Making a lasting difference

Annual Report and Accounts 2018

Peabody at a glance

In June 2017 Peabody and Family Mosaic merged to become one organisation. We are now responsible for 55,000 homes in and around the capital. We build great quality places and will develop more than 2,500 new homes each year.

Our mission is to help people make the most of their lives by providing great quality affordable homes, working with communities and promoting wellbeing.

Our values

We are collaborative
We are collaborative in how we work and in the partnerships we pursue to promote our residents' health and independence. We involve residents to improve our services and collaborate effectively across organisational boundaries.

We are ambitious
We are ambitious for our residents, our communities and for our organisation. Whether it's in the number of homes we build, or the opportunities we provide to our residents and our employees to help them achieve their aspirations.

We are empowering
We help people to get the most out of their lives by being empowering in the way we work. We assist residents to become active local citizens and support employees to realise their potential.

We are caring
We are caring in the way we work, and how we treat the people we work with. Irrespective of whether they are our customers, partners or employees.

We are trusted
We are trusted to keep our promises. We do what we say we will.

Our core services

Housing
The essence of our strategy is to provide modern, responsive, cost-effective services that are fit for purpose in the 21st century.

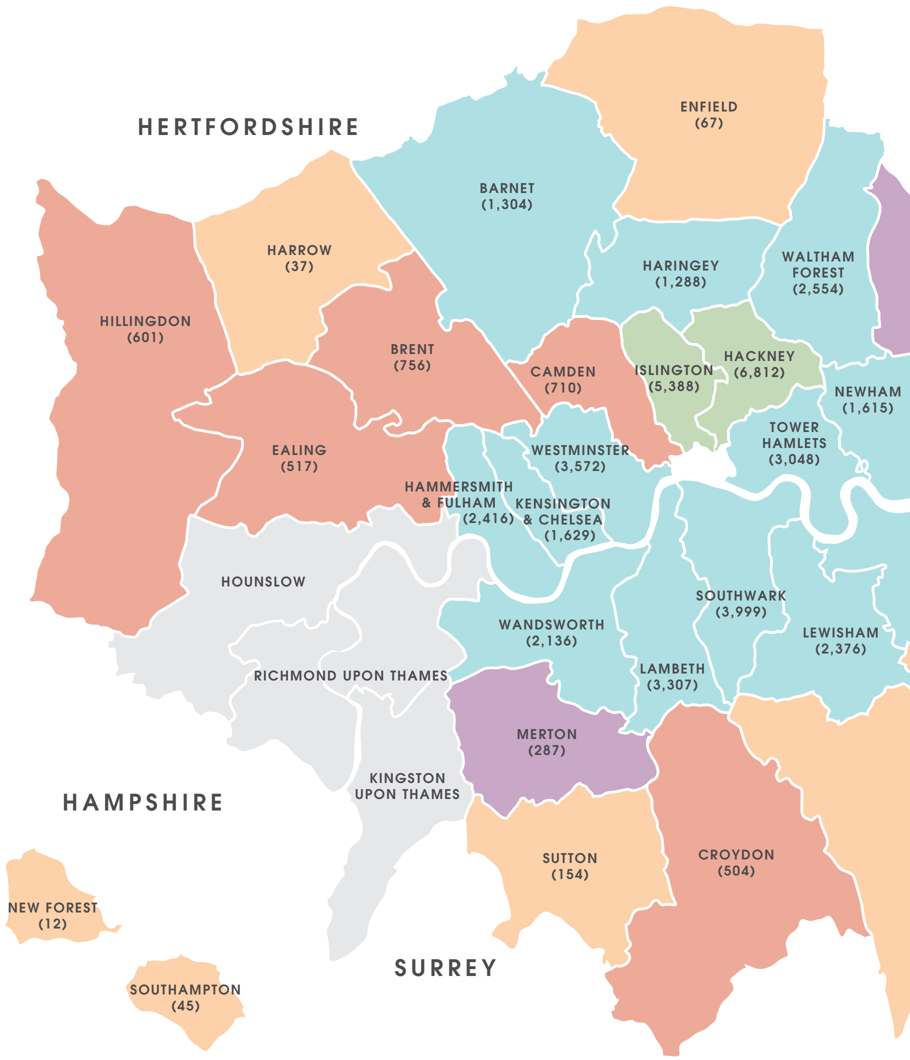
Communities
Our communities are an integral part of our mission. Our ambition is to create communities that are healthier, wealthier and happier.

Care and support
Co-production of support services ensures we are focused on issues that matter most to our customers.

Playing an important role in solving the housing crisis in London and the South East

Our homes

Peabody owns and manages over 55,000 homes across London and the South East. Most of our 110,000 residents live in London, predominantly in the inner boroughs – such as Islington, Greenwich and Hackney – with diverse and growing populations. But our portfolio is actually spread across 29 of the capital's boroughs. Outside of London, we have a significant number of homes in Essex, including many sheltered and supported properties, which sit within our subsidiary, Peabody South East.



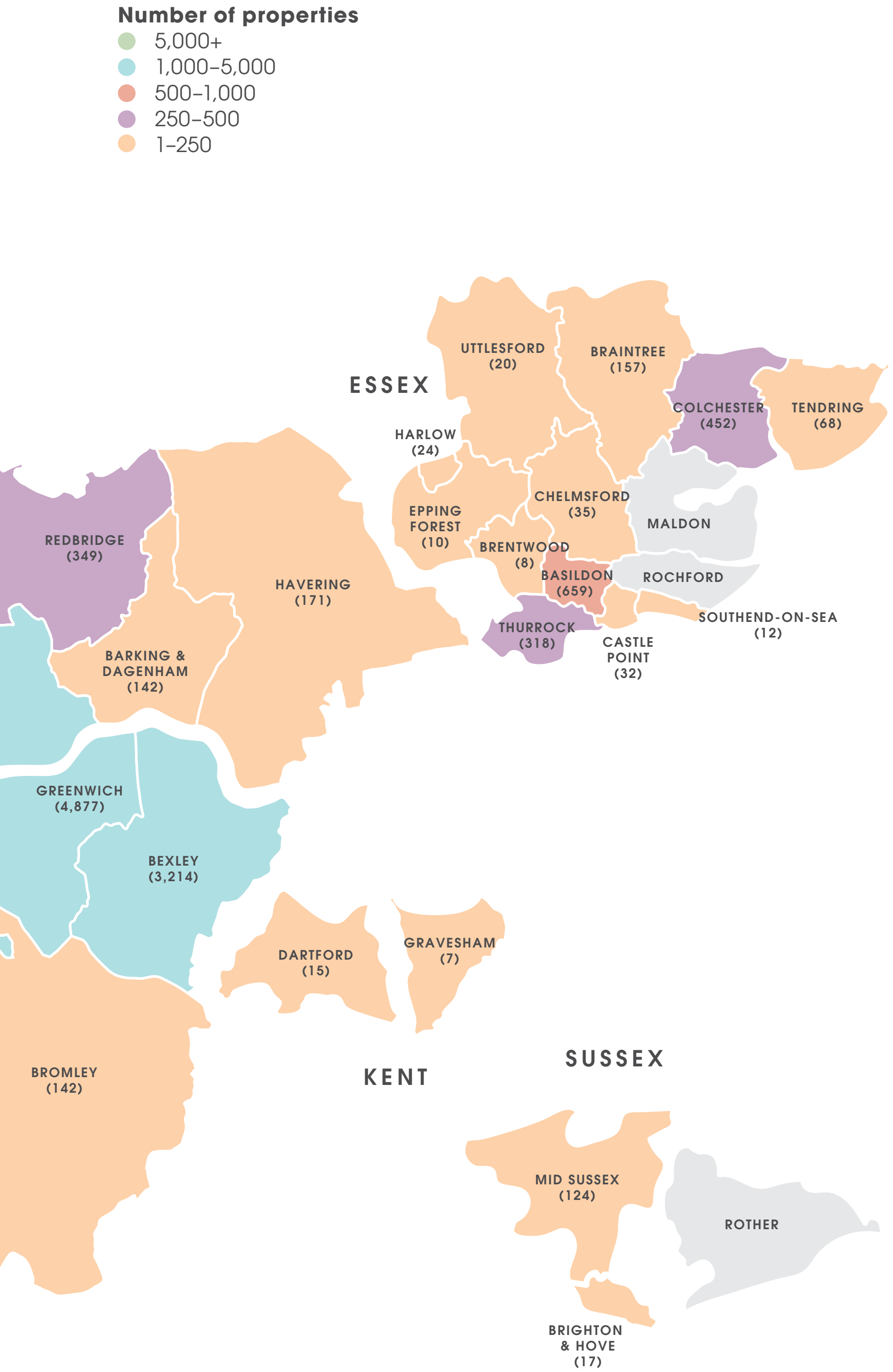
Development highlights 2018/19

Parkside Regeneration
61 homes
Completed in May 2018
We completed our first block of private rented sector homes at Parkside in May 2018. We are working closely with Lewisham Council on this six-phase estate regeneration project. We will transform the existing local authority estates of Heathside and Lethbridge into a sustainable, mixed-tenure community. The regeneration involves replacing the existing 565 properties with around 1,225 modern apartments in a mix of social rented, shared ownership, market sale and private rented homes.

The Green, Ealing
475 homes
Contract agreed in July 2018
In our first major land deal, we have been chosen as the preferred development partner for the London Borough of Ealing, to deliver an exciting regeneration project on a 5.5-acre site in the heart of Southall. Our plans include 475 new homes including 145 affordable rent, 103 shared ownership and 227 market sale. With 50,000sqft of commercial and community space we will create c.220 new job opportunities for the local area.

Battersea Power Station
386 homes
Start on site in November 2018
The regeneration of Battersea Power Station is an iconic scheme for the capital. We have entered into a strategic partnership with Battersea Power Station to deliver the first 386 affordable homes at the development. Work is due to start on site in November 2018, and the first homes should be ready for local residents to move into in 2020.

City Forum, phase 1
147 homes
Due to complete in November 2018
This scheme on City Road in Islington includes two landmark buildings designed by Foster + Partners architects. We are delivering 312 affordable homes as part of a larger development by developer Berkeley Homes. Phase 1 will be completed in November 2018 and comprises 70 shared ownership and 77 social rented homes, including 10 homes for people who require supported housing.



Our development strategy

We help tackle London's housing crisis through our growing development pipeline. We seek to deliver 2,500 new homes per year from 2021.

We are not driven to grow for growth's sake; our growth has purpose. We are committed to providing more affordable homes to help the most vulnerable and those in housing need. We aim to build a third of our homes for market sale, a third for shared ownership and intermediate rent, and a third for low rent. That means we will be delivering an additional 6,000 new affordable homes by 2021.

St John's Hill phase 2
198 homes

Start on site in winter 2018

St John's Hill is a 1930s Peabody estate where accommodation is no longer fit for the needs of its residents. The three phase regeneration involves replacing the existing 351 homes with 599 new homes to rent and buy, high-quality landscaping, a play area and a central open space with a new community centre. The completed first phase includes 153 new homes for rent, shared ownership and market sale. We are due to start work on the second phase by winter 2018.

Southmere Village, phase 1B
395 homes

Start on site this winter 2018

Southmere Village is the first phase of development of the South Thamesmead and Abbey Wood Housing Zone, which will deliver more than 1,500 new homes on four sites. These are on the doorstep of the new Elizabeth line station at Abbey Wood. The first phase (525 homes) is being delivered in two parts, 1A and 1B. Phase 1A (130 homes) is currently on site and we will begin work on phase 1B (395 homes) in winter 2018.

The Wharf, Islington
98 homes

Due to complete in February 2019

This site is in a waterfront location next to City Road Basin, adjoining two conservation areas and close to several listed buildings. We are due to complete 98 new homes by February 2019, 81% of which will be affordable. This includes 64 social rent, 15 shared ownership and 19 private sale apartments.

Stephenson Street, West Ham
210 homes

Start on site in June 2019

The former Parcelforce depot at Stephenson Street, West Ham, is set to be transformed into a new neighbourhood with c.3,800 new homes, community facilities, parks and open spaces. Peabody is set to deliver 210 affordable homes, including 99 affordable rent and 111 shared ownership, as part of a Section 106 deal with developer Berkeley Homes. Works are due to start on site in June 2019.

Highlights

A year of strong performance

Key metrics

£6.3bn
Total Group assets (2017: £6.1bn)

£175m
Surplus (2017: £180m)

£2.7bn
Committed debt funding (2017: £2.4bn)

£609m
Total Group turnover (2017: £558m)

A3
Credit rating (2017: A3)

31%
Gearing (debt: assets at cost) (2017: 32%)

£0.9bn
Development pipeline (2017: £0.8bn)

£250m
Significant investment in new homes

£2.5bn
Unused property security (2017: £2.6bn)

G1,V2
Regulatory rating (2017: G1,V1)

£1.3m
Employment and apprenticeships investments (2017: £1.3m)

£68m
Investment in existing homes

Operational highlights

982
Jobs and apprenticeship opportunities secured

£6.9m
Value of investment in Peabody Community Foundation

98%
Customer satisfaction with care and support services

17,500
Customers supported via care and support services

Contents

Chair's letter

A solid platform for growth

Board priorities

- Our Board has been focused on delivering our strategic priorities as outlined in the business plan to ensure the successful integration of our merger.
- The Board has also reviewed our organisational priorities as set out in our Group strategy.

Dear stakeholders

The past year has been one of the most momentous in Peabody's 156-year history following the completion of our merger with Family Mosaic. Delivering our shared social purpose and helping more people in housing need was at the heart of our decision to merge. Now, we are in a stronger position than ever to fulfil our mission to help people make the most of their lives by providing good quality homes, investing in communities and promoting wellbeing.

Performance during the year

We have already demonstrated some of the benefits of our increased scale and reach through our performance over the past year. I am pleased to say that we have done so while making sure that we maintain the service we offer our residents throughout a time of intense organisational change. Our development pipeline continues to grow and we exceeded our target for new homes completed. We invested £250 million in developing new homes, £68 million in maintaining our existing homes and communities and £6.9 million in supporting residents through the Peabody Community Foundation.

A successful integration

Our team has worked hard to align the Peabody and Family Mosaic structures, systems and processes so that we can then move on to transform our services. We've taken the 'best of both worlds' to create a strong, distinctive new organisation with shared values.

A culture of good governance

Good governance is incredibly important to us because it makes sure that we do things properly, are accountable to our residents and have a culture of compliance. Over the last financial year, we have successfully streamlined our subsidiaries, building greater consistency across the Group. We also created a new subsidiary, Peabody South East, for our activities outside of London in line with our constitution.

What is to come?

We have ambitious plans for the future as you will read in this report, and have the resilience to adopt a long term and patient approach. Work is already underway to modernise our services and build more quality homes than ever before, and we remain absolutely committed to providing low rent homes for those in housing need. Our focus is human and local, and we work in partnership to deliver housing, care and support and community investment to create places that will continue to thrive both now and in the future.

R W Kerslake

Lord Kerslake
Chair
27 July 2018

Peabody Board, executive officers and advisors

Board, executive officers and advisors

Board

On 29 March 2018, Peabody Trust 2018 (previously known as Peabody Trust), Family Mosaic Housing and Gallions Housing Association Limited amalgamated pursuant to section 109 of the Co-operative and Community Benefit Societies Act 2014 to form Peabody Trust (no. 7741). All Board members of the three amalgamating entities at that date were appointed as Board members of Peabody Trust:

Lord Robert Kerslake (Chair)
Ian Peters (Vice Chair)
Brendan Sarsfield (Chief Executive)
Helen Edwards
David Hardy
Paul Loft
Jane Milligan
Barry McNamara
Deirdre Moss
Catherine Shaw
Peter Vernon
June Welcome*

* Post amalgamation, on 16 May 2018 Peter Baffoe joined as a resident Board member, and on 30 June 2018 June Welcome stepped down from the Board.

Secretary

Sarah Cameron
(Appointed 29 March 2018)

Read more p48

Chief Executive

Brendan Sarsfield
(Appointed 29 March 2018)

Executive Team

(from 29 March 2018)

Stephen Burns	Executive Director, Care and Communities
Pauline Ford	Executive Director, Integration
Ashling Fox	Chief Operating Officer
Susan Hickey	Chief Financial Officer
David Lavarack	Executive Director, Corporate Services
John Lewis	Executive Director, Thamesmead
Dick Mortimer	Executive Director, Development

Further details of changes to the Board and Executive Team members during the year are found on pages 53-55.

Registered office

45 Westminster Bridge Road
London SE1 7JB

Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

Solicitor

Trowers & Hamlins
3 Bunhill Row
London EC1Y 8YZ

Banks

Coutts & Co
440 The Strand
London WC2R 0QS

Barclays
1 Churchill Place
London E14 5HP

Chief Executive's review

Putting our customers first

Q&A

Our CEO, Brendan Sarsfield, answers our questions

How would you summarise the year?

Our first year as the new Peabody has been one of integration and amalgamation while continuing our focus on delivering services for residents. Our surplus for the year of £175 million is in line with expectations. We have already achieved a substantial amount since we merged last June and I am immensely proud of everything we have accomplished in such a short space of time. It is an honour to be leading the new Peabody through this period of change and growth. Bringing together the two organisations has proved to be the right thing to do and I believe we will go from strength to strength to deliver more for our residents, customers and communities.

What was the rationale behind the merger?

George Peabody established his Donation Fund in 1862 to "ameliorate the condition of the poor and needy" in London. Just over a century later Ken Loach made a film that exposed the harrowing reality of life for many people in the 'Swinging Sixties'. Loach's 'Cathy Come Home', with its documentary style, stimulated a period of popular activism that created modern housing associations such as Family Mosaic.

Highlights

- Our strategic partnership with the Mayor of London will deliver 6,000 new affordable homes.
- Our new rent strategy will mean our higher Affordable Rents will be set at the lower London Affordable Rent set by the Mayor.
- We helped 982 people into work, 1,050 volunteers have given their time towards making a difference in our communities, and over 72,600 hours of community activities took place in our community spaces.
- Customer satisfaction with our care and support services increased to an impressive 98%. We supported over 17,500 vulnerable customers during the year and generated a surplus of £1.7 million on contracts worth £31 million.
- We also helped over 5,600 households to increase their independence through aids and adaptations and just under 500 people were supported to return home safely after a stay in hospital.

In July 2016 – exactly 50 years after 'Cathy Come Home' shocked the nation – the respective Boards of Peabody and Family Mosaic agreed to explore the possibility of merging the two organisations. We were of a similar size, both London focused, and with shared objectives and values. Our combined scale, therefore, would allow us to achieve more together than we ever could alone. The newly merged Peabody now owns and manages over 55,000 homes. This concentration of homes will enable us to deliver better and more responsive services for our residents, and give us the financial strength to raise funds and deliver more homes using more of our own resources than ever before. Similarly, our combined community investment activities will benefit more neighbourhoods, businesses and individuals each year than Peabody and Family Mosaic could as separate entities.

What sets the new Peabody apart?

We strive to do things differently, in a way which adds the most value for our residents and for our communities. There are three key areas which distinguish us from other organisations:

- We put the most vulnerable first.
- We develop and help create great places – designing, building and maintaining homes and neighbourhoods which people are proud to live in.
- We help grow resilience in people, households and communities, so that people are better able to respond to changes in their circumstances, sustain their tenancies and live independently for longer.

When Peabody and Family Mosaic merged a year ago I said that the new organisation would prioritise social housing and put the most vulnerable people first. On merger, as part of that commitment we announced a strategic partnership with the Mayor of London to deliver 6,000 genuinely affordable homes by 2021. We have also been working on our new rent strategy which will mean our higher Affordable Rents will over time be set at the lower London Affordable Rent set by the Mayor. We understand the challenges of higher rents for residents on low incomes and are committed to developing new homes at close to social rent levels.

What are Peabody's objectives?

Our mission is "to help people make the most of their lives by providing great quality affordable homes, working with communities and promoting wellbeing". The new organisation will be defined by how we deliver on our social purpose. We sell homes on the open market, and we take the money made and reinvest it to run our services and provide as many low-cost rented homes as we possibly can.

Like George Peabody's original Donation Fund, we generate a return to invest in our core purpose of providing low-cost housing for people on low incomes. We also provide care and support services for over 17,500 vulnerable people, and provide accommodation for more than 1,000 people at risk of rough sleeping each year. What we have done this year is put in place the building blocks towards doing even more, better.

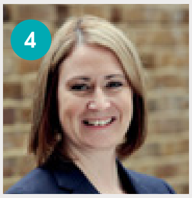
Chief Executive's review continued

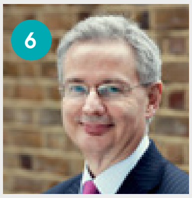
Our Executive Team

Team's priorities

Our Executive Team has focused on delivering successful integration and our key strategic priorities:

- develop and deliver reliably good modern services;
- build and maintain the best quality developments;
- work with local communities and build long-term partnerships; and
- grow and use our position of influence to create positive change.





1. Brendan Sarsfield, Chief Executive
2. Stephen Burns, Executive Director, Care and Communities
3. Pauline Ford, Executive Director, Integration
4. Ashling Fox, Chief Operating Officer
5. Susan Hickey, Chief Financial Officer
6. David Lavarack, Executive Director, Corporate Services
7. John Lewis, Executive Director, Thamesmead
8. Dick Mortimer, Executive Director, Development

How would you define Peabody's culture?

We are creating a strong and distinctive new organisation with a common culture and values – one which celebrates our unique histories yet looks forwards to the future. We have already proved that we can 'walk the walk', delivering against the priorities we outlined when we first announced the merger, and this has helped confidence grow within and outside the organisation.

What is Peabody's approach to place-making?

Peabody has a history of building innovation and design.

Our approach is to create high functioning neighbourhoods that include high-quality and well managed homes, and increase the social impact and wellbeing of our communities.

We are determined to provide great neighbourhoods that work well for the people who live there and our successors who will have to manage and maintain them to the right standard going forward.

Building 2,500 homes a year is our target and is not going to be easy, but we are patient investors, and are strong enough to take a long term approach.

We are excited about the regeneration of Thamesmead. We have now published the Thamesmead Plan, setting out our 'whole place' approach to the regeneration of this unique area. We will be investing in existing homes and the public areas as well as working with local people to help drive the social, cultural and economic activities that make great places. With others we have ambitious plans to deliver up to 20,000 new homes and improve the transport links to the town.

Personally, what highlights or events stood out for you during the year?

There have been a series of 'behind-the-scenes' changes to structures and processes in the past year.

