6 |
| Other long term creditors | – | – | 35.7 | 34.6 |
| Derivatives | | | | |
| Fair value through income and expenditure | | | | |
| Interest rate swaps | | | | |
| - fixed to float | 0.1 | – | – | – |
| - float to fixed | 35.0 | 15.4 | – | – |
| Designated hedges | 21.5 | 29.3 | – | – |
| | 56.6 | 44.7 | 1,109.2 | 1,134.2 |

Losses/gains in respect of financial derivatives are set out below

| | Group | | Trust | |
|--|--------------|--------------|--------------|--------------|
| | 2013 | 2012 | 2013 | 2012 |
| | £m | £m | £m | £m |
| Gains on disposal of financial derivatives | 1.1 | 2.1 | 1.1 | 2.1 |
| (Losses) in respect of derivatives | (10.1) | (5.8) | (7.4) | (2.9) |
| | (9.0) | (3.7) | (6.3) | (0.8) |

Valuation

All financial assets or liabilities at fair values are calculated using measurements based on inputs that are observable for the asset/liability either directly or indirectly from prices. The valuation techniques used to measure the above derivatives financial instruments maximise the use of market data where available. All significant inputs required to value the financial instruments are observable and as such they are designated level 2. For all other financial instruments where fair

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk

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

Interest rate risk

The Group finances its development through a mixture of retained surplus, grant and borrowings. The Group's interest rate management ensures that a minimum of 40% of its drawn funds should be fixed on a long term basis and the remaining is either hedged or kept at variable rates depending on prevailing market conditions and requirements of the business.

The Group has entered into interest rate swap agreements to hedge exposure to the variability in cash flows attributable to movements in interest rates. This is documented in the treasury policy and allows the Group to enter into contracts where the Group agrees to pay interest at a fixed rate and receives interest at a floating rate. The interest rate swaps are designated as a hedge of the variable debt interest payments which are linked to changes in the benchmark interest rate (LIBOR) which is quoted price in an active market. This method reflects the risk management objective of the hedging relationship that swaps a series of future variable cash flows to a fixed rate. The interest rate swap agreements which do not meet the hedging tests contained in FRS 26 are accounted for through the income and expenditure account.

The effect on the Group which would result from interest rate movements are illustrated in the sensitivity analysis.

The cash flows from the interest rate swaps are expected to occur monthly, quarterly or on a semi-annual basis dependant on each contract. The periods in which the hedged payments are expected to occur are set out in the maturity analysis in note 22.

Inflation risk

An element of the Group's debt is linked to inflation. This provides a link between the cost of our debt and the Group's revenue streams. A 1% increase in Retail Price Index results in £0.3m increase in interest cost.

Liquidity risk

The Group has a policy to maintain sufficient liquidity in cash and lending facilities to cover 15 months of operational activity. At the year end 95% of the Group's borrowings were due to mature in more than 5 years. The liquidity risk of each Group entity is managed centrally by the Group treasury function on a monthly basis to adhere to Group policy.

The following is an analysis of the expected contracted cash flows payable for the Group's financial liabilities on an undiscounted basis. For the purposes of this table, debt is defined as bank loans and bonds. Interest is calculated based on debt held as at 31 March.

For the purposes of this table, debt is defined as drawn bank loans and drawn bond financing and excludes deferred finance. Floating rate interest is determined using the prevailing implied forward rates as at the balance sheet date.

| | Debt | Interest | Cash flows | Total |
|--------------|----------------|-----------------|----------------------|----------------|
| | £m | on debt | on derivative | £m |
| 2013 | | £m | financial | |
| | | | instruments | |
| | | | £m | |
| 0-1 year | 5.2 | 32.6 | 5.9 | 43.7 |
| 1-2 years | 10.1 | 32.2 | 5.9 | 48.2 |
| 2-5 years | 22.1 | 101.8 | 14.1 | 138.0 |
| Over 5 years | 968.7 | 709.6 | 32.4 | 1,710.7 |
| | 1,006.1 | 876.2 | 58.3 | 1,940.6 |

| | Debt | Interest | Cash flows | Total |
|--------------|----------------|-----------------|----------------------|----------------|
| | £m | on debt | on derivative | £m |
| 2012 | | £m | financial | |
| | | | instruments | |
| | | | £m | |
| 0-1 year | 5.1 | 33.5 | 6.3 | 44.9 |
| 1-2 years | 16.5 | 32.9 | 5.5 | 54.9 |
| 2-5 years | 18.3 | 107.3 | 12.1 | 137.7 |
| Over 5 years | 969.3 | 777.1 | 16.1 | 1,762.5 |
| | 1,009.2 | 950.8 | 40.0 | 2,000.0 |