One of my key priorities on taking over at Peabody was to meet as many residents as possible. I have done so, through tours of estates, attending events and holding a series of open public meetings. The open meetings have been well attended, with residents' concerns, and hopes for the future told plainly to me. I think there is a healthy scepticism among some residents that the scale of the new organisation will mean that services could become more remote. I welcome this honest conversation and I know there is a way to go to meet the expectations of our residents. What I can say is that there is a strategy in place to ensure we keep our strong local focus and move from integration to transformation and better delivery.

The new Peabody stands out from the crowd because it strives to do things differently to make the biggest difference for our residents and for our communities.

Our employees have been working incredibly hard to align our systems and processes while driving greater efficiency and value for money. We will continue to work to improve our day-to-day services, including repairs, rent collection and lettings. We are also looking at improving what we offer online and how to make our services more convenient to our increasingly diverse customer base.

I have been enormously privileged to witness the incredible commitment, time and effort our teams have put in to ensure that, even in this time of unprecedented change, the organisation continues to put our residents first. They truly embody the values of Peabody.

Q

What are the aims of the 2018–2021 Group strategy?

Our 2018–2021 strategy summarises what the new combined organisation plans to do and achieve over the next three years. The strategy is supported by a delivery plan, as well as key performance indicators and an outline of our organisational culture, financial principles and governance framework.

Transformation will be seen in all areas of the organisation in order for us to deliver on our four priorities.

On delivering reliably good services, we will use a mix of contractors and in-house provision for responsive and cyclical repairs, and we will work tirelessly to drive up satisfaction levels. Our concentration of homes and the value generated by the merger will allow us to transform the service in the years to come.

As we move into a new era of Peabody I would again like to thank our employees, stakeholders and partners for all the work we have done together this year. But most of all I would like to thank our residents and customers and assure them that we are working hard to be the best that we can be.

B Sarsfield

Brendan Sarsfield
Chief Executive
27 July 2018

Update on fire prevention and safety

The safety of our residents is our highest priority and we continue to work in partnership with the Fire Service and other authorities, to make sure our homes are safe and secure.

The fire at Grenfell Tower cast a long shadow over 2017. Since then, everyone has agreed that its lessons must be profound and long lasting. Following the fire, Peabody, with the help of Berkeley Homes, bought 68 flats in Kensington to help those who had lost their homes. Our resettlement team has been working to support all the families affected, helping them move into new homes.

We worked quickly after the tragedy to identify high-rise buildings with ACM cladding, and will soon complete our replacement programme. We have implemented additional safety measures where needed, such as 24-hour fire wardens, and are ensuring we keep residents informed.

Our stakeholders

Engaging with our customers and stakeholders

	CUSTOMERS	EMPLOYEES	INVESTORS AND LENDERS
Why it is important to engage	Our customer base is increasingly diverse, covering tenants, leaseholders and service users. It is important that we learn and understand their needs and expectations. Such insight helps us develop and deliver consistently good services, and also enables us to positively influence the policy issues that matter the most.	Attracting and retaining talented and committed professionals is key to achieving all our ambitions.	We are committed to being an 'A' grade investment proposition. Attracting sustainable investment across our development, economic and social activities is essential if we are to achieve our ambitions. We need to maintain our long-term relationships with key banks and other investors, such as Homes England, to maintain the flow of short, medium and long-term funding.
Stakeholder interests	Both our housing, and care and support customers, want us to offer value for money, speed and convenient services. They also want to be informed and consulted on any material changes. Engaging our customers effectively on these areas remains key as we continue to improve our online offer and make using our services more convenient.	Our employees want to be informed about and engage with our vision, values and priorities, and have a clear understanding of our achievements and direction. They want to collaborate, share successes and have access to information wherever they are working.	Lenders and investors want to understand our business, strategy and financial profile. This includes our balance sheet, which is healthy and secure. Such stakeholders also need to understand our key risks and want assurance that we have an effective control framework to successfully manage and mitigate them.
How we engage	We communicate and connect with our customers through face-to-face contact, social media, by post, email and also over the phone and text. Through research and large-scale surveys, we listen to, and understand, our customers' wants and needs.	We have regular leadership briefing stand-up meetings, newsletters and roadshows to engage employees across all our locations. Our new interactive intranet allows employees to collaborate and connect across the group.	We report regularly on our financial performance. We have the ability to remain financially robust during times of economic uncertainty.

▶ **Read more about our strategy on p14-15**

We work in partnership with a wide range of stakeholders and take a strategic approach to influencing policymakers. We belong to a number of sector and industry organisations, such as the g15, the National Housing Federation and the Chartered Institute of Housing, to help increase our influence. This approach has helped us to deliver our strategic goals and achieve our social purpose.

NATIONAL AND LOCAL GOVERNMENT	REGULATORY BODIES	PARTNERS (PROPERTY DEVELOPERS, AGENTS, HOUSING ASSOCIATIONS)
Constructive and positive relationships with local and national government greatly facilitate our care and support function, and enable us to succeed in our development and regeneration ambitions. Working closely with these stakeholders helps us influence and shape important issues at both national and local levels.	We are regulated by bodies including the Financial Conduct Authority, the Regulator of Social Housing and the Care Quality Commission. When the regulatory environment is changing rapidly, it is critical that we comply with relevant standards and engage effectively with our regulators. This safeguards our reputation, funding and investment so we can continue to deliver our corporate objectives and priorities.	Partnership working helps us to improve the quality of our services and develop new ones. Ensuring we effectively engage with agencies, developers and other associations is key to furthering our place-making, economic development, health and social care roles. Together we can achieve better outcomes, deliver more homes and create more opportunities for people living in our local communities.
These stakeholders want us to deliver more homes, support them with meeting local housing need and provide evidence and insight to help form policy. They want to understand who we are, what we deliver and our impact on communities and customers.	Our regulators want us to show that we are meeting their expectations and are accountable for our actions. This includes making sure our services meet fundamental standards of quality and safety, as well as promoting a viable, efficient and well governed organisation.	Partners want us to be engaged in providing partnership opportunities and contracts, including joint investment vehicles for delivering new homes. Our partners want to work with us to ensure we deliver high-quality health, community development and support services for our communities.
We proactively work together at all levels of government to deliver new homes and address housing and support needs with wider initiatives in local communities.	We provide accurate and timely returns, surveys and notifications that reflect our plans and performance, covering areas such as our projected development activity and financial health.	We ensure that we live our values by delivering on our objectives and working collaboratively with our partners. We regularly demonstrate and communicate the social value and thought leadership we deliver through reports, financial statements, events, newsletters and other media.

Our market drivers

Responding to market drivers

DRIVER	WHAT HAS HAPPENED
Political landscape and policy environment	Housing has climbed the political agenda to the extent that all the major parties now acknowledge the existence of the 'housing crisis'. However Brexit is dominating Westminster meaning economic and social issues get very little air time.
Interest rates, inflation and house prices	Interest rates remain at historically low levels following the 2008 recession. Inflation has stabilised somewhat over the past 12 months. London and the South East continue to have the highest rate of growth in house prices, although the rate has weakened over the year.
Growing population underpinning housing demand	London's population was recorded as 8.6 million people in 2015 and has continued to increase. Housebuilding in the city has failed to keep up with the rate of population growth leading to a severe shortage of homes.
Digital technology and transformation	Digital technology has become increasingly central to the way consumer services are designed, delivered and experienced. It has also transformed the way we communicate with our customers, other organisations and each other.
Changes in the law and regulation	Several changes are taking place to the legal and regulatory environment in which we operate. Among the changes already in effect is the General Data Protection Regulation ('GDPR').
Environmental pressures	London and the South East are densely populated. We face environmental challenges relating to air quality, green infrastructure, climate change, noise and waste management.

THE IMPACT ON PEABODY	HOW OUR STRATEGY IS OPTIMISED TO RESPOND
The current political and policy environment supports our ambitions. Public funding has been made available for the development of new affordable homes, including those for low cost rent. Further with 27% of construction workers in London from the European Union, we will need to ensure Peabody has access to the european workforce upon which the success of our strategic plans depend.	We continue to build and maintain strong working relationships with legislators and policymakers across the political spectrum and at all levels (national, regional and local). We provide evidence and input to the policymaking process through our regular consultation responses.
Low interest rates mean lower costs of borrowing and servicing debt. The increase in the rate of inflation has affected our core costs, especially since the three-year cancellation of inflation-indexed rent increases. A buoyant housing market continues to underpin the viability of our business model.	We regularly review the proportion of debt we hold at fixed and floating interest rates. We continue to seek efficiencies in our operating costs and have successfully mitigated against the impact of the recent rent reduction. Our long-term financial plan is tested against the potential impact of variations in house prices.
The Greater London Authority ('GLA') estimates the need for an additional 66,000 homes per year between now and 2041. High and sustained levels of housing need continue to drive demand for homes across the capital, both for those we already own and manage, and those in our development pipeline.	Our growth ambitions are outlined in our development strategy. We have a development pipeline of over 10,000 new homes by 2021 and a desire for more growth beyond that. This includes the extensive development opportunities we are unlocking through the regeneration of Thamesmead.
Many of our customers increasingly expect seamless digital services to be available and to have access to real-time information and a range of contact options 24 hours a day, seven days a week. Conversely, we provide services to some of the most vulnerable members of society, many of whom are 'digitally excluded' and are at risk of being disadvantaged by a 'digital by default' approach to service delivery.	We are moving towards a multi-channel approach which aims to offer value for money, speed and ease of response. We are investing in our digital back office to help us achieve our goal of half of transactions taking place online, while recognising the need for face-to-face contact where appropriate, especially for our most vulnerable customers.
The GDPR has repercussions for how we collect, manage, store and use data. We collect a lot of data in our business activities and will need to remain vigilant to ensure it is not abused.	We reviewed our data protection policies to prepare for the introduction of the GDPR. A designated data protection officer provides a central point of contact and helps to advise employees on the proper use of data. Training is in place to ensure staff are aware of their responsibilities.
Our homes and community centres are affected by environmental pressures. We seek to mitigate the worst effects through the way we design our homes and outdoor spaces, and through the support services we provide to residents.	All our new homes meet GLA environmental standards. These help to prevent damp and mould, so protecting the health and wellbeing of our most vulnerable residents. Our asset management strategy helps ensure our investment and efforts are focused on the poorest-performing properties.

Read more about our strategy on p14-15

Our business model

Creating long-term value for social good

WHAT WE DO

We help people make the most of their lives by providing great quality affordable homes, working with communities and promoting wellbeing.

WHAT SETS US APART

We put the most vulnerable first

We create great places, where people want to live

We build resilience in people and communities

OUR INPUTS

Financial resources
We are an efficient organisation delivering a profit/surplus of £175 million which we reinvest in homes and communities.

Physical resources
We have an asset base of £6.3bn and own 55,700 homes across London, the East and South East.

Our people
We have 3,100 employees.

Our know-how
Our experienced leadership team is well respected among our stakeholders.

Our relationships
We have strong relationships with a wide range of stakeholders, and are trusted to deliver our promises. Our strong resident scrutiny provides our customers with opportunities to shape our services.

HOW WE CREATE VALUE

Market sales*
22%

Market rents*
10%

Social housing operations
60%

Other
8%

WHAT WE DO WITH THE VALUE WE CREATE

Build many more affordable homes for rent and shared ownership

Deliver the services that will support our residents' and customers' wellbeing and make the most of their lives

Invest in our existing homes to ensure they remain great places to live

THE VALUE WE SHARE

Customers
We invested £250 million[1] in developing new homes, £68 million in maintaining our existing homes and communities and £6.9 million in supporting residents through Peabody Community Foundation.

Investors
We provide our investors with a stable ROI, achieved through our long-term approach and investment in our assets.

Suppliers
We develop mutually beneficial partnerships to offer the most value to our customers.

Employees
We offer a great place to work and invest in our people, focusing on developing a diverse organisation at every level.

Government
We have a strong relationship with the main political parties and are a trusted and credible advisor. We campaign and influence on issues that are most important to our customers.

[1] Defined as fixed asset additions plus movement in stock.

* Percentages are based upon sales divided by turnover.

Our strategy at a glance

Driving our business through clear strategic priorities

DEVELOP AND DELIVER RELIABLY GOOD MODERN SERVICES	BUILD AND MAINTAIN THE BEST QUALITY DEVELOPMENTS
Our performance	
We have sustained high customer satisfaction scores throughout a period of profound change for the organisation. All our key customer-facing policies have been aligned to create a consistent standard of service across the Group.	We exceeded last year's target for number of new homes built (949 against a target of 686). We have identified all the homes required to fulfil our strategic partnership with the GLA to deliver 6,000 new affordable homes by 2021.
Our priorities	
We want to transform our services by making the best use of technology and smarter ways of working. We are looking to pilot new technologies in our care and support services to grow our in-house repairs service.	We continuously seek new development opportunities, including those where we can build on our existing programme of estate intensification. Our delivery of new homes in Thamesmead will continue as part of the Housing Zones programme.
Measuring our progress	
• Satisfaction with landlord • Statutory and regulatory compliance • Proportion of transactions online • Percentage of calls answered by contact centre • Repairs-related complaints as a percentage of repairs logged • Percentage of responsive repairs completed in under 30 days **▶ Read more about our KPIs on p30-31**	• Number of practical completions • Number of starts on site • Satisfaction with quality of home • Sales income • Average defects per property
Key risks	
• Failure to obtain value for money from our providers • Waste within our processes • Reduction in quality of service to customers **▶ Read more about our principal risks on p44**	• Poor controls over delivery, sales and marketing of the Group's development programme • Failure to create a successful place in Thamesmead • Long-term financial pressures lead to de-prioritisation of investment into place shaping • Further transport improvements do not materialise in Thamesmead

WORK WITH LOCAL COMMUNITIES AND BUILD LONG-TERM PARTNERSHIPS	GROW AND USE OUR POSITION OF INFLUENCE TO CREATE POSITIVE CHANGE
We have been working to align our approach to community programmes. Peabody Community Foundation has brought three community programmes in London, Thamesmead and Waltham Forest, into a single entity.	We use our knowledge and experience to influence local and national policy on the issues that affect our communities. We have responded to consultations on topics ranging from planning policy to adult social care.
We will support our residents to become financially independent through better paid work and tenancy sustainment, focusing our services on areas where we can achieve maximum impact. We will review where our care and support services operate and how these relate to other services provided in our communities.	We aim to deliver an integrated communications service that supports business objectives and uses resources effectively. Alongside this, we are seeking to deliver our research programme to contribute to policy debates on housing and other key issues in the lives of low-income Londoners.
• Satisfaction with neighbourhood as a place to live • Care and support customers leaving for positive reasons • Number of people supported into work or apprenticeships • Number of 'active' volunteers	• Stakeholder perception survey • Media coverage • Website/social media engagement • Responding to public consultations and input to policies • Publication of research
• Failure to attract and retain high-quality, trained and competent staff in our care and support services • Safety of care and support staff, customers or buildings • Failure to deliver a financially viable Care and Support business	• Failure to optimise income and manage the impact of welfare benefit reforms • Pressure on Peabody communities • Reputational damage as a result of action taken towards tenant arrears

Our strategy in action:
Develop and deliver reliably good modern services

Transforming our service

We focus on providing reliably good, modern services by listening to and knowing our customers. Our teams work tirelessly to align our structures, systems and processes to ensure we continue to offer a consistently high-quality service. As a result, we have sustained high customer satisfaction throughout a period of profound change. All our key customer-facing policies have been aligned so that we have a consistent standard of service across the Group.

Digital first

We are now modernising our services and taking a 'digital first' approach. Not everyone will want to contact us online though, so we will offer a range of channels and ways to get in touch to meet the needs of our diverse customer base.

Through our Homes Condition Survey Programme, we are rapidly improving the knowledge of our homes. We are continuously surveying our homes so that we can plan works based on the condition of a home rather than its age. This allows us to deliver works to the right places at the right time, and to be more flexible and responsive to our customers' needs.

Effective repairs and maintenance

We are also reviewing the way we manage our repairs and maintenance services to better understand the effectiveness of the two 'legacy' (Peabody and Family Mosaic) approaches. This will allow us to further develop our services and procurement needs. Our focus has been on how our contracting model can help to deliver a reliable service to customers, recognising the size and density of homes within different boroughs.

The review supports the growth of our in-house repairs service. This approach will reduce repair costs by exploiting the benefits of scale.

Adopting new technology

We are piloting new technologies in our care and support services. We are looking at ways to engage customers and at modern working practices for staff. We are rolling out wi-fi for customers in all care and support schemes, and are piloting mobile working solutions for staff.

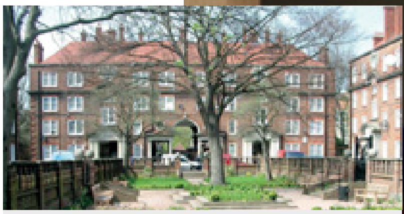
85%

Satisfaction with neighbourhood as place to live[1]

23 days

Void turnaround

1 Legacy Peabody residents 2017/18



Hammersmith Estate
Built in 1926, the Hammersmith Estate has a central courtyard garden landscaped with trees, shrubs and a lawn. The original garden was damaged during WWII bombings but has since been restored in close collaboration with residents.

"Hammersmith Estate actually holds conservation status so we are very careful in the way we go about our work so as to retain the character of many of the original features."

Darren Blyth
Senior Construction Manager

> It’s wonderful, it’s beautiful. It’s everything the way I want, you know. I’ll never see a place so spotless and clean.

Tenant profile
Name: ***Anna Warren***
Profile: Having lived in her home at the Hammersmith Estate since 1977, Anna has recently had her bathroom, kitchen, boiler and central heating completely refreshed. She is a keen cook and enjoys using her refurbished kitchen to prepare both Italian and British recipes.

Our strategy in action:
Develop and deliver reliably good modern services
continued

Keeping our customers at the heart

Resident involvement
It is really important for us to involve our residents and ensure they have the opportunity to influence and shape our services at all levels. The main way for residents to be involved is through local groups such as residents' associations, monitoring groups and community centre management committees.

Strategic involvement
Peabody ensures effective resident representation with two resident Board members and resident representation on the Boards of Peabody South East and Peabody Community Foundation.

Improving digital involvement
In 2017 we introduced online service improvement groups and these are now well established. Residents can sign up to online mailing lists on topics like repairs and maintenance, customer experience, home ownership and residents' associations. Over 500 residents have signed up and been consulted with on a range of service changes. This includes how easy it is to understand service charge statements, to introducing a pets agreement.

In 2018/19 we will involve more residents to consult on more services.

Keeping it local
The Executive Team introduced question and answer sessions with residents across several boroughs to ensure they stay in touch with local issues. Six well attended sessions were held during 2017/18.

Robust scrutiny
Towards the end of 2017, we worked with the Peabody Residents' Council and Family Mosaic Scrutiny Panel to design a new panel following our merger. We have created a new panel which will meet up to 10 times a year and is responsible for:

- in-depth scrutiny reviews of customer facing services; and
- escalating concerns from local involvement to the Board.

To strengthen residents' influence, we are also recruiting residents to form a new strategy and policy group which will meet six times a year to feed back on customer-facing strategies and policies. In addition, the Waltham Forest Scrutiny Panel meets 10 times a year.

66
Active resident groups

329
Residents attended Q&A sessions with Peabody Executive Team

Keeping Wild St green
Over 100 people living on Wild St in Westminster joined in to celebrate the improved outdoor areas on their estate. We worked closely with residents to find out what improvements they wanted. This included a new children's play area, planter beds and storage boxes to create a greener and more accessible outdoor area for the local community to use.

"Good resident involvement helps ensure our services are up to scratch, and gives residents the opportunity to tell us what matters to them. As an organisation that cares, we listen and act on that feedback."

David Newsome
Head of Resident Involvement

“My aim is to be a voice for people who are seldom heard. People call them ‘hard to reach’ but I don’t accept that. In my role on the Peabody Board I’ll make sure they are heard.”

Tenant profile
Name: ***Peter Baffoe***
Title: Resident Board member
Profile: Peter joined the Peabody Board as a resident Board member in mid-2018. He lives with his wife and three children on a Peabody Estate just by Elephant and Castle. Peter grew up in social housing and is passionate about representing the views of the people who live in our homes and communities.

Our strategy in action:
Work with local communities and build long-term partnerships

Building resilience in communities

Our mission remains to help people make the most of their lives by providing good quality homes, working with communities and promoting wellbeing. By working in partnership with local authorities, community groups and other key stakeholders, we can ensure we are building neighbourhoods, not just homes.

Community programmes

We have been working to align our approach to our community programmes and have an established Peabody Community Foundation to bring together community programmes in London, Thamesmead and Waltham Forest.

In the next 10 years, the Foundation will invest more than £90 million in our communities, making it one of the largest investments of its kind in London.

This year, we invested more than £6.9 million in programmes and initiatives that provide opportunities for people in our communities and enhance our neighbourhoods. We helped 982 people into work, generating an estimated social return of £8 for every £1 invested in our employment programme. We delivered over 72,600 hours of free-to-access community activities through our community spaces.

Working in Thamesmead

In Thamesmead, we are delivering a comprehensive programme of socio-economic investment. In 2017/18, we have supported 1,877 young people into enterprise, employment, education or skills training across London.

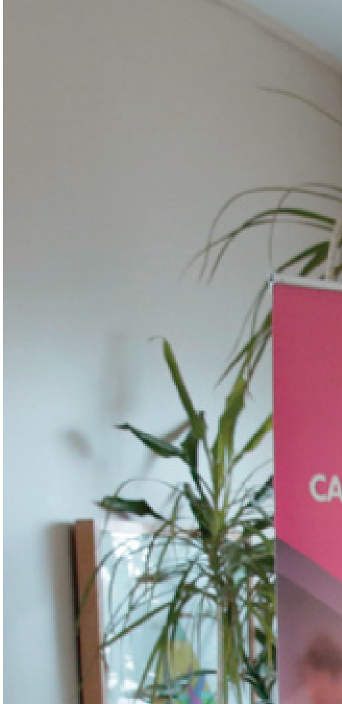
We will support our residents to become financially independent through better-paid work and tenancy sustainment, targeting our services in areas where we can have the most impact. This includes working with other organisations to support their employment and apprenticeship programmes; support enterprises; and enterprise skills development.

1,877

Young people supported into enterprise, employment, education or skills training

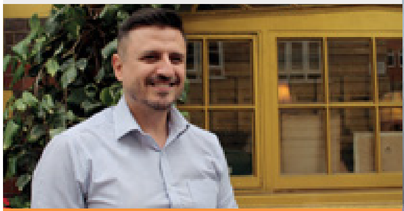
£8

Social return for every £1 invested in our employment programme



Jobs and apprenticeships fair

Peabody holds a biannual jobs and apprenticeship fair which attracts visitors from across London. We work with a range of different employers to offer high quality job and apprenticeship opportunities across a variety of industries from healthcare and media to banking and construction.



"If you don't have much work experience, it's difficult to demonstrate your worth to an employer. That's why our apprenticeship and pre-employment opportunities are so important. They help young people gain confidence and, ultimately, get a foot on the career ladder."

Gallal Muflahi
Apprenticeship Coordinator

Tenant profile

Name: ***George and Leo***

Profile: George and Leo took part in Peabody's trainee to apprenticeship programme which was set up to help local residents start a career in the construction industry. Both were completely committed to the programme, showing real dedication and enthusiasm. After their initial training, they were quickly offered apprenticeships by our construction partner Durkan, with both becoming apprentice plumbers.

"The Peabody pre-employment programme taught us a number of different employment skills, readying us for the world of work. It gave us a good degree of experience which we could use at interview for our apprenticeships."

Our strategy in action:
Work with local communities and build long-term partnerships
continued

Supporting the most vulnerable

The need for organisations such as Peabody to champion the most vulnerable in our communities has rarely been greater. Public services face unprecedented challenges and we are seeing increasing levels of need as funding for preventative services is curtailed and statutory services are overwhelmed.

A supported workforce
Our care and support services exist to help our most vulnerable residents and people living in our communities. The last year has seen some significant outcomes in this part of our organisation.

We have reviewed our care and support directorate and have taken the important step of paying all staff the real Living Wage. Along with an improved pension offer and a range of benefits, these changes acknowledge the important role that care and support staff play within our organisation.

Satisfied customers
Customer satisfaction rose to an impressive 98% during the year, with services supporting over 17,500 vulnerable customers and generating a surplus of £2.7 million on contracts worth £31 million. We helped over 5,600 households to increase their independence through aids and adaptations and just under 500 people were supported to return home safely after a stay in hospital.

While there continues to be pressure on these services, we know they deliver a range of positive outcomes as well as significantly reduce costs to the health and social care sector.

Health and housing: how we can improve services
We are working with Guy's and St Thomas' Charity to explore the link between health and housing. We will use the partnership to develop our understanding of how we, as a housing provider, can work more closely and effectively with healthcare providers.

Our research on the effectiveness of interventions in improving older residents' health and wellbeing found that preventative actions reduced demand on the NHS and improved outcomes for older people.

We know that housing associations can do more to bring health, housing and social care closer together. We will continue to drive this agenda forward through partnerships, research and thought leadership events.

98%

Customer satisfaction for our care and support services

5,600

Households supported to increase their independence through aids and adaptations

STEPS
STEPS provides a vital lifeline for people who have nowhere else to turn. During the year 2017/18, STEPS supported over 1,400 cases and helped clients rightfully claim over £680,000 in benefits, one-off grant payments and utility savings that would otherwise have gone unclaimed.

"In my job I am able to enrich a person's life by assisting them to do things they were unable to do on their own. It's the look on their face and the thank you at the end. That is all I need and it makes it all worthwhile."

Derek Norris
STEPS Support Worker

“I don’t know what would have happened without this help. People my age don’t like asking for help but I was amazed to find it was available. I have absolute peace of mind now and I really don’t know what I would have done without it.”

Tenant profile

Name: *Joyce Joyce*

Profile: Joyce got in touch with STEPS after her friend who had used the service herself recommended it. With the support she has received from STEPS, Joyce has applied for and is now in receipt of additional welfare benefits which she did not know she was entitled to. She has also recently submitted an application for a home much closer to town so that she can more easily get to the shops and see her friends.

Our strategy in action:
Build and maintain the best quality developments

Building healthy and happy communities

The focus of our development programme has now moved to creating mixed and integrated communities, providing homes for affordable rent, shared ownership and other intermediate housing options and market sales, together with commercial and community facilities, to meet a broad range of housing needs.

Our ambitions remain focused on delivering high-quality homes which last and on creating great places to live. Through partnerships, our own cross-subsidy and our long-term investment approach, we play a vital role in building quality new homes across all tenures.

Top 10 Builder

We have been recognised as one of the Top 10 Biggest Builders by Inside Housing in 2018.

Our priority is social rented housing. In 2017/18, we completed 949 homes and are aiming to complete over 1,300 in 2018/19. We started 1,193 homes in 2017/18 and are aiming to start almost 2,700 homes in 2018/19 and at least deliver 2,500 per year from 2021.

Focusing on creating great places, we are a long-term and patient investor. We aim to create healthy and happy communities, with not only homes, but also community buildings, cultural assets and accessible green spaces. This ensures that we receive a wide-ranging return – financial, social and environmental – on our investment.

High-quality homes

Providing genuinely affordable homes in London is a huge challenge but it is one we are determined to meet as it allows our residents to contribute positively to their communities and local economy.

We aim to build homes that are safe, easy to maintain, energy efficient and flexible for the changing needs of our residents.

The quality and sustainability of our homes and the communities that are developed are vital to their long-term success.

£250m

Invested in building new homes

1,193

New homes started

Parkside

Parkside is a six-phase estate regeneration project which will transform this site in Lewisham, into a sustainable, mixed-tenure community. The regeneration involves replacing the existing 565 properties with around 1,225 modern apartments in a mix of social rented, shared ownership, private sale and private rented homes. The regeneration has already provided a thriving new community centre.

"Our community spaces are a vital part of making great places where people want to live. The Parkside community centre is fast becoming the neighbourhood hub as the community develops and grows."

Rebecca Fenner
Community Centres Manager

> "It's new, it's lovely. It's a new flat. There are shops and parks. I feel safe and I like everything here."

Tenant profile

Name: ***Edward and Claudia Diaz***

Profile: Together with their three children, Edward and Claudia Diaz moved into their new home at Parkside. All three children attend local schools, and they enjoy spending weekends as a family in the many local parks around Lewisham.

Our strategy in action:
Build and maintain the best quality developments
continued

A bright future for Thamesmead

With a community of over 45,000 people, beautiful green spaces, excellent schools and unrivalled space and scale, Thamesmead has huge potential. Thamesmead provides the opportunity for 20,000 new homes and for thousands of high-value new jobs, complemented by new community services and a leisure, cultural and commercial offer for the town and for London.

We are working with local people and organisations to provide new community services and supporting residents to access training, employment and start their own businesses. Through our community facilities and events we are engaging with thousands of residents every year and by working in partnership with other organisations we are able to provide access to; sport and fitness, child and family support, youth activities and wellbeing services.

Our patient and comprehensive approach will ensure the existing community is at the heart of its future.

We have been making steady progress in our regeneration plans and delivery of the Bexley and Greenwich housing zone programmes is now firmly underway. We have opened a new information hub for residents and other stakeholders to visit and find out more about what is happening in the area, from our regeneration plans to community activities.

Southmere Village
We have started building Southmere Village, which will include 525 new homes, a library, a public square and commercial opportunities – all set against the stunning backdrop of Southmere Lake.

Thamesmead Waterfront
We have shortlisted Lendlease and Morgan Sindall as our preferred partners to help deliver Thamesmead Waterfront, which has the potential to deliver approximately 11,500 new homes and a rejuvenated town centre.

50th anniversary of Thamesmead
2018 marks the 50th anniversary of when the first residents moved to London's new town. To celebrate this great milestone, we are delivering a cultural programme of events and activities. The information hub is being used for art exhibitions, the first of which featured archival material documenting Thamesmead's fascinating history, as well as captivating photographs from local photographer, George Plemper.

150 hectares

Open green space

30,000

Trees throughout Thamesmead

Art project with Thamesmead resident Scarlett Crawford
Artist Scarlett Crawford has been appointed by the UK Parliament for a project entitled 'First Waves: Exploring the impact of race relations legislation in the UK'.

"Not everyone realises how teeming with talent Thamesmead is, and we're having the best time working with the community to celebrate all that is great about the town."

Adriana Marques
Head of Cultural Strategy for Thamesmead

Tenant profile

Name: ***Siobhan Sherlock***

Profile: One of 11 local residents from across Thamesmead, Siobhan has given up her time to help plan Thamesmead's 50th Birthday Festival. Activities will take place around Southmere Lake and it will be one of the biggest events hosted in Thamesmead in recent years.

> **"It was a great decision to bring residents on board to help the planning of this important festival. A lot of us have lived here a long time and understand the needs and wishes of the community. It's so rewarding to see our hard work pay off and have so many people come out to celebrate Thamesmead."**

Our strategy in action:
Grow and use our position of influence to create positive change

A strong voice for positive change

London is a city full of opportunities, but high costs of living mean low-income Londoners face some of the biggest challenges in the country.

With a strong brand, our large scale and a unique insight into the lives of ordinary Londoners, we have the credibility to influence on behalf of them to help shape local and national policy.

Influencing the agenda

Our influencing work aims to help individuals to improve their entire life journeys through their physical and social environment. We do more than help residents directly through our homes and services; we understand how the policy environment can make London and the surrounding areas better places for us all to live.

We are starting from a great position. The Peabody brand is a strong one and this has been reinforced by stakeholder perception research that we carried out in 2017/18 to help inform our strategy.

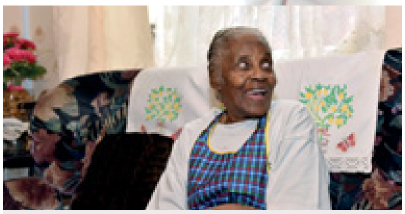
A voice on the issues that matter

We speak out on the issues that matter most, whether that be rent strategies or the impact of welfare reform on the most vulnerable. Our London focus enables us to create a distinctive and credible voice in discussions with central government, the GLA, local authorities, think tanks and policy forums.

Evidence based approach

To do this, we provide evidence gained from our customer base and wider research to inform the debate. This year, we have been focusing on developing a robust research programme to support our influencing work. Working with partners such as the Social Market Foundation, London School of Economics and London First, we have developed a research pipeline which spans housing, health and wellbeing.

We are looking to examine the value social policy and social housing bring to our customers and to wider society. We will explore the benefit our services provide to our customers and how we can help to strengthen the communities we work in. The research has a geographic focus on Peabody's areas of operation in London and the South East. We will also remain responsive to changes in the external operating environment and ensure our activities support our efforts to become more efficient and provide a better experience for our customers.



Health at Home
Our Health at Home research has proven that just enough of the right support can enable people to improve their overall health and wellbeing.

"As a social landlord and community anchor, we are keen to build resilience in people and in communities. We want to maximise our impact by place-making, working alongside residents, community groups, health and social care to promote healthy communities."

Moira Griffiths
Director of Care and Support

Tenant profile

Name: ***Dann Sucharoen***

Profile: Dann worked with a Health Navigator for three months as part of our Health at Home project to develop greater confidence to self-manage his health conditions. The visits to his home were a highlight for him throughout the project.

> **"I really enjoyed having our meetings here. I liked having someone to talk to about my health."**

Key performance indicators

Turning our strategic objectives into tangible performance

Satisfaction with landlord	Statutory and regulatory compliance	Number of practical completions
78% **Peabody** 82% **Family Mosaic**	On target	949 **(target = 686)**
Link to strategy	**Link to strategy**	**Link to strategy**
Develop and deliver reliably good modern services	Develop and deliver reliably good modern services	Build and maintain the best quality developments
Definition	**Definition**	**Definition**
A single satisfaction measure expressed as a percentage which is representative of all tenures across the Peabody Group.	A series of measures which cover several aspects of compliance (such as gas, fire, water, electricity, asbestos).	The number of homes where all building work is complete in accordance with the contract, and the property is considered fit for occupation.
Why it is important to Peabody	**Why it is important to Peabody**	**Why it is important to Peabody**
This provides a strategic overview of resident perception of every aspect of our landlord service.	This helps us monitor all elements of compliance and provide assurance about the health and safety of our homes.	This helps us to monitor the number of homes we have completed as part of our development pipeline.
Progress	**Progress**	**Progress**
A single measure of customer satisfaction is being rolled out from April 2018. Over 2017/18, Peabody achieved 78% and Family Mosaic achieved 82%.	During the year we have improved compliance and reporting arrangements, improving data accuracy, procedures and training. We will continue to adjust our programme to reflect any new risks identified.	We completed 949 homes against a target of 686 during 2017/18.

Key
Strategic priorities

- Develop and deliver reliably good modern services
- Build and maintain the best quality developments
- Work with local communities and build long-term partnerships
- Grow and use our position of influence to create positive change

Number of starts on site	Number of people supported into work/apprenticeships	Operating margin
1,193 (target = 1,785)	982 during 2017/18	35% (target = 30%)
Link to strategy	**Link to strategy**	**Link to strategy**
Build and maintain the best quality developments	Work with local communities and build long-term partnerships	Supporting all the corporate priorities
Definition	**Definition**	**Definition**
The number of homes where construction activity has commenced.	The number of individuals who have gained employment or enrolled in an apprenticeship following involvement in our employment and training programmes.	Calculation based on operating income divided by sales revenue, expressed as a percentage.
Why it is important to Peabody	**Why it is important to Peabody**	**Why it is important to Peabody**
This helps us to monitor the number of homes we have started as part of our development pipeline.	This helps us to monitor the success of our programmes designed to help people back into work or improve their employment positions.	This helps us to monitor our operating margin, and ensure we remain at or above target, in line with our financial plan.
Progress	**Progress**	**Progress**
We have 1,193 starts on site with several schemes slipping into the 2018/19 financial year due to delays with planning permission and land purchase for Section 106 schemes.	We supported 982 people into work or apprenticeships during 2017/18. 1,877 young people have been supported into education, training, employment or enterprise opportunities.	Our operating margin for 2017/18 was 35% against a target of 30%.

Our people and culture

Our people are building a better future

Putting 'People First'

One of the key factors that has made the merger of Peabody and Family Mosaic a success has been the shared values between the two organisations. This provides us with a great opportunity to transform the way we do things, so we have launched an initiative called People First. It is a way of working which is human and kind and puts customer experience at the centre of everything we do.

People First is enabling us to create a strong and distinctive culture at Peabody. To help share the aspirations, themes and principles of People First, we have delivered workshops to around 150 Directors and heads of service. People First is very much about a new way of thinking and a movement from the bottom up, and we have already seen huge steps forward in the way people are working.

Equality, diversity and inclusion

Our vision is that equality, diversity and inclusion are firmly embedded in all of our work. London is one of the most culturally diverse cities in the world and this amazing diversity is reflected by our customers and employees and hence in the homes and neighbourhoods we manage.

Our commitment to our vision goes beyond legal and regulatory requirements. In February 2018, we launched a new organisational strategy setting out how we will ensure equality and diversity are embedded in all the services we provide and that no one is discriminated against. Progress against our annual action plan is reported regularly to our Executive Team.

Employees are encouraged to get involved in events and activities throughout the year via our staff-led equality, diversity and inclusion networks. Each network focuses on a different area of interest, including gender, Black and Minority Ethnic (BAME), LGBTI+ and those with caring responsibilities. They also provide fun and informal forums for staff to share ideas to improve workplace diversity and inclusion.

Investing in our leaders

We are investing in our leaders because we know good leadership is the foundation of a high-performing workforce. Central to this is supporting our leaders to become better coaches, listeners and talent spotters.

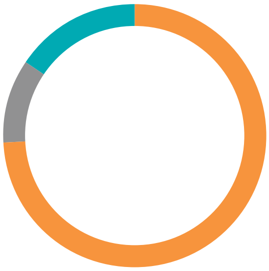
Our senior leadership team will engage in a series of '360˚ feedback' sessions which will focus on in-depth, qualitative feedback. It is a holistic approach to supporting development and self-reflection so our leaders become better coaches and managers.

A culture of learning

Peabody believes that all employees should be encouraged to develop their full potential. We are proud of our learning culture which focuses on continual development and self-improvement. It starts right from on-boarding and runs throughout every employee's career. During the coming year, we aspire to reach as many employees as possible through a series of workshops and clinics.

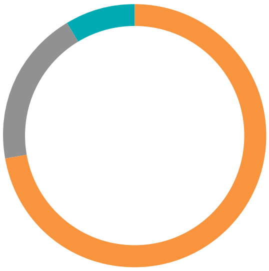
DIVERSITY AT PEABODY

Leadership team



White	29	(75%)
BAME	4	(10%)
Prefer not to say/ unknown	6	(15%)

Head of Service



White	68	(73%)
BAME	18	(19%)
Prefer not to say/ unknown	8	(8%)

Employees

White	1,446	(49%)
BAME	964	(32.5%)
Prefer not to say/ unknown	557	(18.5%)

GENDER DIVERSITY SNAPSHOT

Leadership team

21 **(54%)**

18 **(46%)**

Total: 39

Head of Service

50 **(53%)**

44 **(47%)**

Total: 94

Other employees

1,807 **(61%)**

1,160 **(39%)**

Total: 2,967

Line managers are being supported to embed this culture of learning and coaching through 'My Contribution', our new performance review process. It emphasises meaningful, regular and collaborative conversations about performance. Managers are encouraged to celebrate successes as well as to reflect on and identify areas for development and ways of bringing to life learning ambitions. This new approach is supported by learning events for employees and line managers.

Leadership 2025

Peabody has signed up to Leadership 2025, which has a long-term ambition to support the creation of a housing sector that is vibrant and diverse, with better representation of BAME individuals at all leadership levels.

By 2025, our Board and Executive Team aspire to have greater diversity among our leadership, including BAME and women members, so that we represent the diversity of our residents and wider communities.

We are developing a talent management strategy which will set out a framework to support future leaders. Alongside this, we are planning to introduce talent moderation boards, to allow the senior leadership team sight of Peabody's 'high potentials' and help to encourage and facilitate cross-directorate moves.

Supporting women in the workplace

Alison Muir
Group Director of Resident Services and 2018 Inside Housing Top 12 BAME Leader

"The Leadership 2025 programme has been a fantastic opportunity to develop my skills in a supportive environment, and also enables me to mentor and champion others more effectively."

Our people and culture continued

Rooney Rule

We are also adopting the 'Rooney Rule'. This means that from now on we will make it a requirement that we will interview at least one BAME candidate and one female candidate when recruiting for senior leadership positions in the organisation. We will be communicating this to all the recruitment agencies we work with as well as making a public announcement highlighting our policy.

Many colleagues in the g15 are already adopting the same approach and we hope this will encourage others in the sector to take active steps to boost the numbers of BAME and female leaders in housing.

Talent management

Peabody's approach to talent management is to ensure we have the right people in the right roles at the right time, who have the right depth and breadth of technical knowledge and behaviours that enable Peabody to deliver its strategic priorities.

For our people, this means we will provide them with the opportunity to develop further in their current roles and allow them to work towards their career aspirations, helping them to fully realise their true potential.

Our people continue to develop themselves and are given every opportunity to pursue a career in Peabody with professional qualifications being offered as part of creating a learning culture.

We will ensure;

- a consistent approach is adopted across the business in how we identify high-potential performers;
- mentoring and career guidance are a core part of our offer;
- moderation boards will be held at both directorate and organisational levels to ensure our high potentials are known in the business and cross-functional moves are the norm; and
- diversity forms a key part of our talent management strategy as we pride ourselves on ensuring we promote talent management to everyone, recognising that all our people are stars but taking into account people may not always have the ambition or desire to rise to the top of an organisation.

PERCENTAGE OF EMPLOYEES RECEIVING A BONUS

	Peabody	Family Mosaic
Mean:	-2.4%	20.1%
Median:	-7.1%	19.4%
Mean gender bonus gap:	14%	28.6%
Median gender bonus gap:	0%	26.5%

* A positive percentage shows males earning more than females, whereas a negative percentage shows females earning more than males.

Gender pay

Government legislation requires companies with more than 250 employees to publish information on their gender pay gap based on data from April 2017.

The gender pay gap is the difference between the average pay of men and women across our business; it is not a comparison of pay rates between men and women doing the same job.

Our gender pay gap report shows that we are an inclusive and diverse employer. Women are well represented at the most senior levels of our organisation, with almost a 50:50 ratio between men and women across our top pay bands.

Value for money

Our approach to delivering excellent value

What does value for money mean to us?

At Peabody, delivering value for money simply means making the most out of the resources at our disposal so that we can help people make the most of their lives. Maximising value for money is therefore a central pillar of our Group mission.

We want to get the best return possible from every pound we spend – and that means we do not just look at the cost of delivering a service to our customers but also at the quality of the outcome for our customers. We are looking for the right balance between investment and quality in all four of our areas of focus:

- Develop and deliver reliably good modern services
- Build and maintain the best quality developments
- Work with local communities and build long-term partnerships
- Grow and use our position of influence to create positive change

You can read more about our mission and these corporate objectives on pages 14 and 15.

In June 2017, the Board adopted a high-level value for money strategy for the new Peabody Group whose principles apply to all Group members.

Value for money strategy – success criteria

- High and consistently improving levels of customer satisfaction across our services
- Delivery of efficiencies from the merger of Peabody and Family Mosaic
- Delivery of operational efficiencies through continual process improvement
- Delivery of the new homes targets in our business plan
- A strong balance sheet to underpin our investment and development activities
- A strong IT platform to enable us to deliver value through digitisation and self-service
- Strong public awareness of how Peabody adds value to customers and communities
- A reputation for innovation in policy, technology and delivery

Value for money continued

Since the organisations merged in June 2017, we have been working to embed our value for money principles in every part of the business to ensure that the pursuit of customer value is at the heart of operational decision-making and execution.

£3.1m

Establishment savings post merger

The opportunity to drive increased value for money for all our stakeholders was a key principle in the merger of Peabody and Family Mosaic and it is integral to our Peabody Group Strategy 2018–2021. See pages 14 and 15 if you would like to know more about our Group Strategy.

Since the organisations merged in June 2017, we have been working to embed our value for money principles in every part of the business to ensure that the pursuit of customer value is at the heart of operational decision-making and execution.

What have we achieved in 2017/18?