Credit risk

The main credit risk applies to debtor balances, the majority of which relates to rental income and other arrears, which are reported weekly to business leaders assigned to manage the recovery process. In accordance with FRS 26 the Group only recognises losses when a loss event has occurred. The methodology used for provisioning has been shown to reflect historical

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

experience of when loss events have occurred. The Group provides 100% for former tenants. Provision for current tenant arrears is on the aged profile of the debt. Arrears of over 19 weeks are provided for at 90% and for arrears between 10 and 19 weeks being provided for at 15%. Approximately 60% of arrears is in the form of Housing Benefit payment coming in directly from the local authorities which reduces to Group's exposure to tenants risk.

The Group recognises the risk whereby the inability of a provider of a credit facility, deposit taker, or derivatives counterparty to fulfill its contractual obligations when they fall due, or reduction in creditworthiness, may result in a financial loss or liquidity problem for the Group. The Group therefore maintains a formal counterparty policy in respect of those organisations from which it draw funds on committed facilities, or with whom it may enter into derivative transactions, or with whom funds may be deposited. The longer the maturity of the commitment period, derivative or investment, the greater the counterparty credit risk, and hence the minimum credit quality requirements will be more stringent.

Sensitivity analysis

Financial instruments affected by market risk include borrowings and derivative financial instruments. The following analysis illustrates the sensitivity to market variables, being UK interest rates on our financial instruments.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives are all constant and on the basis of the hedge designations in place at 31 March 2012 and 31 March 2011, respectively. As a consequence, this sensitivity analysis relates to the positions at those dates and is not necessarily representative of the years then ended.

The following assumptions were made in calculating the sensitivity analysis:

- The balance sheet sensitivity to interest rates relates only to derivative financial instruments and available for sale investments, as debt and other deposits are carried at amortised cost and so their carrying value does not alter as interest rates change
- The sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments
- Changes in the carrying value of derivatives from movements in interest rates designated as cash flow hedges are assumed to be recorded within equity
- Changes in the carrying value of derivatives not in hedging relationships only affect the income and expenditure account

The following table shows the illustrative effect on the income and expenditure account and reserves that would result from the following movements in interest rates.

| | Group | | 2013 reserves £m | 2012 reserves £m |
|----------------------------------|-----------------------------|-----------------------------|------------------------|------------------------|
| | 2013 interest cost £m | 2012 interest cost £m | | |
| UK interest rate movement | | | | |
| 0.25% increase | 5.6 | 2.3 | 3.8 | 4.9 |
| 0.5% increase | 11.0 | 4.5 | 7.6 | 9.8 |
| 0.75% increase | 16.5 | 6.8 | 11.4 | 14.7 |

Arrears provision

| | Group | | Trust | |
|---------------------|------------|------------|------------|------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| At 1 April | 8.8 | 9.9 | 8.2 | 8.7 |
| Actual provision | 1.9 | 0.2 | 1.8 | 0.7 |
| Amounts written off | (1.4) | (1.3) | (1.3) | (1.2) |
| At 31 March | 9.3 | 8.8 | 8.7 | 8.2 |

Arrears

| | Group | | Trust | |
|-----------------------|-------------|-------------|-------------|-------------|
| | 2013 £m | 2012 £m | 2013 £m | 2012 £m |
| Less than 30 days | 5.2 | 4.0 | 4.5 | 3.6 |
| 30 to 60 days | 3.2 | 3.1 | 2.7 | 2.6 |
| 60 to 90 days | 1.9 | 2.0 | 1.5 | 1.5 |
| More than 90 days | 9.2 | 9.3 | 8.0 | 8.2 |
| At 31 March | 19.5 | 18.4 | 16.7 | 15.9 |
| Former tenant arrears | 4.3 | 4.2 | 4.2 | 4.0 |

There are no indications that the above rental debtors balances are impaired. The above former tenant arrears have been fully provided for. All other sundry debtors of £2.4m (2011:£3.2m) have normal payment terms of 30 days and are not impaired.

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Capital risk management

The capital balances in the Group comprises share capital (note 24), revaluation reserves (note 25) and revenue reserves (note 25). The revaluation reserve balance is derived from movements in listed investments and market values for investment properties. The revenue reserve is entirely formed of Group surpluses and deficits from each year since the Group's formation.

None of these capital balances have a significant degree of active management other than in the case of current year income and expenditure that contributes to revenue reserves.

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