The primary focus this financial year has been to achieve the planned operational efficiencies and financial savings promised in the merger while maintaining or improving levels of service to all our stakeholders. Our activities have included:

- combining housing management and asset management into a new Customer Services directorate, bringing the end-to-end customer journey into one place to improve decision-making, reduce operating costs and ensure operational focus is on both the property and the service delivered to customers;
- moving to a regional procurement model for the delivery of repairs and maintenance and expanding our internal maintenance service, with an aim for one-third of repairs and maintenance activities to be carried out in-house by 2021;
- reducing staffing levels across the business and reallocating some staff to new roles. New job specifications and hierarchies have been created to allow for greater staff mobility and a phased reduction in pension benefits is planned for the next two years;
- consolidating loan facilities to reduce the administrative burden while ensuring the Group has flexibility to pursue development;
- re-tendering the Group insurance policy to realise savings compared with the two separate policies. Further savings will be achieved by bringing claims processing in-house; and
- beginning the geographical consolidation of Care and Support activity with the disposal of properties in Hampshire to another housing association.

In 2017/18 we realised £3.1 million of establishment savings as a result of combining teams from the legacy organisations and we exceeded our budgeted non-staffing savings as a result of further operational efficiencies. Most notably, our responsive and planned maintenance spend was £1.3 million less than targeted. For further information on our merger integration see page 40.

Evaluating the full range of benefits of the merger, both financial and non-financial, tells us how effective we have been at delivering holistic change, rather than limiting success to purely financial savings. It ensures we maintain a comprehensive focus on achieving the aims set out in the merger business plan and developing a 'reliably good' service. We have established a benefit framework to allow us to test every single project against our strategic objectives. The benefits achieved provide a clear picture of how we drive and add value to our business, and will support and inform the organisation's evolving value for money strategy.

We will benefit from the cumulative effect of these early savings in future years. The Group has ambitious plans to make merger savings totalling £19.2 million per annum by 2019/20 and is committed to driving up service levels and the quality of customer outcomes across all areas of the business. Our plans include:

£19.2m

Overall merger integration savings target

1. cost reductions from the ongoing re-evaluation of labour and capital spend;
2. digitising back office processes to improve productivity, employee experience and retention and levels of customer service (both internally and externally);
3. implementing an accommodation strategy that consolidates our central London office portfolio, reduces running costs and introduces agile working practices;
4. developing a new operating model for high-quality customer service delivery at reduced cost. This will include greater use of technology to allow tenants to self-serve and access Peabody in ways which are convenient for them;
5. increasing the proportion of maintenance delivered in-house;
6. improving active asset management with a new asset appraisal tool to review the financial and strategic value of our properties and optimise investment spend in our stock;
7. increasingly focusing our development activities on schemes of 200 homes or more to maximise the financial efficiency of delivery;
8. improving the evaluation framework for our spend at Thamesmead to make sure we get the very best return on investment. For further information on Thamesmead see pages 26 and 27; and
9. focusing our care and communities spend on key geographic areas and core service lines, optimising our impact by assessing whether direct or indirect service provision will drive the best customer outcomes. For further information on the work of our Care and Communities directorate see pages 22 and 23.

What did we do with the savings?

All savings bolster our surpluses and are reinvested to further our Group mission. Last year we completed 949 new homes and we are planning to build 2,500 homes per year from 2021.

Our Care and Support team provides a first-class service to some of our most vulnerable residents. The social care sector faces a number of challenges, one of which is chronically low wages. Peabody has taken the decision to invest in raising salaries to the real Living Wage so that we can help our staff make the most of their lives and uphold high-quality services to our customers. These additional costs will be offset by operational efficiencies and structural changes within Care and Support.

Our Communities team has generated £8 in social return for every £1 invested in employment and training. We have generated a £2.1 million return on an investment of £0.2 million in volunteering activities and have raised over £1 million in external funding to bring added value to our community programmes.

Peabody has taken the decision to invest in raising salaries to the real Living Wage so that we can help our staff make the most of their lives and uphold high-quality services to our customers.

Value for money *continued*

How do we compare with others?

We are participating in the Sector Scorecard initiative. This provides a standard set of measures that allow us to assess our performance relative to our peer group, the g15 group of London-based housing associations. The Sector Scorecard is supported by both the National Housing Federation and the Chartered Institute of Housing and more information can be found at www.sectorscorecard.com.

Seven of the Sector Scorecard measures overlap with the value for money metrics outlined by the Regulator of Social Housing (RSH) in its Value for Money Standard published in April 2018. The table below shows our performance relative to our peers using both the Sector Scorecard and the regulatory metrics:

Value for money analysis – Sector Scorecard

	Peabody 2017/18	Peabody 2016/17	g15 average 2016/17
Business health			
1 Operating margin (overall)[1]	28%	30%	32%
2 Operating margin (social housing lettings)[1]	32%	33%	35%
3 EBITDA MRI %[3]	182%	209%	217%
Development (capacity and supply)			
4a New supply delivered (social housing units)	647	859	805
4b New supply delivered (non-social housing units)	302	242	–
5a New supply delivered % – social housing	1.3%	1.8%	1.8%
5b New supply delivered % – non-social housing	4.3%	3.8%	–
6 Gearing[2]	34%	34%	47%
Outcomes delivered			
7 Customer satisfaction	80%	79%	76%
8 Reinvestment %	5%	6%	6%
9 Investment in communities (£'000)	6,865	7,173	Not available
Effective asset management			
10 Return on capital employed	3.5%	3.8%	3.9%
11 Occupancy	99.8%	99.8%	Not available
12 Ratio of responsive repairs to planned maintenance	38%	50%	64%
Operating efficiencies			
13 Headline social housing cost per unit (per annum)	£5,317	£4,714	£4,398
14 Rent collected as % of rent due (GN)	99.9%	100.0%	99.6%
15 Overhead costs as % of turnover	9%	11%	7%
RSH Sector-wide value for money metric			

Sector Scorecard methodology may differ from measures reported elsewhere in this report

1 excludes profits on disposal
2 gearing: net debt as % of housing properties at cost (excludes investment properties)
3 excludes gain/(loss) on disposal of fixed assets and includes capitalised interest

What do these metrics show us?

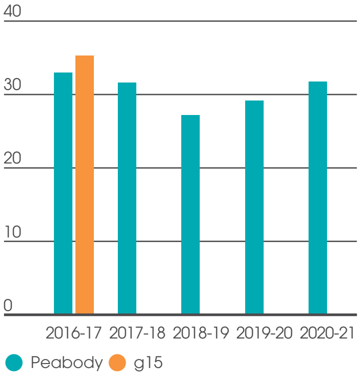
Peabody's performance against these metrics is broadly comparable with our g15 peers. We are more expensive operationally (see metrics 2 and 13) than the g15 average and this is driven by two factors: our large portfolio of Victorian and similar housing stock which is more expensive to maintain; and an unusually large care and support business that is resource intensive and low margin. We plan to address our costs, with a focus on repairs and maintenance, to move towards the g15 average over the next three years.

The metrics also show that Peabody's ambitious plans for delivering new homes in London are supported by a strong balance sheet with a very low gearing percentage. This will enable us to borrow the funds required to build up to a sizeable development programme.

What do our projected metrics reveal?

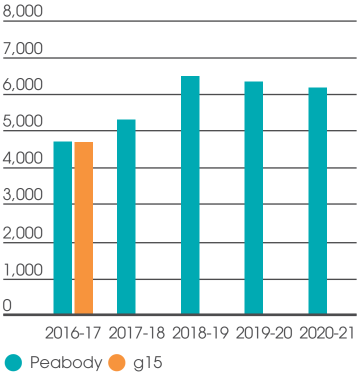
OPERATING MARGIN %

Operating surplus/turnover social housing



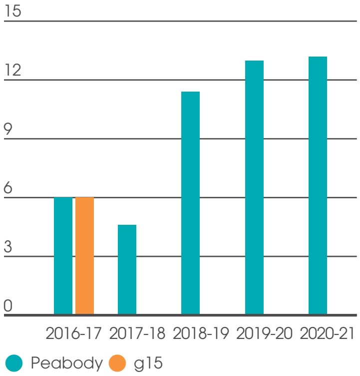
HEADLINE SOCIAL HOUSING COST PER UNIT

£p/a



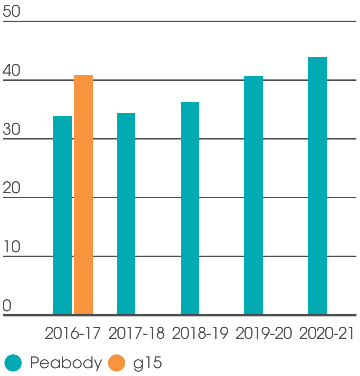
REINVESTMENT %

Capital investment/housing properties



GEARING

Net debt/housing properties



Looking forward, we will see continuing improvement in operational efficiency, with rising operating margins and reducing unit costs. Our asset management programme will grow as we protect and enhance investment in our existing properties. This includes significant investment in major repairs at Thamesmead, particularly in 2018/19, resulting in a step-up in social housing cost per unit. Our gearing will rise as the development programme increases but will remain in line with our peer average. We take a measured and sensible approach to managing financial risk in our development programme, ensuring we can safely and sustainably deliver great new places for our residents to live and our communities to flourish.

Financial review

Strong balance sheet and investment proposition

Susan Hickey
Chief Financial Officer

"The financial performance for 2018 is an especially strong result, against a backdrop of continued rent reductions and up-front merger costs."

The merger of Peabody and Family Mosaic brought together two financially strong and well governed groups, to provide a significantly enlarged balance sheet against which to sustain and grow the property portfolio. Crucial to that growth is sound risk management and the provision of truly affordable housing.

The financial performance for 2018 is an especially strong result, against a backdrop of continued rent reductions and upfront merger costs. Through robust financial management, targeted early merger efficiencies have been delivered, with the platform for further efficiencies well established. Finance teams and systems are already fully integrated and well placed for future transformation.

Operating margin on social housing has held relatively steady at 32%. An overall operating margin of 35% is lower than the previous year (2017: 40%) as the result of lower profit on sale of fixed assets (£11 million reduction), a strong but lower margin on open market sales of 26% (2017: 33%), and abortive development costs (£7 million). The operating margin is stated after discretionary investment in communities of £6 million (£1 million in external funding; £5 million from Peabody).

Interest cover, gearing and debt ratios remain strong and provide a firm platform for planned growth.

Highlights	FY 2018	FY 2017
Social housing lettings: turnover	**60%**	63%
Operating margin on social housing lettings	**32%**	33%
Overall operating margin	**35%**	40%
Net margin	**29%**	32%
EBITDA MRI interest cover	**341%**	289%
Gearing	**31%**	31%
Debt: turnover	**3 times**	3.1 times

The joining of Peabody and Family Mosaic has been recognised under merger accounting, meaning that the enlarged Group is presented in these accounts as though it had always been one. No material differences in accounting policies have been identified. In 2018 some alignment has been made to fixed asset component types and useful lives, the useful life of grant and classification of investment properties. The impact on 2018 Comprehensive Income is not significant.

Following the merger, three main asset holding entities were amalgamated on 29 March 2018, this followed significant work on loan documentation and lender consents. The rationalisation of other Group entities during the year included the transfer of operations of Family Mosaic Community Foundation into the Peabody Group.

Turnover has increased by 9% year-on-year, the most significant contributor being an increase of £49 million in open market sales, in line with forecasts.

The operating surplus on social housing lettings and other activities has remained stable, year on year. Included within this caption, care contracts have turned in an operating margin of 9%. During the year, a decision was made to improve terms and conditions for care staff to pay the real Living Wage and while this will provide downward pressure on margins we consider fair terms and conditions essential ingredients in repositioning our future care and support strategy.

Following the Grenfell fire, the Group has carefully reviewed the resources necessary to meet fire safety and other legal compliance requirements. Required expenditure has been met from existing budgets or is forecast. No impairment charge has been required.

The investment portfolio (commercial property and market rent) has seen a valuation uplift of 6% for the year (£21 million).

Our tax strategy is published on the website. Peabody is a responsible corporate taxpayer in line with HMRC legislation, based on professionally executed tax compliance and legitimate tax planning.

The Group holds a residential portfolio of 55,717 homes, including 4,790 leaseholders where a 100% interest has been sold. The underlying rental portfolio provides considerable value, both compared with regulated target rents and against market rents:

Average weekly rent[1]	Average target rent	Subsidy against target rent	Average monthly market rent[2]	Subsidy against market
£120	£126	£13m annually	£1,433	£444m annually

1 For general needs, supported and older people housing. The average weekly rent for affordable housing is £153 which includes service charge.
2 London median, Valuation Office Q3 2017.

In setting rents we aim to be fair and create sustainable tenancies, balanced against maintaining our financial strength for the benefit of new tenants and future generations.

Statement of Comprehensive Income (£'000)	FY 2018	FY 2017
Turnover	**608,937**	557,615
Operating surplus by source:		
Social housing lettings and other activities	**141,554**	139,106
Community regeneration	**(5,142)**	(5,620)
Development and open market sale	**27,565**	34,327
Non-social housing	**6,157**	1,144
Sale of fixed assets	**42,171**	53,187
Operating surplus	**212,305**	222,144
Net finance costs	**(58,405)**	(57,709)
Valuation movements	**21,404**	21,332
Surplus before taxation	**175,304**	185,767
Charitable donations	**176**	(2,000)
Taxation	**(70)**	(3,521)
Surplus for the year	**175,410**	180,246
Pension scheme movements	**12,516**	(16,627)
Derivative movements	**(4,213)**	(296)
Total comprehensive income	**183,713**	163,323

Financial review continued

Following the merger, the Group has focused on completion of stock condition surveys for future programme planning and the bedding in of new processes to optimise value for money. Capital investment of £68 million has been made during the year.

At 31 March 2018 tenant arrears stood at £28.9 million of which £18.4 million has been fully provided for. As at 31 March 2018 current tenant arrears of £17 million were 4.9% of the annual receivable, consistent with the previous year (4.9%) despite welfare reforms rolled out to date, including the household benefit cap, occupation size criteria and the first stages of Universal Credit.

Our welfare reform strategy aims to mitigate the challenges faced by our residents maintaining a sustainable tenancy and the threat this creates to Peabody's income stream. The introduction of Universal Credit has been shown to increase arrears rates and this has been our experience too. As the full rollout of Universal Credit progresses we will continue to actively use our evidence based analysis to effect change for an improved welfare system.

At 31 March 2018 development work in progress stood at £895 million (£544 million fixed assets; £39 million investment property; £312 million held for sale), compared with £792 million in 2017. This includes landholdings for sites not yet in progress of £38 million, although the Group's significant land holding in Thamesmead is additional to this. With the scale of planned development, landholdings are expected to increase in the future. To date the Group has worked with developers to joint venture through collaborative contracts. We now have a limited liability partnership with Mount Anvil and these structures are also likely to increase in the future.

"In setting rents we aim to be fair and create sustainable tenancies, balanced against maintaining our financial strength for the benefit of new tenants and future generations."

We closed the year with £57 million of properties held for sale (2017: £10 million); 10% of these are still available.

Provisions include due allowance for long-term liabilities in Thamesmead, consistent with 2017 results. This is a prudent approach, reflecting our mature and experienced risk management of the public realm in this location. A long-term approach to accounting for place-making investment is now established.

Despite a change in actuarial assumptions having a £12 million positive impact on this year's results, legacy defined benefit pensions are a significant liability for the Group. The Board has an agreed plan to manage these. The London Pensions Fund Authority scheme was closed to new entrants in 2010 and we have consulted with the remaining active members during the year to close the scheme for future accrual in April 2020. Non-social housing asset security optimises Peabody's credit standing and therefore reduces contribution levels, while stopping crystallisation of termination debt. The Social Housing Pension Scheme ('SHPS') was closed to future accrual in 2015 and membership of the defined contribution scheme sustained. The results of the 2017 valuation are expected shortly, along with proposals to recover the past service deficit. A significant increase in deficit contributions is expected and liability management will be reappraised at that time. As a multi-employer scheme, only the present value of future deficit payments is shown in the balance sheet, though this is expected to change in 2018/19.

Statement of Financial Position (£'000)	FY 2018	FY 2017
Non-current assets		
Fixed assets including housing properties	**5,346,971**	5,234,105
Investment properties	**404,550**	367,070
Investment in joint ventures	**1,750**	–
Other investments and debtors	**16,277**	17,220
Net current assets	**343,395**	304,374
Total assets less current liabilities	**6,112,943**	5,922,769
Long-term creditors	**(3,346,902)**	(3,330,873)
Provisions	**(17,319)**	(21,897)
Pension liabilities	**(71,531)**	(81,254)
Reserves	**2,677,191**	2,488,745

Financing and capital structure

The Group has debt facilities of £2,663 million; £744 million is undrawn but fully secured. £659 million is immediately available and £85 million available as an uncommitted private placement shelf facility. Taken together with cash balances of £117 million, available resources stand at £861 million. New facilities of £249 million have been raised in the year and scheduled repayments made of £24 million.

In line with treasury policy, available resources are sufficient to meet the Group's contractual commitments and the anticipated net funding requirements of the development programme for at least the next 18 months. The Group also maintains sufficient resources to withstand for 24 months a scenario of no new funds, no sales and no new development commitments.

Of the drawn debt, £1,340 million (70%) is fixed and £579 million (30%) is at variable rates. The average cost of debt for the year was 3.66%. Capital markets provide 20% of total debt facilities and are likely to be a future source of additional funding.

Refinancing risk is moderate with £890 million of bank facilities, largely revolving credit facilities, due to expire in the next five years. These are likely to be replaced with similar short-term revolving credit facilities to help fund the development pipeline and provide forward funding cover.

Alongside the amalgamation of asset holding entities, a single loan agreement has been put in place for each lender. While only £17 million facilities were ceded through these negotiations, modification in two loans meant we have written off £4 million historical arrangement fees. Consent fees have been recognised in the Comprehensive Income Statement.

The only derivative financial instrument was settled during the year with the previously recognised reserve underspent by £0.5 million. There are no non GBP interest rates or exchange rate exposures.

In July 2017 Moody's upgraded the rating of Peabody to A2 negative outlook, reflecting the credit metrics of the new Group. The negative outlook reflected that a downgrade of the UK sovereign rating would exert downward pressure on Peabody's rating due to the close institutional, operational and financial linkages between central government and housing associations. Following the UK's credit rating downgrade in September 2017 Moody's downgraded many sub-sovereign entities including 40 housing associations. Peabody's credit rating was downgraded from A2 negative to A3 stable. The assessment of Peabody's underlying business, the 'Baseline Credit Assessment', was unchanged. This position is further strengthened by the announcement of a settlement for social rents at CPI + 1% from 2020 onwards.

A formal counterparty policy is maintained for all financial investments where the prime objective in respect of cash investment is the security of the sums invested.

£175m

Surplus

£2.7bn

Committed debt funding

Cash generated from operating activities has been sufficient to fund investing activities:

Cash flow (£'000)	FY 2018	FY 2017
Net cash generated from operating activities	**133,140**	176,866
Cash flows from investing activities		
Proceeds from sale of tangible fixed assets	**92,974**	136,101
Purchases of fixed assets	**(221,955)**	(280,786)
Purchases of investment assets	**(19,832)**	(34,953)
Other	**17,858**	46,350
Net cash from investing activities	**(130,955)**	(133,288)
Net cash used in financing activities	**(38,987)**	(17,002)
Net (decrease)/increase in cash and cash equivalents	**(36,802)**	26,576
Cash and cash equivalents at beginning of year	**153,841**	127,265
Cash and cash equivalents at end of year	**117,039**	153,841

The Group has significant property security available which is actively managed to optimise use of security and funding arrangements across the Group. The number of unencumbered properties to use as security is c.17,000.

Outlook

We continue to monitor a challenging economic environment, taking a long-term outlook as patient investors. A strong balance sheet coupled with robust governance and risk management means the group is well placed to deliver planned development growth. This sits in tandem with a clearly stated purpose and strong commitment to truly affordable rent and our communities.

Realising the full benefits of merger, the economies of scale from a growing portfolio and the planned procurement efficiencies in repairs will be key themes in the next few years. This will serve to further strengthen our financial position.

Risk management

Managing risk for growth

Strategic risks and uncertainties

Peabody is a landlord of homes and properties of various tenures, a provider of care and support services and communities programmes, and a significant landholder and developer. Peabody has an ambitious strategy in relation to all these activities, which could be impacted by a range of challenges and risks.

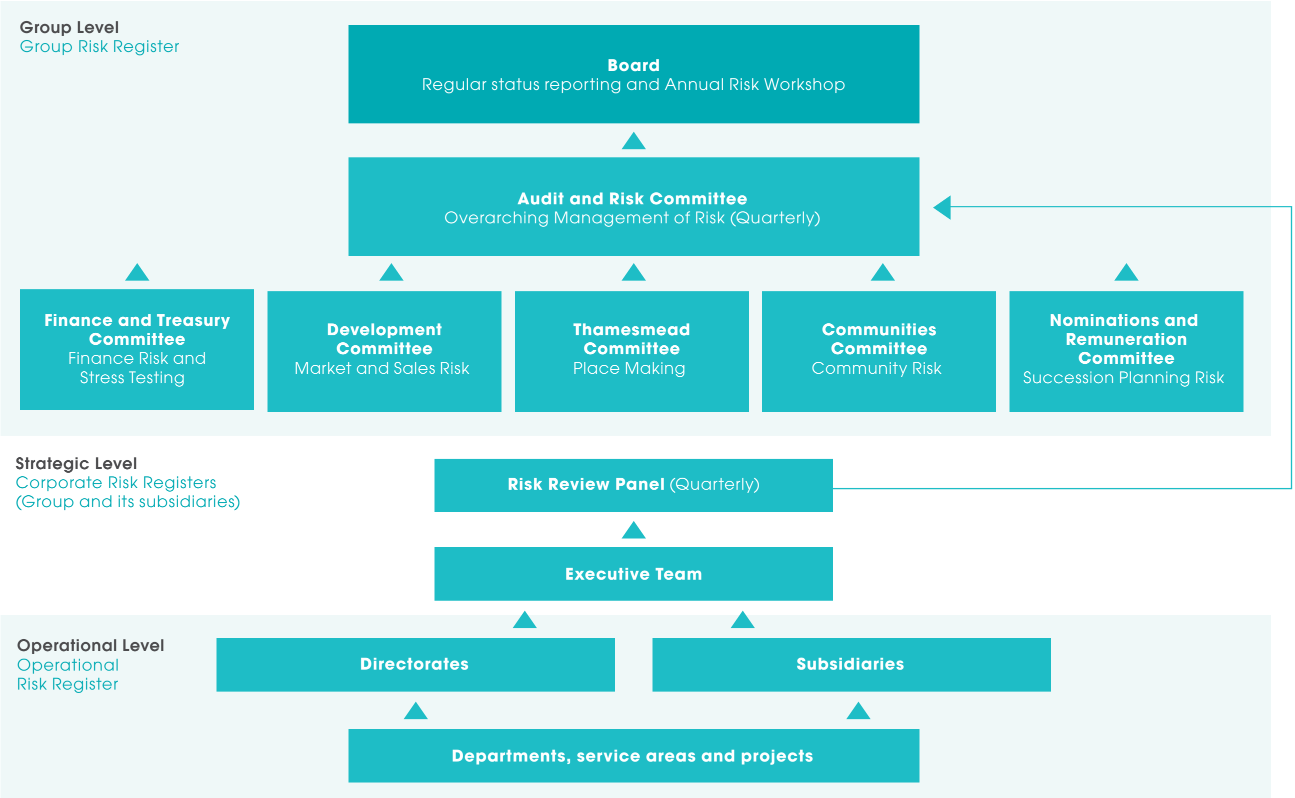
These include the continued difficult economic environment, impacted by the continued unknowns associated with the decision to leave the European Union ('Brexit'), the particular pressures in London and the South East relating to land availability and prices, and the challenge for our residents and customers affected by welfare reform.

Peabody is well placed to manage these risks. Our prudent approach to financing and our strong balance sheet mean that we will be able to withstand future economic challenges: our plans are designed to safeguard our assets for the long term. This financial strength also means that we are not reliant on public funding to deliver our core mission, and we have planned our future development programme making appropriate assumptions, and with a view to delivering on our social purpose to help the most vulnerable.

Group risks

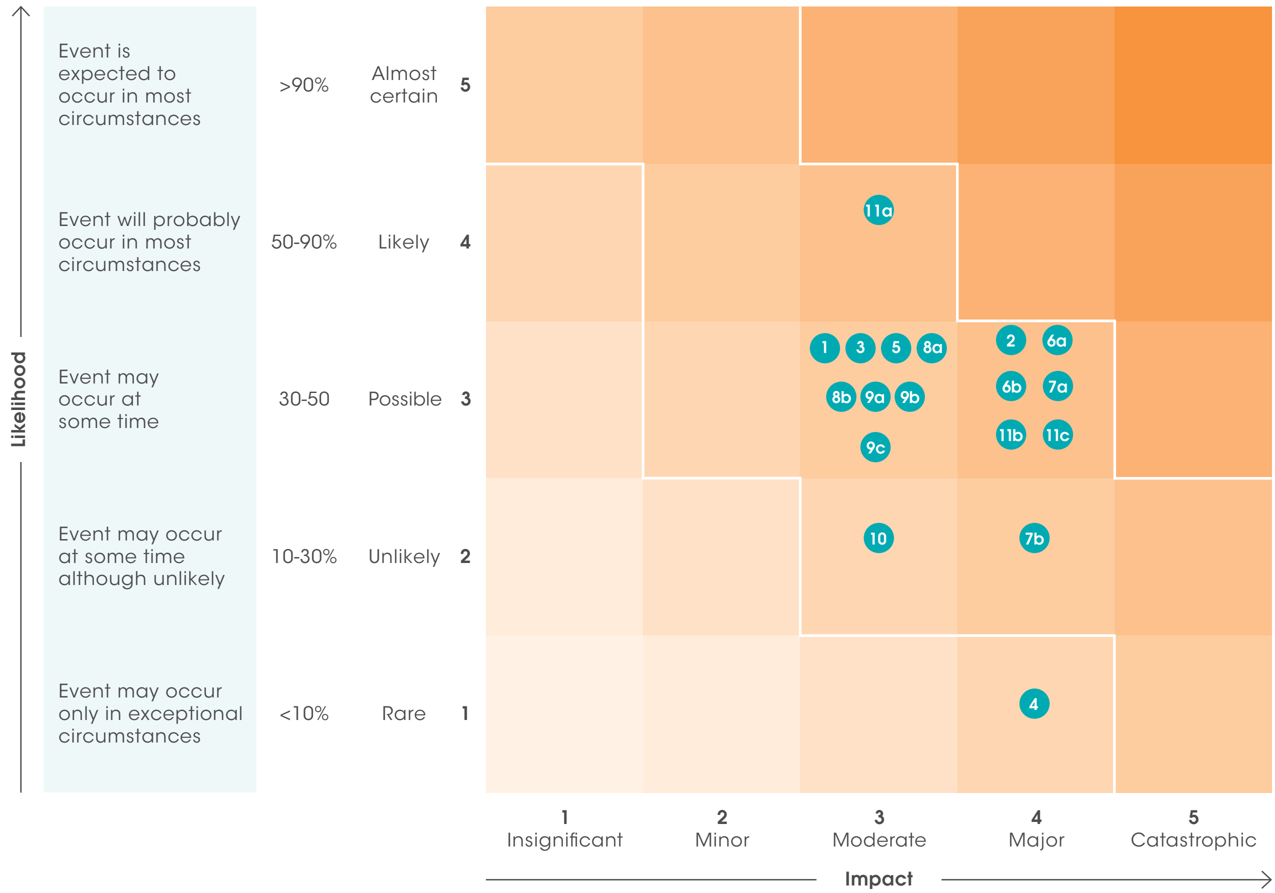
The Group has 18 specific risks which fall into 11 key risk areas. The Group risk heat map shows the residual risks after mitigating actions have been taken. The Board has agreed risk appetite statements for each risk. All risks are kept under regular review by the executive-led Risk Review Panel, and the Audit and Risk Committee and Board.

OUR RISK MANAGEMENT FRAMEWORK



GROUP RISK HEAT MAP

APPENDIX B



Principal risks

1	Failure to implement and maintain Health and Safety risking harm
2	Failure to maintain compliance arrangements
3	Failure to optimise income and manage the impact of welfare benefit reforms
4	Increased cost of and reduced access to funds as a result of internal or external events
5	Failure to maintain and improve the Group IT service, performance, infrastructure and system support
6a	Risk of reduced control over delivery of Group's development plan because of rising build costs, labour shortages, poor quality designs and delays in completion
6b	Risk of not being able to sell our products as intended because of failing to market appropriately and market conditions
7a	Failure to improve the efficiency of the services we offer by closely managing our major contracts and ensuring they deliver VfM
7b	Failure to improve the effectiveness of the services we offer by ineffective management of major contracts; which allows failures in the delivery of services to our customers and the VfM of those services
8a	Failure to put in place robust controls over data quality
8b	Failure to put in place robust controls over data security
9a	Failure to create successful and thriving communities
9b	Long term financial pressures lead to de-prioritisation of investment in place-making, provision of community facilities and design of open spaces
9c	Further transport improvements in Thamesmead don't materialise
10	The Integration and transformation process does not deliver the full range of merger benefits and the required efficiencies are not fully realised, reducing the capacity and capability of the new organisation
11a	Failure to deliver a financially viable Care & Support business
11b	Care & Support- safety of staff, customers or buildings
11c	Care & Support customers are put at risk due to failure to attract and retain high quality, trained and competent staff

Strategic risks and uncertainties

During this financial year, the Board has paid particular attention to the risks relating to merger and integration in order to be satisfied that the benefits from merger represent a better outcome than could have been achieved separately, and that during a period of extensive change there has been no reduction in the quality of services delivered to customers.

The Board and Audit and Risk Committee have also devoted considerable thought to the management of fire risk after the Grenfell fire.

The Development Committee and the Audit and Risk Committee have considered in detail the risks associated with the increased development programme, including risks as they relate to contractual commitments for several projects in Thamesmead.

The Finance and Treasury Committee's review of the Group's long-term financial plan has included detailed stress testing, which was also considered by the Board.

The Board will continue to seek assurance from the Audit and Risk Committee to ensure that effective risk management and internal control systems remain in place to manage the Group's key risks and that they support the achievement of Peabody's ambitious strategic objectives.

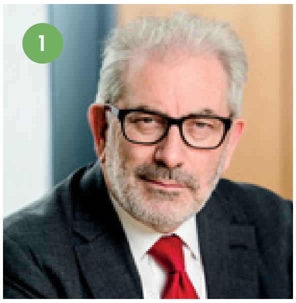
The top risks are set out below:

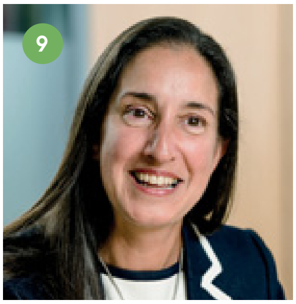
Risk description
Compliance and governance: **Failure to maintain compliance arrangements**
Development and sales: **Poor control over delivery of the Group's development programme leading to reduced control over delivery of Group's development plan because of rising build costs, labour shortages, poor quality designs and delays in completion** **Sales and marketing – risk of not being able to sell our homes as scheduled because of failure to market appropriately and/or market conditions**
Customer service: **Efficiency of services – failure to improve the efficiency of the services we offer by closely managing our major contracts and ensuring they deliver Value for Money**
Care and support: **Customers are put at risk due to failure to attract and retain sufficient numbers of high-quality, trained and competent staff**

Impact	Mitigating actions
• Reputational damage • Financial loss • Regulatory breach or censure	• Good understanding of legal and regulatory requirements across the Group. • Positive relations with Regulator of Social Housing, Care Quality Commission, HMRC and Charity Commission. • Maintaining in depth assessment ready processes. • Robust systems and processes in Customer Services Directorate and in Health and Safety team to ensure compliance with Group key performance indicators (KPIs) on asset compliance. • Robust and comprehensive internal and external audit programme testing controls. • Effective boards and committees with appropriate composition which provide support and challenge to Executive Team.
• Financial loss • Inability to meet strategic objectives	• Appropriately expert governance at Executive and Board level and skilled staff. • Development Control Manual safeguarding financial and legal diligence and compliance in place. • Risk registers maintained for each scheme and appropriate contingency included in cost plan. • Strong quality control processes and Health and Safety management. • Post-Grenfell review of fire safety, working group established. • Clear Programme Monitoring Indicators to show delivery against financial plan and approved development strategy. • Financial due diligence on contractor/developer partners to assess exposure and counterparty risk. • In-construction inspection regime to ensure product is being built to required standards.
• Financial loss • Inability to meet strategic objectives	• Integrated CRM system that provide holistic data about our customers. • Reporting of performance monitoring on a scheme and programme basis, analysis of external operating environment, rental and sales market. • Exit strategies are established and tested to limit exposure in a falling sales market. • Early involvement of sales team to ensure specification, design and product for sale are appropriately selected. • Performance feedback collated on sales experience and aftercare services.
• Financial loss • Reputational damage • Regulatory breach or censure	• Monthly progress meetings for each contract. • Project Boards for each key asset management programme. • Regular reporting of spend against budget for each programme. • Stock condition survey information and 30-year costed works programme. • Fully funded financial plan. • Benchmarking data, comparing cost and performance with g15 peers available to the business.
• Injury or harm to customers • Reputational damage • Regulatory breach or censure • Financial loss	• Revised recruitment strategy implemented. • Streamlined and simplified HR process and systems to reduce time to hire. • Clear pay and reward framework, with competitive Terms & Conditions package, including real Living Wage. • Learning and Development framework with clear career pathways. • Training to ensure staff are competent and confident in their roles. • Regular staff satisfaction and customer satisfaction reviews.

Board of Directors

Effective leadership with strong governance





1. Bob Kerslake
Lord Kerslake (Bob) joined the Board as Chair in 2015. During his Civil Service career he held senior positions including Head of the Civil Service, Permanent Secretary of the DCLG, and Chief Executive of Sheffield City Council and the Homes and Communities Agency. He was made a Peer in 2015 and was Chair of the King's College Hospital NHS Foundation Trust for two years. He is Chair of the Board of Sheffield Hallam University and of Be First, a regeneration company in Essex.

2. Ian Peters
Ian has 30 years' experience in the financial services and energy sectors in executive leadership roles. He has led large companies (most recently British Gas) and small, challenger businesses (eg Goldfish Bank). He is now a professional Non-Executive Director and consultant. Ian is the Chair of the Barts Health NHS Trust, four technology companies, an education charity and Employers for Carers. He also has a consulting business specialising in the energy sector.

3. Brendan Sarsfield
Brendan became Chief Executive of Peabody on 3 July 2017 at the point of merger with Family Mosaic. Previously he was the Family Mosaic Chief Executive for 11 years. Prior to Family Mosaic, he worked in housing for a variety of local authorities and housing associations. Brendan was Chair of the London g15, which represents London's 15 largest housing associations from 2013 to 2015.

4. David Hardy
David joined the Board in 2016. He is a Managing Director of the fund management subsidiary of John Laing Group plc. He has over 20 years' corporate finance, M&A, and fundraising experience spanning infrastructure, PFI and renewable energy projects. Prior to joining John Laing, David was a Corporate Finance partner at KPMG. He qualified as a chartered accountant with KPMG and is a Member of the Institute of Chartered Accountants in England and Wales.

5. Paul Loft
Paul joined the Board in 2013. He was Managing Director at Homebase and Habitat until 2015, and had a 25-year career in retailing, in senior finance and general management roles. Before Homebase he was Managing Director at GUS Home Shopping and prior to that was the Finance Director of Argos. Earlier in his career he spent 11 years in the Burton Group in several finance roles including as Finance Director of Debenhams.

6. Cath Shaw
Cath became a Peabody Board member on merger in July 2017, having previously been on the Family Mosaic Board. She is Deputy Chief Executive of a London Borough, working on housing and regeneration, finance and commercial partnerships. Prior to joining local government, Cath was a senior civil servant in what is now the Ministry of Housing, Communities & Local Government.

7. June Welcome
June was a resident Board member from 2009 and was a founding member and chair of Peabody's Diversity Forum. She has worked in social housing for 28 years, and been a trustee on community projects in West Silvertown. June has worked with Newham's Peer Support Group for victims of crime in the borough and contributed to Home Office studies on the topic. June stepped down in June 2018 having served the maximum nine year term.

8. Barry McNamara
Barry became a Peabody Board member on merger in July 2017, having previously been a Family Mosaic Board member. He is a landscape gardener and has been a long-term tenant with Family Mosaic and its predecessors. At present, Barry is involved in helping Family Mosaic set up a large food-growing community scheme in his Clapham neighbourhood.

9. Deirdre Moss
A Board member since 2017, Deirdre has worked in the insurance industry for over 25 years with FTSE 100 companies. Specialising in HR, she has led major changes involving large diverse workforces. She has her own HR consultancy company, and also sits on the advisory group of a London-based training company. She has championed diversity issues throughout her career and continues to work in a voluntary capacity in this area.

10. Peter Vernon
Peter joined the Board in 2015. He is Grosvenor Group's Executive Director with responsibility for its research function, and Chair of its Executive Committee. Peter is a Non Executive Director of the Berkeley Group and has been a Non Executive Director of London First. He was Deputy Chairman of the West End Partnership and a member of the RSA Insurance Group London Regional Board. His other appointments have included the BPF Policy Committee and the Government's Estates Regeneration Panel.

11. Helen Edwards
A Peabody Board member since 2016, Helen served as Deputy Permanent Secretary and Director General at DCLG. Previous roles included Director General of Justice Policy at the Ministry of Justice, and Chief Executive positions at the National Offender Management Service and Nacro, the national crime reduction charity. Helen chairs Recovery Focus and is a trustee of Lloyds Bank Foundation. She is also a Non-Executive Director on a London NHS Board and the Social Finance Board.

12. Jane Milligan
Jane became a Peabody Board member on merger in July 2017, having been on the Family Mosaic Board. She has worked in the NHS for over 30 years; the last 17 years being in Tower Hamlets in clinical, commissioning and service management roles, including Board-level roles. Jane is the Accountable Officer for the seven Clinical Commissioning Groups in North East London and the strategic system lead, and was CEO of Tower Hamlets CCG from 2012 to 2017.

13. Jennie Daly*
Jennie joined the Peabody Board in 2015. She is a Chartered Member of the Royal Town Planning Institute with over 20 years' experience in planning assessment and strategic promotion, with a strong development and commercial focus. Jennie joined the Taylor Wimpey UK Board in 2015 and the Board of Taylor Wimpey Plc in March 2018. As Group Operations Director, she has responsibilities for land acquisition and also leads Taylor Wimpey's technical, design, sustainability, production and procurement disciplines.

14. Pippa Aitken*
Having joined the Board of Gallions (in the Peabody Group) in 2017 and previously been a Family Mosaic Board member, Pippa has over 30 years' experience in planning and development. Her career began in local government; she then moved to several global property advisory firms. Pippa has a long-standing interest in housing delivery, and as a planning consultant she advised both public and private sector clients. She is also a Non-Executive Director of an NHS Foundation Trust specialising in mental health services.

15. Peter Baffoe
Peter joined the Board as a resident Board member in May 2018. He has been a community development worker for eight years and is a Faith and Community Development Officer for the South London Mission. He is also a member of the British Transport Police Advisory Group and a School Governor, acting as the Link Governor for disadvantaged pupils.

* Pippa Aitken and Jennie Daly are members of the Peabody South East Limited Board, which meets on an overlapping basis with the Peabody Board.

Corporate Governance Statement

Overview

Peabody has adopted the principles and provisions of the National Housing Federation ('NHF') Code of Governance – Promoting board excellence for housing associations (2015 edition) and complies with the provisions of the code. Peabody has also committed to meet the principles of the NHF Code of Conduct (2012 edition) through adhering to the Peabody Code of Conduct. In fulfilling its obligations under both codes, the Peabody Group ('the Group') follows good practice drawn from supporting guidance. An assessment of compliance with both codes is conducted on at least an annual basis; the last reviews were completed in May 2018 and July 2017 respectively.

During the year the Peabody Trust Board ('the Board') has been kept updated on, and provided oversight and challenge in relation to, the Group's compliance with the Regulator of Social Housing ('RSH') (or 'the Regulator') Regulatory Framework (the 'Regulatory Framework'), including the Governance and Financial Viability Standard. The Board takes its responsibilities under regulation and relevant good practice guidance very seriously and has taken appropriate steps to ensure compliance with the requirements set out in the Regulatory Framework. Peabody and its subsidiaries are committed to transparent and timely communication with the RSH. A statement of compliance with the Governance and Financial Viability Standard has been included within this report in accordance with regulatory requirements.

The Group maintained its G1 governance rating throughout the year while its financial viability rating was adjusted to V2 in November 2017. The change in rating (which remains compliant) was due to the Regulator's assessment of the Group's increased exposure to sales due to its large-scale development programme, including Thamesmead which is scheduled for 2,500 new homes per year from 2022 and the regeneration of the Thamesmead area more generally.

On 17 July 2017, Moody's upgraded Peabody's credit rating from A3 (negative outlook) to A2 (negative outlook), which reflected the key credit metrics of the merged entity at that time. Two months later, in September, Moody's regraded Peabody, as part of a sector-wide programme, to A3 (stable outlook) to reflect reduced resilience of the UK sovereign rating and its close links to UK housing associations.

Consultation, merger and expansion

Following consultation with residents and other stakeholders, the merger was approved in February 2017 and the various legal and structural changes required to form the new Group began. Family Mosaic and Peabody merged through Family Mosaic joining the Peabody Group on 30 June of that year. On 29 March 2018, Peabody was renamed Peabody Trust 2018 and amalgamated with Family Mosaic Housing and Gallions Housing Association Limited in accordance with section 109 of the Co-operative and Community Benefit Societies Act 2014, to form a new charitable community benefit society, and parent entity, called Peabody Trust. The day before the amalgamation, on 28 March, the assets and operations of Family Mosaic Housing outside Greater London were transferred to a subsidiary in the Group, Peabody South East Limited ('PSE'). PSE is a community benefit society and is registered as a provider of social housing with RSH and as a provider of care services with the Care Quality Commission. The successful merger and amalgamation have created a stronger organisation with greater capacity to meet the demand for housing in London and the South East.

Governance framework

Our governance framework supports the Board in its management of risk and in its responses to changes in the external environment. Risk is managed in order to minimise, for example, the likelihood and impact of financial loss, compromised service delivery, damage to our reputation or non-compliance with law or regulation.

The Group's approach is that risk can and should be taken to achieve our business objectives, provided that it is justified and actively managed.

This is an exciting time for Peabody Trust and the new Group structure changes have provided further opportunities to enhance governance arrangements to ensure the organisation continues to provide reliably good services to our customers and stakeholders. The Board will keep the corporate structure under review during the year ahead to ensure that it remains appropriate for our evolving business model while managing risk, delivering quality services to residents and others and making sure the Group has both the capacity and capability to deliver its vision.

Peabody seeks to maintain its investment grade credit rating and its fully compliant regulatory ratings to continue to inspire business confidence and trust throughout a period of sustained growth.

The Board is responsible for the effective governance of the Group and has ensured that the governance framework of the Group continues to evolve in order to reflect the changing external and internal economic, risk and regulatory environment.

Leadership and control

The Board is responsible for the effective governance of the Group and has ensured that the governance framework of the Group continues to evolve in order to reflect the changing external and internal economic, risk and regulatory environment. Changes to the corporate structure were made during the financial year, following the Board's approvals and, where required, relevant regulatory consents.

Following all necessary consultation and consents on 29 March 2018, Peabody was renamed Peabody Trust 2018 and amalgamated with Family Mosaic Housing and Gallions Housing Association Limited to form a new Charitable Community Benefit Society, and parent entity, called Peabody Trust.

Family Mosaic Community Foundation ("FMCF") was wound up with the donation to PSE in relation to funds which support activities outside Greater London and transfer of FMCF's remaining assets to Peabody Community Foundation. This restructuring resulted in the Group having a single community foundation, being Peabody Community Foundation, which brought together three pre-existing community programmes in London, Thamesmead and Waltham Forest into one entity.

The role of the Board and its committees

The Board is responsible for:

- determining the strategic direction of the Group and setting out its mission, vision and values;
- approving higher level strategies, long-term plans and objectives to achieve the vision;
- financial control and risk management;
- governance and the system of delegation;
- monitoring the Group's performance; and
- accountability to stakeholders.

The Board has delegated the operational management of Peabody and its subsidiaries to the Chief Executive and his Executive Team and holds them to account. The formal schedule of matters reserved for the Board, is available to read at www.peabody.org.uk.

The roles of Chair of the Peabody Board and Chief Executive are separate, reflecting the different responsibilities of leading the Board and the Executive Team. The Chair and the Vice-Chair are both non-executive members of the Board.

Policies and strategies

The Peabody Board considers and approves certain key policies and strategies relating to the financial framework and viability for the Group (including the 30-year Long Term Financial Plan, Treasury Management Policy and the Budget) and other core areas (such as the Risk Management Policy and strategy, Code of Conduct, and the Health and Safety Policy).

Group structure

During the financial year, the Group included three principal landlord subsidiaries: Family Mosaic, Gallions Housing Association Limited (both of which have now been amalgamated into Peabody Trust) and PSE, all of which are registered providers of social housing and exempt charities.

Other registered providers of social housing in the Group are Peabody Enterprises Limited and Family Mosaic Home Ownership Limited (which are both development and sales vehicles for residential property), Charlton Triangle Homes Limited and Old Oak Housing Association Limited (which are local subsidiaries stemming from Family Mosaic Housing).

Peabody Community Foundation is the Group's principal charitable community investment vehicle. Other Group subsidiaries include:

- Peabody Land, which holds commercial property and development land;
- Tilfen Land Limited, a company which acts primarily as a commercial asset management company in Thamesmead;
- Family Mosaic Housing Development Company Limited, which develops homes for sale as part of mixed tenure development schemes; and
- Family Mosaic Housing Services Limited, a company that provides construction services.

Details of other subsidiaries are provided in the notes to the accounts.

Corporate Governance Statement continued

Stakeholders, transparency and diversity

Peabody Group continues to build relationships with a range of stakeholders and policymakers. Our relationship-building approach has helped us to deliver our strategic goals and to achieve the social purpose of our mission statement. Insight into stakeholder engagement is provided in the Strategic Report pages 8 and 9.

Peabody is committed to being open and transparent in the way we conduct our business and interact with our residents and other customers. Peabody believes in being accountable for its actions, spending and performance, by demonstrating how it delivers value for money. The Group publishes information about its priorities, strategic goals and performance information and how it utilises resources on its website for all our stakeholders.

Peabody provides specific information about our work, on request, unless there are good reasons not to, for example: for legal reasons or on the grounds of data protection, personal confidentiality, commercial confidentiality or practicality.

Corporate responsibility

Peabody embeds corporate responsibility and sustainability across the organisation. This includes working with suppliers to embed sustainable practices and our commitment to openness and transparency in the way we conduct our business and interact with our customers. Peabody is committed to achieving equality and diversity in all aspects of its operations, and our policies, strategies and practices reflect this. Peabody has a Group equality, diversity and inclusion strategy and action plan to make sustainable progress towards our vision of embedding equality and diversity throughout the full breadth of our work.

Peabody modern slavery and human trafficking statement

As a responsible employer and business, and as an organisation dedicated to improving the lives of our residents and the communities we serve, Peabody is committed to doing everything possible to prevent slavery and human trafficking in our business and supply chain. A statement outlining how Peabody delivers its commitment is available to read on the Peabody website at www.peabody.org.uk.

Board membership

Board members of the three amalgamated entities were appointed as Board members of Peabody Trust on 29 March 2018. As at 31 March 2018, the Board had 12 members, including two resident board members. The board of the principal subsidiary, PSE, benefits from having a similar composition and operates on an overlapping basis with the Peabody Board while having two independent board members, namely Pippa Aitken and Jennie Daly, who provide an appropriate degree of independence as and when necessary.

Details of Board members' experience and main commitments (including the two independent PSE board members) are outlined in the Board biographies section on page 49. The composition of the Boards and executive teams of pre-amalgamated entities during the financial year ended 31 March 2018 (up to 29 March 2018) is seen on the following page.

Board selection is aligned to the Board Recruitment and Succession Policy. The policy supports an open and transparent recruitment process during which members of the Board and committees are selected and appointed objectively, based on core skills and competencies, qualification and attributes required, having regard to the inclusion of members with diverse backgrounds, balance of skills, experience and knowledge.

The Board holds dedicated strategy sessions each year. These events focus on long-term targets, risks and opportunities, operating environment and future landscape, organisational design, housing strategy and initiatives to deliver growth. The Board also receives regulatory or other topical presentations and briefings, including briefings on the regulatory framework, housing policy changes, equality and diversity and health and safety law.

The composition of boards of directors of operating subsidiaries are reviewed regularly by the Nominations and Remuneration Committee, which oversees appointments to the boards of all Group companies and makes recommendations to the Board. The Board appoints or has nomination rights to each of the subsidiary boards, and makes all the appointments to the Group's Board committees.

All Board members have the same legal status and share collective responsibility for decisions taken by the Board regardless of whether they are executive, non-executive, independent or residents. Board members have the benefit of the Group's directors' and officers' indemnity insurance policy.

The remit and composition of all Group Boards and committees were reviewed as part of the merger process to take account of ambitious development plans and the changing risk profile of the more complex Group.

Boards of pre-amalgamated entities during the financial year ended 31 March 2018 (up to 29 March 2018)

Peabody Trust 2018 (no.7223)	Lord Robert Kerslake	Chair
	Malcolm Levi	Vice Chair. Resigned 30 June 2017
	Ian Peters	Vice Chair. Appointed 30 June 2017
	Jennifer Daly	Resigned 30 June 2017
	Helen Edwards	Resigned 30 June 2017
	David Hardy	
	Stephen Howlett	Retired 30 June 2017
	Paul Loft	
	Barry McNamara	Appointed 30 June 2017
	Deirdre Moss	Appointed 30 June 2017
	Elizabeth Peace	Resigned 30 June 2017
	Brendan Sarsfield	Appointed 30 June 2017
	Catherine Shaw	Appointed 30 June 2017
	Janice Tucker	Resigned 30 June 2017
	Baroness Josephine Valentine	Resigned 30 June 2017
	Peter Vernon	
	June Welcome	
Family Mosaic Housing (no. 30093R) ('Family Mosaic')	Lord Robert Kerslake	Chair, Appointed 30 June 2017
	Ian Peters	Vice Chair from 30 June 2017; previously Chair
	Catherine Shaw	Vice Chair up to 30 June 2017
	Phillipa Aitken	Resigned 30 June 2017
	Keith Clancy	Resigned 30 June 2017
	Janine Desmond	Resigned 30 June 2017
	Helen Edwards	Appointed 30 June 2017
	David Hardy	Appointed 30 June 2017
	Paul Loft	Appointed 30 June 2017
	Shaima Mezzi	Resigned 30 June 2017
	Jane Milligan	
	Barry McNamara	
	Deirdre Moss	Resigned 30 June 2017
	Brendan Sarsfield	
	Richard Stevens	Resigned 30 June 2017
	Mike Verrier	Resigned 30 June 2017
	June Welcome	Appointed 30 June 2017

Corporate Governance Statement continued

Gallions Housing Association Limited (no. 28979R) ('Gallions')	David Avery	Chair. Resigned 30 June 2017
	Lord Robert Kerslake	Chair. Appointed 30 June 2017
	Ian Peters	Vice Chair. Appointed 30 June 2017
	Phillipa Aitken[1]	Appointed 30 June 2017, resigned 28 March 2018
	Jennifer Daly[1]	Appointed 30 June 2017, resigned 28 March 2018
	Paul Hackett	Resigned 30 June 2017
	David Hardy	Appointed 30 June 2017
	Susan Hickey	Resigned 30 June 2017
	David Lavarack	Resigned 30 June 2017
	Malcolm Levi	Resigned 30 June 2017
	Paul Loft	Appointed 30 June 2017
	Barry McNamara	Appointed 30 June 2017
	Agnes Otuedon	Resigned 30 June 2017
	Brendan Sarsfield	Appointed 30 June 2017
	Catherine Shaw	Appointed 30 June 2017
	June Welcome	Appointed 30 June 2017
Secretary of pre-amalgamated entities during the financial year ended 31 March 2018 (up to 29 March 2018)	Sarah Cameron[2]	Appointed 30 June 2017
	Heather Renton	Resigned 30 June 2017
Chief Executive of Peabody Trust 2018, with delegated responsibility for the executive management of Gallions, during the financial year ended 31 March 2018 (up to 29 March 2018)	Brendan Sarsfield[3]	Appointed 30 June 2017
	Stephen Howlett	Retired 30 June 2017
Executive Teams of pre-amalgamated entities during the financial year ended 31 March 2018 (up to 29 March 2018)	Throughout the financial year ended 31 March 2018, the Executive Team of Peabody Trust 2018 held delegated responsibility for the executive management of Gallions. On 30 June 2017, Family Mosaic became a wholly owned subsidiary of Peabody Trust 2018. From this date, the Executive Team of Peabody Trust 2018 was also responsible for the executive management of Family Mosaic.	
Executive Team of Peabody Trust 2018 during the financial year ended 31 March 2018	Stephen Burns	Executive Director, Communities until 1 March 2018; Executive Director, Care and Communities from 1 March 2018
	Pauline Ford	Executive Director Integration
	Ashling Fox	Executive Director, Customer Service until 1 March 2018; Chief Operating Officer from 1 March 2018
	Moira Griffiths	Executive Director, Care and Support Services from 30 June 2017 until 1 March 2018
	Susan Hickey	Executive Director, Finance until 1 March 2018; Chief Financial Officer from 1 March 2018
	David Lavarack	Executive Director, Corporate Services
	John Lewis	Executive Director, Thamesmead
	Dale Meredith	Interim Executive Director, Interim Development & Sales until 30 June 2017
	Dick Mortimer	Executive Director, Development from 30 June 2017

Executive Team of Family Mosaic, up to 30 June 2017	Ashling Fox	Group Customer Services Director
	John Gibbons	Group Director of Corporate Services
	Moira Griffiths	Group Care and Support Director
	Dick Mortimer	Group Director of Development and Sales
	John Schofield	Group Director of Research and Development
	Ken Youngman	Group Finance Director until 4 July 2017

1 Phillipa Aitken and Jennifer Daly remain Board members of principal subsidiaries in the Peabody Group.
2 Sarah Cameron was also Trust Secretary of Peabody Trust 2018 and Secretary of Gallions during the financial year ended 31 March 2018 (up to 29 March 2018).
3 Brendan Sarsfield was also Chief Executive of Family Mosaic during the financial year ended 31 March 2018 (up to 29 March 2018).

Appointments to the Board

The Nominations and Remuneration Committee has a formal and rigorous procedure for the appointment of new Board members. Appointments are made on merit against objective criteria, having due regard for the benefits of diversity and gender balance.

Board members are drawn from diverse backgrounds, bringing together professionals with a range of perspectives to ensure healthy debate with, and challenge of, the Executive Team.

In the spring of 2018, Peabody instituted a search for a new resident Board member to replace June Welcome, who had served on the Board for the maximum term of nine years. Candidates took part in a question and answer briefing session with June and two stages of interview. As a result, we were pleased to appoint Peter Baffoe to the Board on 16 May 2018.

At least six Board meetings are held each year. Major business decisions are made and reviewed at the meetings and the Board uses the meetings to formally monitor the Group's performance against plans which it has approved. Additional meetings are held as required.

Committees

Six committees are accountable to, and support the work of, the Board. The committees' areas of responsibility are:

- Audit and Risk Committee;
- Nominations and Remuneration Committee;
- Development Committee;
- Thamesmead Committee;
- Finance and Treasury Committee; and
- Communities Committee.

COMMITTEE STRUCTURE

Corporate Governance Statement continued

Each Committee is accountable to and reports to the Board.

The Audit and Risk Committee oversees the work of both the external and internal audit function and the system of risk management and internal control framework. This includes monitoring, reviewing and challenging, where necessary, matters in relation to external audit, internal audit, internal controls, risk management systems, compliance, whistleblowing, fraud, financial viability, financial reporting, narrative reporting, risk management, risk appetite, risk strategy and any other related matters as designated by the Board. The Audit and Risk Committee also reviews the audited Group financial statements and recommends them to the Board for approval.

The Nominations and Remuneration Committee oversees the composition and membership of the Board, subsidiary boards and Board committees. It reviews the effectiveness of those Boards and committees, oversees the appraisal of the skills and contribution of the directors, and advises on succession, recruitment, training and development needs. The Committee considers remuneration (including Board and committee pay), recruitment and severance policies and practice, in order to enable the Group to recruit and retain the employees it needs at all levels, at a cost that is reasonable. The Committee has specific oversight of the appraisal of the Chief Executive and makes a recommendation to the Board as to the Chief Executive's remuneration.

The Development Committee considers the approval of certain development and sales activities; monitors the performance of the Group's investment in new homes and developments; advises on major proposals relating to property and land transactions; and monitors the exercise of specific controls in relation to development and cumulative development risks. Additionally, it considers the Group's development strategy; oversees, and advises the Audit and Risk Committee and relevant boards, on developments and sales risk exposures; and reviews the effectiveness of relevant governance, risk management and internal controls for development across the Group.

The Thamesmead Committee's purpose is to exercise delegated authority in relation to development and regeneration activities in Thamesmead. It advises the Peabody Group on major proposals relating to Thamesmead, and monitors and reviews Thamesmead activities on behalf of the Group.

Board responsibilities

Governance and Compliance

- Reviews of Board performance and effectiveness, governance updates, legal & regulatory issues

Policies

- Health and Safety
- Equality and Diversity
- Peabody Code of Conduct
- Treasury Management Policy
- Risk Management Policy and Strategy

Customers and Stakeholders

- Resident Involvement Strategy
- Considers resident, customer and other stakeholders' views

The Finance and Treasury Committee provides scrutiny and support to the Board and the boards of Peabody subsidiaries concerning the Group's treasury management policy and treasury strategy and their implementation, including proposals for the Group's treasury structure, funding strategy and hedging and investment strategy. Furthermore, it recommends the Budget to the Board for approval and considers the financial performance, viability and stability of the Group. The Committee also reviews the efficiency of the Group, its structure and tax planning arrangements.

The Communities Committee exercises delegated authority in relation to strategic oversight of community investment and community development activities within the Group; supports Peabody's strategic objective of encouraging thriving communities; monitors the performance of the Group's community activities, including direct impact on beneficiaries and on wider communities; makes recommendations to the Peabody Board in relation to major proposals; and monitors internal controls and matters with significant implications for the beneficiaries of the Group's community work.

The terms of reference for all Board committees are reviewed annually. Each committee reports regularly to the Board on the discharge of its functions.

Financials

- Quarterly performance, budgets, forecasts
- Financial risk and treasury reports

Operational Performance

- KPIs
- Complaints review

Peabody Behaviours

- Tone from the top
- Code of Conduct

Corporate Governance Statement continued

Committee membership during 2017–18

Board member	Audit & Risk	Finance & Treasury	Development	Thamesmead	Nominations & Remuneration	Communities
Lord Kerslake (Chair)					✓	
Ian Peters (Vice Chair)			✓	✓	✓	
Brendan Sarsfield (Chief Executive)						
Pippa Aitken			✓	✓		
Jennifer Daly			✓	✓		
Helen Edwards						✓
David Hardy	✓	✓			✓	
Paul Loft	✓	✓			✓	
Barry McNamara					✓	
Jane Milligan	✓					
Deirdre Moss				✓	✓	✓
Cath Shaw			✓	✓		
Peter Vernon			✓	✓		
Stephen Howlett[1]			✓			
Malcolm Levi (Vice Chair)[1]		✓			✓	
Elizabeth Peace[1]			✓		✓	
Josephine Valentine[1]	✓	✓			✓	
Committee members only						
Richard Stevens	✓					
Peter Morton	✓	✓				
Michael Verrier		✓				
Janice Tucker[2]	✓					✓

1 Board and Committee members prior to merger.
2 Janice Tucker served on the Audit and Risk Committee, while a resident Peabody Board member, until 30 June 2017. She was appointed to the Communities Committee after stepping down from the Peabody Board on 30 June 2017.

Board evaluation, induction, development and appraisals

The Board undertakes a formal and rigorous evaluation of its own performance annually.

Prior to merger in 2017, director skills self-appraisals and interviews were used to select the Board members 14 in total) for the merged Group. In spring 2018, individual appraisal meetings with the Chair were held and an internal self-assessment of Board and Committee effectiveness via evaluation questionnaires was completed for the Board, the board of PSE and the six board committees. An external review of Board performance is planned for 2019.

In July 2018, the Board considered the review, noting the strengths highlighted, and agreed an action plan for the areas where additional focus might be useful, including:

- more time for non-executives with the Chair; and
- additional market awareness and benchmarks.

All members have access to the advice and services of the Group Secretary. Newly appointed members undergo a tailored induction programme to ensure that they have good knowledge and understanding of the Peabody Group and its activities. They attend briefing sessions on governance, strategy, finance and risk management, housing services and community investment. In addition, directors participate in site visits to build a deeper understanding of Peabody homes and services as well as development schemes and the Thamesmead regeneration programme. Directors have opportunities to meet residents and other service users during such visits.

The Board members have the benefit of the Group's directors' and officers' indemnity insurance policy.

Remuneration of non-executive Board members

The Peabody Board and the six Board committees were not remunerated during the last year, but are remunerated from 1 April 2018. The Board and committee member pay policy was approved by the Board on 21 March 2018 following a recommendation of the Nominations and Remuneration Committee (which had taken independent advice and considered sector benchmarking). The policy outlines the payment of Board members of Peabody Trust, its principal landlord subsidiary, PSE, and members of Group Committees.

Not all Board and committee members have decided to accept pay for the financial year 2018–19. Full disclosure will be provided in next year's Annual Report.

Services provided to, and any contractual relationships with, members of boards and committees who are residents of Peabody or of a subsidiary company are conducted with due regard to relevant guidance and with appropriate probity.

Barry McNamara and Peter Baffoe are resident Board members of Peabody. Both are tenants. Their tenancies are on the same terms and conditions as those of other residents. In their relationship with Peabody as tenants, they cannot employ their position as Board member to their advantage.

Approach to executive remuneration

Peabody sets senior executive pay based on independent professional advice and sector benchmarks, taking into account the need to attract and retain people qualified to lead an organisation of Peabody's size and complexity. This includes senior leaders in the fields of: finance, development, housing, community investment and corporate services. At the tier below, leaders and specialists are recruited in fields such as governance, IT and human resources, as well as leaders in development, regeneration, housing, finance and other fields. The overall framework is agreed by the Nominations and Remuneration Committee, which also makes decisions about bonus payments to senior executives. The Board has responsibility for agreeing the pay of the Chief Executive. Detailed information on the amount paid to the Chief Executive, Brendon Sarsfield, during the financial year is set out in the notes to the accounts. With regard to other employees', information is provided about the number of employees in each salary band above £60,000.

In November 2017, the Nominations and Remuneration Committee approved an improved pay offer and new terms and conditions for care and support staff.

Auditor

KPMG LLP have indicated their willingness to continue in office as auditors of the Peabody Group. Therefore, after due consideration of the recommendation of the Audit and Risk Committee at a meeting held on 24 July 2018 and the requirements under section 93 of the Co-operative and Community Benefit Societies Act 2014, the Board re-appointed KPMG LLP as auditors of Peabody Trust on 27 July 2018.

Compliance with the Governance and Financial Viability Standard

The Board confirms that an assessment of the Group's compliance with the Governance and Financial Viability Standard has been completed and certifies that the Group is compliant with the Governance and Financial Viability Standard.

Internal control and risk management

The Peabody Board is ultimately responsible for the system of risk management and the internal control framework across the Group and for reviewing their effectiveness. The Audit and Risk Committee ('the Committee') provides oversight on behalf of the Board regarding the system of risk management and the internal control framework, and regularly reviews their effectiveness.

The system of risk management and internal control exists to give reasonable assurance about the reliability of financial and operational information and the safeguarding of Peabody's assets and interests.

The risk review process

During the year, the Board and the Committee focused on ensuring that a robust risk management framework was in place across the Group. The Board approved a revised Group Risk Management Strategy in January 2018 and in May 2018 the Board approved further revision to its risk appetite statements.

There is a programme to keep all risks and the mitigating controls under regular review via cyclical reports to the Committee and reports at least twice yearly to the Board. The Group has 11 key risk areas comprising 18 individual risks as set out in Risk and Uncertainties section of the Strategic Report.

Internal audit

The Group's internal audit function is outsourced to PricewaterhouseCoopers ('PWC'), which has been the outsourced provider for Peabody since 1 April 2015 and was selected to be the internal auditor for the organisation post merger.

The annual programme of internal audit work approved by the Committee seeks to address the key risks identified across the Group on a three-year cycle, and includes a continuous auditing programme of core processes (e.g. payroll, treasury). PwC completed the annual programme of work and presented the Committee with its annual conclusion in respect of the system of internal control for

Corporate Governance Statement continued

the year ended 31 March 2018 at its April 2018 meeting. PwC's annual conclusion highlighted low, medium and high risk findings during the year and management's intent to improve compliance with controls, and included the following statement:

'When taken in aggregate, we do not believe that these risks identified are pervasive to the system of internal control as a whole. The high risk findings, in conjunction with the medium risk findings identified across all other reviews, have a moderate impact upon the effectiveness of the system of internal control during the year.'

The Committee also met with PwC in a private session at its April 2018 meeting.

Monitoring, control environment and control procedures

Managers are aware of the requirement to promptly report any suspected breach or weakness of controls via line management or in accordance with the Whistleblowing Policy, if necessary. Peabody also operates a formal process of regular self-assessment of controls, designed to ensure potential risks and weaknesses in the control environment are escalated. The Chief Executive provides an annual assurance report, based in part on this self-assessment process, to the Committee and the Board.

The Peabody Code of Conduct sets out Peabody's expectation of employees with regard to business practices, honesty and integrity. It is supported by a framework of policies and procedures which cover issues such as delegated authority, treasury management, and health and safety, and which are kept under review.

Key health and safety issues are reported to the Executive led Health and Safety Committee, and reports on health and safety (including the outcome of specialist audits) are provided twice yearly to the Audit and Risk Committee and annually to the Board.

The work of the external auditors provides further independent assurance on the control environment. The external auditors advise the Committee in writing of any weaknesses in internal control identified through the course of their work, along with recommendations for improvement. This information was considered by the Committee at its July 2018 meeting along with a detailed action plan to address any issues. No significant weaknesses have been noted.

Information and financial reporting systems

The Group's long term financial plan, financial performance and Key Performance Indicators ('KPIs') linked to the Group's Strategy are monitored regularly by management and the Board to ensure that the business remains financially sound and that financial and non-financial targets are met. The Committee received reports on the Group's information risks and data quality, and on progress with compliance with the GDPR.

Fraud, anti-money laundering, anti bribery and whistleblowing

Peabody has a fraud policy that covers the prevention, detection, investigation, and reporting of fraud, including remedial action if a fraud has occurred, to learn lessons and prevent a recurrence, and provides training to staff. The Committee receives regular updates in relation to fraud or attempted fraud, and the Board receives information at least annually. Peabody also has a Tenancy Fraud Strategy along with a dedicated tenancy fraud team, which provides reports to the Committee.

The Group has appointed staff to Anti-Money Laundering roles and issued a revised Anti-Money Laundering Policy, as required by recent legislation, and is rolling out training and revised procedures. Peabody values its reputation and is committed to maintaining the highest possible ethical standards in all its business activities. Peabody has a Whistleblowing Policy that encourages employees and others to express any serious concerns regarding suspected misconduct or malpractice within the organisation. The Peabody Code of Conduct makes it clear that the Group has zero tolerance for any form of bribery, and anti-bribery training is provided to all staff.

Statement on Internal Controls Assurance – Peabody Group

The Board acknowledges its ultimate responsibility for ensuring that the Group has in place a system of internal control that is appropriate to the various business environments in which it operates. This is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The processes in place for identifying, evaluating, and managing the significant risks faced by the Group are ongoing and have been in place throughout the period commencing 1 April 2017 up to the date of approval of the financial statements.

Key elements of the system of risk management and internal control throughout the period included:

- Board approved terms of reference and delegated authorities for the Group's committees;
- a review of legal and regulatory compliance at least twice a year to the Board;
- clearly defined management responsibilities for the identification, evaluation and control of significant risks;
- robust strategic and business planning processes, with detailed financial budgets and forecasts;
- formal recruitment, retention, training and development policies for all staff;
- formal Board evaluation and appraisal procedures;
- an annual review of compliance with the NHF Code of Governance;
- established authorisation and appraisal procedures for significant new initiatives and commitments;
- Committee approved internal audit plan and internal audit reporting at Committee meetings;

- approval by the appropriate committee or Board of key policies;
- regular reporting to the Audit and Risk Committee and Board of risk information;
- health and safety key issues reporting to the Health & Safety Committee and to the Audit and Risk Committee;
- a detailed Group approach to treasury management;
- regular updates and reporting by the external auditors;
- regular reporting to the appropriate committee on key business issues, objectives, targets and outcomes;
- regular monitoring of loan covenants and requirements for loan facilities;
- quarterly self-assessment by management, during the year of merger, of effectiveness of controls tailored to evidence key control status;
- Chief Executive's assurance to the Committee and the Board;
- policies and arrangements to reduce the risk of fraud, bribery and money laundering;
- reporting to the Audit and Risk Committee of instances of fraud, whistleblowing, bribery and money laundering;
- regular updates of key legislation changes to senior managers;
- periodic review and assessment of compliance with the RSH regulatory standards; and
- clearly defined responsibilities for compliance with the RSH regulatory standards.

The Board has delegated to the Audit and Risk Committee the regular review of the effectiveness of the Group system of internal control, while maintaining ultimate responsibility for the system of internal control.

The Audit and Risk Committee reviewed the effectiveness of the system of internal control in existence in the Group for the period commencing 1 April 2017 up to the date of approval of the financial statements, and the annual report of the internal auditor, and reported to the Board that it found no significant weaknesses in the system of internal control.

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

The Board is responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the Board to prepare financial statements for each financial year. Under those regulations the Board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the association and of the income and expenditure of the Group and the association 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 UK Accounting Standards and the Statement of Recommended Practice have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the Group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless it either intends to liquidate the Group or the association or to cease operations, or has no realistic alternative but to do so.

The Board is responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the association and enable them to ensure that its financial statements comply with the Co-operative and Community Benefit Societies Act 2014, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. It is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the association and to prevent and detect fraud and other irregularities.

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

The Board members who held office at the date of approval of this Board report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each Board member has taken all the steps that they ought to have taken as a Board member to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

R W Kerslake

Lord Kerslake
Chair
27 July 2018

Independent Auditor's Report to the Board of Peabody

We have audited the financial statements of Peabody ("the association") for the year ended 31 March 2018 which comprise of the Statement of comprehensive income, Statement of financial position, Statement of changes in equity and the Statement of cash flow and related notes, including the accounting policies in note 1.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, of the state of affairs of the group and the association as at 31 March 2018 and of the income and expenditure of the group and the association for the year then ended;
- comply with the requirements of the Co-operative and Community Benefit Societies Act 2014; and
- have been properly prepared in accordance with the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015.

Basis for opinion

We conducted our audit in accordance with International standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group and the association in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The association's Board is responsible for the other information, which comprises the Strategic Report and Corporate Governance section included in the Annual Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Board's responsibilities

As more fully explained in their statement set out on page 61, the association's Board is responsible for the preparation of financial statements which give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

This report is made solely to the association in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014 and section 128 of the Housing and Regeneration Act 2008 section. Our audit work has been undertaken so that we might state to the association those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association as a body, for our audit work, for this report, or for the opinions we have formed.

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

10 August 2018

Statement of Comprehensive Income

	Note	Group (Combined) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2018 £'000	Peabody (Amalgamated) 2017 £'000
Turnover	3(a)	608,937	557,615	420,012	308,860
Operating costs	3(a)	(438,803)	(388,658)	(297,542)	(231,288)
Surplus on sale of fixed assets	7	42,171	53,187	41,643	38,535
Operating surplus	3(a)/8	**212,305**	**222,144**	**164,113**	**116,107**
Interest receivable and similar income	9	284	446	14,661	13,843
Interest payable and similar charges	10	(58,689)	(58,155)	(66,280)	(45,503)
Change in value of investment property	16	21,404	21,332	12,402	13,041
Charitable donation within the Group	11/38	–	–	(17,900)	–
Surplus before taxation		**175,304**	**185,767**	**106,996**	**97,488**
Gift aid and charitable donations	11	176	(2,000)	43,881	31,897
Taxation on surplus on ordinary activities	12	(70)	(3,521)	–	5
Surplus for the year		**175,410**	**180,246**	**150,877**	**129,390**
Other comprehensive income					
Pension scheme actuarial gain/(loss)	31	12,516	(16,627)	12,425	(5,616)
Release of hedged instrument	10	(4,213)	(296)	(4,213)	(296)
		8,303	(16,923)	8,212	(5,912)
Total comprehensive income for the year		**183,713**	**163,323**	**159,089**	**123,478**

All operations are continuing.

These financial statements were approved by the Board on 27 July 2018 and signed on their behalf by:

R W Kerslake

Lord Kerslake
Chair

B Sarsfield

Brendan Sarsfield
Chief Executive

S L Cameron

Sarah Cameron
Secretary

Statement of Financial Position

	Note	**Group (Combined) 2018 £'000**	Group (Combined) 2017 £'000	**Peabody (Amalgamated) 2018 £'000**	Peabody (Amalgamated) 2017 £'000
Non-current assets					
Intangible assets	13	13,632	11,287	13,631	11,266
Tangible fixed assets – housing	14	5,267,702	5,157,893	4,801,441	4,852,450
Other tangible fixed assets	15	65,637	64,925	43,925	43,507
Total fixed assets		**5,346,971**	**5,234,105**	**4,858,997**	**4,907,223**
Investment properties	16	404,550	367,070	233,323	198,935
Other investments	17	4,141	1,932	12,423	13,682
Homebuy loans receivable	18	4,481	4,521	–	–
Starter homes initiative investment	19	6,902	7.067	6,902	7,067
Investment in joint ventures	20	1,750	–	–	–
Total investments		**421,824**	**380,590**	**252,648**	**219,684**
Debtors due in more than one year	21	753	3,700	428,691	266,702
Total non-current assets		**5,769,548**	**5,618,395**	**5,540,336**	**5,393,609**
Current assets					
Stock	22	368,783	294,620	19,514	22,031
Debtors due in less than one year	23	60,282	59,727	292,274	381,260
Cash and cash equivalents		117,039	153,841	96,360	135,357
Total current assets		**546,104**	**508,188**	**408,148**	**538,648**
Creditors: amounts falling due within one year	24	(202,709)	(203,815)	(112,199)	(180,291)
Net current assets		**343,395**	304,373	**295,949**	358,357
Total assets less current liabilities		**6,112,943**	**5,922,768**	**5,836,285**	**5,751,966**
Creditors: amounts falling due after more than one year	25	(3,346,902)	(3,330,873)	(3,250,901)	(3,333,964)
Provisions for liabilities and charges	30	(17,319)	(21,897)	(226)	(226)
Pension liabilities	31	(71,531)	(81,254)	(71,041)	(80,863)
		(3,435,752)	(3,434,024)	**(3,322,168)**	(3,415,053)
Net assets		**2,677,191**	**2,488,744**	**2,514,117**	**2,336,913**
Income and expenditure reserve		1,954,069	1,770,236	1,790,995	1,618,405
Revaluation reserve		723,122	723,237	723,122	723,237
Cash flow hedge reserve		–	(4,729)	–	(4,729)
Net assets		**2,677,191**	**2,488,744**	**2,514,117**	**2,336,913**

The accompanying notes form part of these financial statements.

These financial statements were approved by the Board on 27 July 2018 and signed on their behalf by:

R W Kerslake

Lord Kerslake
Chair

Brendan Sarsfield
Chief Executive

Sarah Cameron
Secretary

Statement of Changes in Equity

Group (Combined)	Note	Revenue reserve £'000	Revaluation reserve £'000	Cash flow hedge reserve £'000	**Total reserves £'000**
Balance at 1 April 2017		1,770,236	723,237	(4,729)	**2,488,744**
Surplus for the year		175,410	–	–	**175,410**
Release of cash flow hedge		(4,213)	–	4,213	**-**
Pension scheme actuarial gain	31	12,516	–	–	**12,516**
Total comprehensive income for the year		**183,713**	**-**	**4,213**	**187,926**
Movement of hedged instrument		5	–	516	**521**
Transfer between reserves		115	(115)	–	–
Balance at 31 March 2018		**1,954,069**	**723,122**	**-**	**2,677,191**

Peabody (Amalgamated)	Note	Revenue reserve £'000	Revaluation reserve £'000	Cash flow hedge reserve £'000	**Total reserves £'000**
Balance at 1 April 2017		1,618,405	723,237	(4,729)	**2,336,913**
Surplus for the year		150,877	–	–	**150,877**
Release of cash flow hedge		(4,213)	–	4,213	**-**
Pension scheme actuarial gain	31	12,425	–	–	**12,425**
Total comprehensive income for the year		**159,089**	**-**	**4,213**	**163,302**
Release of cash flow hedge		–	–	516	**516**
Change in investment in subsidiaries		(3,467)	–	–	**(3,467)**
Transfer from subsidiaries	38	16,853	–	–	**16,853**
Transfer between reserves		115	(115)	–	**-**
Balance at 31 March 2018		**1,790,995**	**723,122**	**-**	**2,514,117**

£16.9 million has transferred for the operations of the Governors of Peabody Trust (renamed George Peabody Donation Fund) to Peabody Trust on 9 November 2016.

Statement of Cash Flow

Peabody Trust is a social landlord regulated by the Regulator of Social Housing (RSH). As a qualifying entity it is exempt from preparing a cash flow. The Peabody Group cash flow is shown below.

		Group	
	Note	**2018 £'000**	2017 £'000
Net cash generated from operating activities	40	**133,140**	**176,866**
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets	7	92,974	136,101
Purchases of intangible fixed assets		(6,147)	(5,726)
Purchases of tangible fixed assets		(215,808)	(275,060)
Purchases of investment assets		(19,832)	(34,953)
Receipt of government grant		17,574	39,609
Receipt of non-government grant		–	6,148
Interest received		284	593
Net cash from investing activities		**(130,955)**	**(133,288)**
Cash flows from financing activities			
New bank loans		111,337	90,587
Repayment of bank loans		(85,276)	(34,712)
Interest paid		(65,048)	(72,877)
Net cash used in financing activities		**(38,987)**	**(17,002)**
Net increase/(decrease) in cash and cash equivalents		**(36,802)**	**26,576**
Cash and cash equivalents at beginning of year		**153,841**	**127,265**
Cash and cash equivalents at end of year		**117,039**	**153,841**

Notes to the financial statements

1.1 Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the UK and Republic of Ireland (March 2018) ('FRS102'), the Housing SORP 2014: Statement of Recommended Practice for Social Housing Providers ('the SORP'), the Accounting Direction for Private Registered Providers of Social Housing 2015 ('the Accounting Direction') and the Co-Operative and Community Benefit Societies Act 2014.

Peabody Trust and a number of its subsidiaries are public benefit entities.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to Peabody Trust consolidated ('Group') and individual ('Parent') financial statements.

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

1.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Peabody and entities (including special purpose entities) controlled by the Group (its 'Subsidiaries'). Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Intercompany transactions and balances between group entities are eliminated in full upon consolidation.

1.3 Going concern

The Group's business activities, together with factors likely to affect its future development and position, are set out in the Strategic Report of the Board. The Group has in place long-term debt facilities which provide adequate resources to finance committed reinvestment and development programmes, and generate operational cash flows sufficient to finance the Group's day-to-day operations. The Group also has a long-term business plan which shows that it is able to service its debt facilities whilst continuing to comply with lenders' covenants.

On this basis, the Board have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months after the date on which the report and financial statements are signed. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

1.4 Business combinations

Acquisitions (of subsidiary companies) are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the entity. The cost of the business combination is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree plus costs directly attributable to the business combination.

If the net fair value of the identifiable assets and liabilities acquired exceeds the cost of a business combination, the excess up to the fair value of non-monetary assets acquired is recognised in the Statement of Comprehensive Income in the periods in which the non-monetary assets are recovered. Any excess exceeding the fair value of non-monetary assets acquired is recognised in the Statement of Comprehensive Income in the periods expected to be benefited.

1.5 Merger

On 30 June 2017, Family Mosaic Housing, the ultimate parent of the Family Mosaic group, became a subsidiary of the Peabody Group, as permitted by the Co-operative and Community Benefit Societies Act 2014. For comparison purposes, the Peabody Group has restated its 2016/17 results to include the Family Mosaic group. See note 39 for further details.

1.6 Amalgamation

Family Mosaic Housing, Gallions Housing Association and Peabody Trust amalgamated into a single landlord during the financial year. For comparison purposes, Peabody Trust has restated its 2016/17 results to include Family Mosaic Housing and Gallions Housing Association. See note 38 for further details.

1.7 Investment in joint ventures and subsidiaries

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

Investments in subsidiaries are measured at cost less accumulated impairment.

1.8 Cash and cash equivalents

Cash and cash equivalents consist of cash at bank, in hand, deposits, short-term investments. Any bank accounts in overdraft are included within the overall cash balance.

1.9 Service charge sinking fund

Under the terms and conditions of their leases, leaseholders are required to contribute to a sinking fund for future provision of communal facilities. These funds are invested in separate bank accounts in order to meet future commitments. Interest received is credited to these funds.

1.10 Value Added Tax

A large proportion of the Group's income comprises rental income which is exempt for VAT purposes and gives rise to a partial exemption calculation. Expenditure is therefore shown inclusive of VAT. Recoverable VAT arising from partially exempt activities is credited to the Statement of Comprehensive Income.

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

In preparing these financial statements, the directors have made the following key judgements:

- Determining whether there are indicators of impairment of the Group's tangible and intangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset, and where it is a component of a larger unit or development, the viability and expected future performance of that asset.
- Tangible fixed assets, other than land, shared ownership assets and investment properties, are depreciated over their useful lives. The actual lives of the assets and residual values are assessed periodically and may vary depending on a number of factors, such as technological innovation, product life cycles and maintenance programmes. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.
- Properties that are held to earn commercial rentals or for capital appreciation, or both, must be treated as investment properties and accounted for in accordance with Section 16 of FRS 102. There are a number of tenure types of housing property where it is a matter of judgement whether they should be categorised as investment property or property, plant and equipment. The intended use of the property needs to be determined when categorising different tenure types of housing property providing due consideration to the level of rent charged and with regard to objectives of the Group.

Other key sources of estimation uncertainty:

Investment properties are professionally valued annually using a yield methodology. This uses market rental values capitalised at a market capitalisation rate but there is an inevitable degree of judgement involved in that each property is unique and value can only ultimately be reliably tested in the market itself.

The valuation of defined benefit pension schemes has been carried out by qualified actuaries based upon assumptions. Whilst key assumptions used in the valuations are based upon published information, there is a degree of judgement involved in selecting the most appropriate financial variables for each scheme.

3(a). Turnover and operating surplus

Turnover represents rental and service charge income receivable (net of rent and service charge losses from voids), income from shared ownership first tranche and open market sales, services rendered and revenue grants and amortisation of social housing grant.

Rental income is recognised from the point when properties under development reach practical completion or otherwise become available for letting. Rental income under operating leases is recognised as it falls due. Income from first tranche and market sales is recognised at the point of legal completion of the sale.

Turnover from the rendering of services is recognised by reference to the stage of completion of the contract. The stage of completion of a contract is measured by comparing the costs incurred for work performed to date to the total estimated contract costs. Turnover is only recognised to the extent of recoverable expenses when the outcome of a contract cannot be estimated reliably.

Notes to the financial statements continued

3(a). Turnover and operating surplus continued

Turnover from grants is recognised when the conditions for receipt of agreed grant funding have been met, either in full or amortised over its useful life. Income and costs are allocated to different tenures where identifiable. Income and costs that cannot be easily identified with a specific tenure are allocated based upon an assessment of the activities and size of that tenure group. First tranche sales and open market sales are sales of stock and are recognised in the Statement of Comprehensive Income in the period to which they relate.

Group (Combined)	Turnover 2018 £'000	Operating costs 2018 £'000	Operating surplus/ (deficit) 2018 £'000	Turnover 2017 £'000	Operating costs 2017 £'000	Operating surplus/ (deficit) 2017 £'000
Social housing lettings	**364,958**	**(249,525)**	**115,433**	**350,413**	**(234,652)**	**115,761**
Other social housing activities						
First tranche shared ownership sales	49,268	(26,704)	22,564	43,256	(23,102)	20,154
Charges for support services	30,810	(28,088)	2,722	34,126	(30,960)	3,166
Other	835	–	835	25	–	25
	80,913	**(54,792)**	**26,121**	**77,407**	**(54,062)**	**23,345**
Non-social housing activities						
Market sale	135,096	(99,558)	35,538	92,287	(61,551)	30,736
Development	2,850	(10,823)	(7,973)	6,606	(3,015)	3,591
Community regeneration	1,342	(6,484)	(5,142)	2,184	(7,804)	(5,620)
Other	23,778	(17,621)	6,157	28,718	(27,574)	1,144
	163,066	**(134,486)**	**28,580**	**129,795**	**(99,944)**	**29,851**
Total	**608,937**	**(438,803)**	**170,134**	**557,615**	**(388,658)**	**168,957**
Surplus on sale of fixed assets (see note 7)			42,171			53,187
			212,305			**222,144**

Peabody (Amalgamated)	Turnover 2018 £'000	Operating costs 2018 £'000	Operating surplus/ (deficit) 2018 £'000	Turnover 2017 £'000	Operating costs 2017 £'000	Operating surplus/ (deficit) 2017 £'000
Social housing lettings	**356,945**	**(242,520)**	**114,425**	**251,149**	**(179,837)**	**71,312**
Other social housing activities						
First tranche shared ownership sales	8,025	(3,349)	4,676	5,685	(2,899)	2,786
Charges for support services	30,810	(28,087)	2,723	34,126	(30,960)	3,166
Other	21	(3,315)	(3,294)	–	(738)	(738)
	38,856	**(34,751)**	**4,105**	**39,811**	**(34,597)**	**5,214**
Non-social housing activities						
Market Sale	–	–	–	–	282	282
Development	7,368	(5,225)	2,143	2,990	(4,059)	(1,069)
Community Regeneration	–	–	–	–	(182)	(182)
Other	16,843	(15,046)	1,797	14,910	(12,895)	2,015
	24,211	**(20,271)**	**3,940**	**17,900**	**(16,854)**	**1,046**
Total	**420,012**	**(297,542)**	**122,470**	**308,860**	**(231,288)**	**77,572**
Surplus on sale of fixed assets (see note 7)			41,643			38,535
			164,113			**116,107**

3(b). Particulars of turnover and operating costs from social housing lettings

Group (Combined)	Housing accom-modation 2018 £'000	Supported and older people 2018 £'000	Shared ownership 2018 £'000	Inter-mediate rent 2018 £'000	Temporary accom-modation 2018 £'000	Total 2018 £'000	Total 2017 £'000
Rents receivable	268,132	21,575	17,824	8,776	1,092	317,399	311,561
Service charges receivable	16,327	7,932	7,895	117	14	32,285	24,996
Gross rental income	**284,459**	**29,507**	**25,719**	**8,893**	**1,106**	**349,684**	**336,557**
Voids	(1,476)	(804)	(74)	(177)	(93)	(2,624)	(4,062)
Net rental income	**282,983**	**28,703**	**25,645**	**8,716**	**1,013**	**347,060**	**332,495**
Amortised government grants	8,274	1,191	967	131	3	10,566	10,397
Revenue grants	377	7	13	34	–	431	1,344
Other income	4,223	2,129	548	1	–	6,901	6,177
Total turnover from social housing lettings	**295,857**	**32,030**	**27,173**	**8,882**	**1,016**	**364,958**	**350,413**
Service charge costs	(15,638)	(6,504)	(5,580)	(117)	(56)	(27,895)	(23,237)
Management	(67,956)	(10,547)	(5,679)	(5,652)	(231)	(90,065)	(69,454)
Routine maintenance	(38,768)	(2,995)	(1,715)	(809)	(57)	(44,344)	(45,819)
Cyclical maintenance	(25,843)	(2,183)	(934)	(49)	(33)	(29,042)	(33,297)
Bad debts	(2,186)	(601)	(157)	(1)	(16)	(2,961)	(3,153)
Depreciation	(48,871)	(4,521)	–	(1,657)	(169)	(55,218)	(59,692)
Operating costs on social housing lettings	**(199,262)**	**(27,351)**	**(14,065)**	**(8,285)**	**(562)**	**(249,525)**	**(234,652)**
Operating surplus/(deficit) on social housing lettings	**96,595**	**4,679**	**13,108**	**597**	**454**	**115,433**	**115,761**
Operating margin %	**33%**	**15%**	**48%**	**7%**	**45%**	**32%**	**33%**

Notes to the financial statements continued

3(b). Particulars of turnover and operating costs from social housing lettings continued

Peabody (Amalgamated)	Housing accom-modation 2018 £'000	Supported and older people 2018 £'000	Shared ownership 2018 £'000	Inter-mediate rent 2018 £'000	Temporary accom-modation 2018 £'000	Total 2018 £'000	Total 2017 £'000
Rents receivable	261,030	21,545	17,414	8,776	1,092	309,857	216,266
Service charges receivable	15,426	7,927	7,886	118	14	31,371	19,642
Gross rental income	**276,456**	**29,472**	**25,300**	**8,894**	**1,106**	**341,228**	**235,908**
Voids	(1,463)	(803)	(74)	(178)	(93)	(2,611)	(2,213)
Net rental income	**274,993**	**28,669**	**25,226**	**8,716**	**1,013**	**338,617**	**233,695**
Amortised government grants	8,074	1,191	967	131	3	10,366	10,211
Revenue grants	257	102	10	27	–	396	1,234
Other income	4,417	2,445	688	2	14	7,566	6,011
Total turnover from social housing lettings	**287,741**	**32,407**	**26,891**	**8,876**	**1,030**	**356,945**	**251,151**
Service charge costs	(15,219)	(6,499)	(5,551)	(117)	(56)	(27,442)	(17,195)
Management	(65,216)	(9,929)	(2,814)	(5,568)	(220)	(83,747)	(56,436)
Routine maintenance	(38,533)	(3,197)	(2,013)	(809)	(57)	(44,609)	(33,199)
Cyclical maintenance	(26,635)	(2,182)	(929)	(49)	(33)	(29,828)	(24,838)
Bad debts	(2,178)	(601)	(157)	(1)	(16)	(2,953)	(2,409)
Depreciation	(47,474)	(4,640)	–	(1,658)	(169)	(53,941)	(45,762)
Operating costs on social housing lettings	**(195,255)**	**(27,048)**	**(11,464)**	**(8,202)**	**(551)**	**(242,520)**	**(179,839)**
Operating surplus/(deficit) on social housing lettings	**92,486**	**5,359**	**15,427**	**674**	**479**	**114,425**	**71,312**
Operating margin %	**32%**	**17%**	**57%**	**8%**	**46%**	**32%**	**28%**

4. Accommodation owned and in management

At 31 March	Group (Combined) 2018 Units	Peabody (Amalgamated) 2018 Units	Group (Combined) 2017 Units	Peabody (Amalgamated) 2017 Units
Social	37,454	34,627	37,382	35,554
Affordable	2,464	2,345	2,424	2,421
Shared ownership	4,131	3,808	4,005	3,790
Rent to Homebuy	59	59	59	59
Intermediate market rent	1,918	1,917	1,925	1,920
Supported housing	2,969	2,350	2,939	2,939
Leasehold managed	4,790	4,309	4,540	4,028
Non-social housing	508	421	515	425
Total units owned and managed	**54,293**	**49,836**	**53,789**	**51,136**
Managed on behalf of others	421	194	462	406
Total units in management	**54,714**	**50,030**	**54,251**	**51,542**
Units owned managed by others	1,003	1,003	831	1,582
Total	**55,717**	**51,033**	**55,082**	**53,124**

5. Emoluments of Board members and executive officers

No Board members received any emoluments during the year. Board members were reimbursed expenses totalling £718 (2017: £601).

The remuneration paid to the Peabody Executive Officers and the Group Chief Executive was as follows:

	Group (Combined) 2018 £	Peabody (Amalgamated) 2018 £	Group (Combined) 2017 £	Peabody (Amalgamated) 2017 £
Total emoluments to directors and former directors (including pension contributions and benefits in kind)	**2,032,141**	**1,653,522**	**2,686,012**	**1,759,396**
Highest Paid Director:				
Emoluments paid to the Group Chief Executive	**278,750**	**278,750**	**240,872**	**94,266**

The Chief Executive was an ordinary member of the SHPS scheme for part of the year. Contributions are made to this scheme as per note 31. The value of employer contributions on behalf of the Chief Executive was £4,675 (2017: £18,088).

During the year the Chief Executive opted to leave the SHPS scheme and receive cash in lieu of pension contributions. The cash paid to the Chief Executive in lieu of pension contributions amounted to £17,888. (Cash paid in lieu of pension contributions for the former Chief Executive in the prior year amounted to £21,439.)

The Peabody Group Nominations and Remuneration Committee meets at least three times a year and recommends approval of proposed remuneration for the Group Chief Executive to the Peabody Board and sets the remuneration of other members of the Peabody executive team.

Notes to the financial statements continued

6. Employee information

Holiday pay accrual

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

Defined contribution plans and other long-term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Comprehensive Income in the periods during which services are rendered by employees.

Termination benefits

Termination benefits are recognised as an expense when the entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the entity has made an offer of voluntary redundancy and the cost can be reliably estimated.

The average number of people employed during the year was:

	Group (Combined) 2018 No.	**Peabody (Amalgamated) 2018 No.**	Group (Combined) 2017 No.	Peabody (Amalgamated) 2017 No.
Full time equivalents (FTE)	**2,672**	**2,524**	**2,796**	**2,631**

FTEs are calculated in terms of the number of hours worked each week. Staff employed are expected to work 35 hours a week.

Employee costs	**Group (Combined) 2018 £'000**	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Wages and salaries	93,646	87,373	96,224	67,838
Social security costs	9,274	8,670	9,043	6,185
Other pension costs	5,863	5,203	4,950	2,790
Other employee costs	5,618	5,162	5,088	2,438
	114,401	**106,408**	**115,305**	**79,251**

The numbers of employees and directors who received remuneration in excess of £60,000 per annum are stated below (including pension contributions and compensation for loss of office):

	Group (Combined) 2018 No.	**Peabody (Amalgamated) 2018 No.**	Group (Combined) 2017 No.	Peabody (Amalgamated) 2017 No.
£60,001 to £70,000	83	77	61	58
£70,001 to £80,000	54	53	36	34
£80,001 to £90,000	24	23	29	27
£90,001 to £100,000	17	16	8	8
£100,001 to £110,000	11	10	6	5
£110,001 to £120,000	6	5	3	3
£120,001 to £130,000	6	5	11	10
£130,001 to £140,000	9	8	4	4
£140,001 to £150,000	3	3	5	4
£150,001 to £160,000	3	3	4	4
£160,001 to £170,000	–	–	2	2
£170,001 to £180,000	1	1	1	1
£180,001 to £190,000	3	2	4	1
£190,001 to £200,000	2	2	2	2
£200,001 to £210,000	2	1	2	2
£210,001 to £220,000	1	1	–	–
£230,001 to £240,000	2	2	–	–
£240,001 to £250,000	2	2	2	2
£250,001 to £260,000	–	–	2	2
£300,001 to £310,000	1	1	–	–
£340,001 to £350,000	–	–	1	1
	230	**215**	**183**	**170**

As part of the substantial transfer of assets and operations of The Governors of Peabody Trust (renamed George Peabody Donation Fund) to Peabody on 9 November 2016, the employees also transferred to Peabody. For the purposes of this note, the bandings for Peabody for 2017 have been prepared as if the employees transferred on 1 April 2016.

Notes to the financial statements continued

7. Surplus on sale of fixed assets

Sales of assets are sales of tangible fixed assets. The gain or loss on disposal of housing properties is calculated as being the difference between the proceeds of sale of a property and the carrying value of that property as at the date of legal transfer.

	Group (Combined)				Peabody (Amalgamated)			
	Proceeds £'000 2018	**Costs £'000 2018**	**Surplus/ (deficit) £'000 2018**	Surplus/ (deficit) £'000 2017	**Proceeds £'000 2018**	**Costs £'000 2018**	**Surplus/ (deficit) £'000 2018**	Surplus/ (deficit) £'000 2017
Shared ownership	40,687	(19,100)	21,587	23,173	39,580	(18,521)	21,059	19,759
Right to buy/right to acquire	1,945	(1,024)	921	1,289	1,945	(1,024)	921	318
Disposal of housing properties	50,286	(30,679)	19,607	27,957	50,286	(30,679)	19,607	18,452
Social homebuy	–	–	–	21	–	–	–	–
Subsidised housing loan repayment	32	–	32	225	32	–	32	8
Other	24	–	24	522	24	–	24	(2)
	92,974	**(50,803)**	**42,171**	**53,187**	**91,867**	**(50,224)**	**41,643**	**38,535**

8. Operating surplus

	Group (Combined) 2018 £'000	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Operating surplus is stated after charging:				
Depreciation of tangible fixed assets	54,304	53,777	52,926	41,027
Depreciation of other tangible fixed assets	4,091	2,851	5,108	2,960
Amortisation of intangible fixed assets	3,802	3,781	4,573	2,514
Impairment	–	–	1,394	1,394
Operating lease charges	1,527	1,482	2,039	1,606
Auditors' remuneration:				
In their capacity as auditor	347	282	354	213
In respect of non-audit services				
– Tax	–	–	115	43
– Internal audit	–	–	–	–
– Other	61	61	293	207

An impairment of £Nil (2017: £1.4m) was charged in Peabody to reduce the carrying value of land no longer deemed viable for development.

9. Interest receivable and similar income

Interest receivable is recognised as interest accrues, using the effective interest method (that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

	Group (Combined) 2018 £'000	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Other interest receivable and similar income	276	200	319	62
Share of joint venture interest receivable	–	–	–	–
Interest received from Group entities	–	14,453	93	13,622
Interest received from swap instruments	8	8	34	159
	284	**14,661**	**446**	**13,843**

10. Interest payable and similar charges

Interest payable on loans is charged to the Statement of Comprehensive Income together with amortisation charges, except to the extent that where funds are used to finance specific developments, interest is capitalised to the date of practical completion of the scheme.

Interest charged between entities within the Peabody Group is charged to the Statement of Comprehensive income at commercial rates.

The Group holds floating rate loans which expose the Group to interest rate risk. To mitigate against this risk the Group uses interest rate swaps. Stand-alone derivatives are measured at fair value at each reporting date while the remaining swaps are recognised at nominal value. To the extent the hedge is effective, movements in fair value adjustments, other than adjustments for our own or counter party credit risk, are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any movements in fair value relating to ineffectiveness and adjustments for our own or counter party risk are recognised in income and expenditure.

Charged in surplus for the year	**Group (Combined) 2018 £'000**	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Interest payable on borrowings	77,539	61,472	72,178	37,423
Interest payable to Group entities	–	9,705	–	10,604
Movement in fair value of financial instruments	116	116	58	58
Interest on recycled capital grant fund and disposal proceeds fund	100	100	67	98
Net interest cost on pension scheme (note 31)	2,648	2,642	3,349	2,248
	80,403	**74,035**	**75,652**	**50,431**
Less: interest capitalised	(21,714)	(7,755)	(17,497)	(4,928)
	58,689	**66,280**	**58,155**	**45,503**
Financing costs charged through other comprehensive income:				
Change in fair value of hedged financial instruments	(4,213)	(4,213)	(296)	(296)

The last remaining stand-alone hedge instrument held by Peabody Trust for a nominal value of £10m was settled in 2017/18, resulting in the recognition of a £4.2m loss.

Notes to the financial statements continued

11. Gift aid and charitable donations

Charitable donations received/(paid)	Group (Combined) 2018 £'000	Peabody (Amalgamated) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Freshleaf Homes Limited	–	96	–	319
Peabody Enterprises Limited	–	8,619	–	16,360
Peabody Group Maintenance Limited	–	63	–	339
Peabody (Services) Limited	–	–	–	(1)
Family Mosaic Home Ownership Limited	–	34,692	–	16,880
Tilfen Land Limited	–	656	–	–
Family Mosaic Housing Development Company Limited	–	468	–	–
Family Mosaic Housing Services Limited	–	287	–	–
Family Mosaic Community Foundation	176	(1,000)	(2,000)	(2,000)
	176	43,881	(2,000)	31,897
Other donations				
Peabody South East	–	(17,900)		–
Total gift aid and donations	**176**	**25,981**	**(2,000)**	**31,897**

12. Taxation on surplus

Peabody Trust has charitable status and is therefore not subject to Corporation Tax on surpluses derived from its charitable activities.

Non-charitable subsidiaries are subject to Corporation Tax. The charge for taxation is based on the surplus for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Where possible, taxable subsidiaries will make gift aid payments to mitigate Corporation Tax.

Deferred tax liabilities are recognised, without discounting, in respect of all timing differences which have arisen but not reversed by the reporting date.

A deferred tax asset is only recognised on losses arising if management believe they will crystallise in the foreseeable future.

Analysis of charge/(credit) for the year	Group (Combined) 2018 £'000	Peabody (Amalgamated) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Current tax				
UK corporation tax at 19% (2017: 20%)	-	-	2,261	-
Adjustment in respect of prior years	4,575	-	(115)	(5)
Total current tax charge/(credit)	4,575	-	2,146	(5)
Deferred tax				
Origination and reversal of timing differences	(4,543)	-	1,227	-
Adjustments in respect of prior years	38	-	412	-
Effect of tax rate change on opening balance	-	-	(264)	-
Total deferred tax charge/(credit)	(4,505)	-	1,375	-
Tax on surplus on ordinary activities	70	-	3,521	(5)

Reconciliation of tax charge	Group (Combined) 2018 £'000	Peabody (Amalgamated) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Surplus on ordinary activities before taxation	**175,304**	**106,996**	**185,767**	**97,488**
Tax on surplus at standard corporation tax rate of 19% (2017: 20%)	33,327	20,329	37,153	19,498
Effects of:				
Non-taxable surplus on charitable activities	(31,229)	(20,329)	(30,846)	(19,498)
Adjustments to current year tax charge	4,245	-	(3,110)	-
Adjustments to deferred tax provision	(4,545)	-	512	-
Adjustments to tax charge in respect of prior years – current tax	(1,769)	-	(115)	(5)
Adjustments to tax charge in respect of prior years – deferred tax	41	-	(73)	-
Tax charge/(credit) for the year	**70**	**-**	**3,521**	**(5)**

At Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate at 19% for the years starting the 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. At Budget 2016, the government announced a further reduction to the Corporation Tax main rate for the year starting 1 April 2020, setting the rate at 17%. These rates have been reflected in calculating the deferred tax balance.

13. Intangible assets

Intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Research and development costs

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research is recognised as an expense when it is incurred. Intangible assets are capitalised from the development phase of a project only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their expected useful economic lives.

If it is not possible to distinguish between the research phase and the development phase of an internal project the expenditure is treated as if it were all incurred in the research phase only.

Software development costs

Software development costs are recognised as an intangible asset when all of the following criteria are demonstrated:

- The technical feasibility of completing the software so that it will be available for use or sale.
- The intention to complete the software and use or sell it.
- The ability to use the software or to sell it.
- How the software will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the software.
- The ability to measure reliably the expenditure attributable to the software during its development.

Notes to the financial statements continued

13. Intangible assets continued

Amortisation is charged so as to allocate the cost of intangibles less their residual values over their estimated useful lives, using the straight-line method. The intangible assets are amortised over the following useful economic lives:

Software development costs	5 years

If there is an indication that there has been a significant change in amortisation rate or residual value of an asset, the amortisation of that asset is revised prospectively to reflect the new expectations.

	Group (Combined) Computer software £'000	Peabody (Amalgamated) Computer software £'000
Cost		
At 1 April 2017	24,705	24,646
Additions	3,288	3,287
Work in progress additions	2,859	2,859
At 31 March 2018	**30,852**	**30,792**
Amortisation		
At 1 April 2017	13,418	13,380
Charge for the year	3,802	3,781
At 31 March 2018	**17,220**	**17,161**
Net book value		
At 31 March 2018	**13,632**	**13,631**
At 31 March 2017	11,287	11,266

14. Tangible fixed assets – housing

Tangible fixed assets are stated at historical cost less accumulated depreciation and impairment losses. The cost of housing properties is their purchase price together with any costs of acquisition, including the incidental costs of development, interest capitalised up to the date of practical completion and directly attributable development costs.

The Group adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Group. The carrying amount of the replaced part is derecognised.

Costs of responsive repairs and planned cyclical maintenance are, to the extent that such costs do not relate to replacing a component, recognised in the Statement of Comprehensive Income as incurred.

Shared ownership

Shared ownership properties under development are split proportionately between current and fixed assets based on the current element relating to expected first tranche sales. The first tranche portion is classed as a current asset until sold. Sales proceeds are then included in turnover. The unsold balance is classed as a fixed asset with any subsequent sale treated as a disposal of the fixed asset.

Depreciation of assets

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

General structure	100 years
Boiler	15 years
Mechanical systems	30 years
Roofs – flat	25 years
Roofs – pitched	50 years
Kitchen	20 years
Lift	25 years
Bathroom	25 years
Electrics	30 years
Windows and doors	30 years

Components and their useful lives are reviewed periodically to ensure they are still appropriate and benchmarking is carried out with other housing associations to ensure they are in line with sector good practice.

Depreciation is not charged on land and shared ownership assets.

Impairment of assets

The housing property portfolio for the Group is assessed for indicators of impairment at each reporting date. Where indicators are identified a detailed assessment is undertaken to compare the carrying amount of assets or cash generating units for which impairment is indicated with the recoverable amounts. The carrying amount is taken to be cost less accumulated depreciation, net of amortised grant. The recoverable amount is taken to be the higher of fair value less costs to sell or value in use in respect of their service potential ('VIU SP'). For social housing assets, EUV-SH is used as a measure for fair value, and depreciated replacement cost ('DRC') is an appropriate measure of VIU SP. EUV-SH is calculated by a qualified valuer and the net present value of future rental streams, net of costs, discounted at an appropriate rate. DRC is calculated by reference to the current average build cost on similar units (taking into account size, type and location) on recent schemes.

An impairment loss is recognised in the Statement of Comprehensive Income. If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognised immediately in the Statement of Comprehensive Income.

The Group defines cash generating units based on type of property, tenure and location. Where the recoverable amount of an asset or cash generating unit is lower than its carrying value, an impairment is recognised in the Statement of Comprehensive Income.

Notes to the financial statements continued

14. Tangible fixed assets – housing continued

	Completed properties		Properties under construction		
Group (Combined)	Housing properties held for letting £'000	Shared ownership housing properties £'000	Housing properties held for letting £'000	Shared ownership housing properties £'000	Total £'000
Cost					
At 1 April 2017	4,639,581	485,843	324,055	143,188	5,592,667
Additions	67,712	–	144,488	31,024	243,224
Disposals	(37,512)	(24,982)	(1,874)	–	(64,368)
Completed schemes in year	56,669	9,848	(57,108)	(9,520)	(111)
Transfers	(1,543)	2,134	(24,134)	6,656	(16,887)
At 31 March 2018	**4,724,907**	**472,843**	**385,427**	**171,348**	**5,754,525**
Depreciation					
At 1 April 2017	413,222	5,279	–	–	418,501
Charge for the year	54,304	–	–	–	54,304
Disposals	(1,803)	(400)	–	–	(2,203)
Transfers	(53)	–	–	–	(53)
At 31 March 2018	**465,670**	**4,879**	**-**	**-**	**470,549**
Impairment					
At 1 April 2017	3,822	–	12,452	–	16,274
Charge for the year	–	–	–	–	–
At 31 March 2018	**3,822**	**-**	**12,452**	**-**	**16,274**
Net Book Value					
At 31 March 2018	**4,255,415**	**467,964**	**372,975**	**171,348**	**5,267,702**
At 31 March 2017	4,222,538	480,564	311,603	143,188	5,157,893

Development and major works additions and improvements to housing properties during the year include capitalised interest of £21.7m (2017: £17.5m).

A number of potential indicators for impairment were assessed during the year and no impairment charges are deemed necessary.

Properties held for security

Peabody Trust had 25,418 (2017: 27,316) properties with a net book value of £2,047m (2017: £1,889m) and EUV SH of £2,144m (2017: £2,248m) pledged as security.

Peabody (Amalgamated)	Completed properties: Housing properties held for letting £'000	Completed properties: Shared ownership housing properties £'000	Properties under construction: Housing properties held for letting £'000	Properties under construction: Shared ownership housing properties £'000	Total £'000
Cost					
At 1 April 2017	4,538,123	461,280	260,430	16,264	5,276,097
Additions	59,963	10,956	107,876	(7,941)	170,854
Disposals	(37,358)	(17,752)	–	–	(55,110)
Completed schemes in year	56,669	9,958	(56,669)	(9,958)	–
Transfers	5,086	(6,656)	9,798	9,521	17,749
Transfers to subsidiaries	(150,327)	–	–	–	(150,327)
At 31 March 2018	**4,472,156**	**457,786**	**321,435**	**7,886**	**5,259,263**
Depreciation					
At 1 April 2017	402,094	5,279	–	–	407,373
Charge for the year	53,777	–	–	–	53,777
Disposals	(1,322)	(400)	–	–	(1,722)
Transfers	72	–	–	–	72
Transfers from subsidiaries	(17,952)	–	–	–	(17,952)
At 31 March 2018	**436,669**	**4,879**	**–**	**–**	**441,548**
Impairment					
At 1 April 2017	3,822	–	12,452	–	16,274
Charge for the year	–	–	–	–	–
At 31 March 2018	**3,822**	**–**	**12,452**	**–**	**16,274**
Net Book Value					
At 31 March 2018	**4,031,665**	**452,907**	**308,983**	**7,886**	**4,801,441**
At 31 March 2017	4,132,207	456,001	248,978	16,264	4,852,450

Development and major works additions and improvements to housing properties during the year include capitalised interest of £7.8m (2017: £4.9m).

15. Other tangible fixed assets

Other tangible fixed assets are included at cost less depreciation, which is provided on a straight-line basis over the expected useful economic lives of the assets as shown below.

Renewable energy assets	10–25 years
Freehold land and buildings	50 years
Leasehold office premises	Remaining life of lease
Other	3–25 years

Notes to the financial statements continued

15. Other tangible fixed assets continued

Expected useful lives are reviewed periodically to ensure they are still appropriate and benchmarking is carried out with other housing associations to ensure they are in line with sector good practice. Assets which are no longer economically viable are written down as appropriate.

Group (Combined)	Freehold offices £'000	Leasehold £'000	Renewable energy £'000	Other £'000	Total £'000
Cost					
At 1 April 2017	66,951	800	9,632	24,696	102,079
Additions	1,879	12	10	3,529	5,430
Disposals	(398)	–	–	–	(398)
Transfers – investment properties	(450)	–	–	–	(450)
At 31 March 2018	**67,982**	**812**	**9,642**	**28,225**	**106,661**
Depreciation					
At 1 April 2017	15,088	410	2,247	19,409	37,154
Charge for the year	1,608	87	489	1,907	4,091
Disposals	(213)	–	–	(8)	(221)
At 31 March 2018	**16,483**	**497**	**2,736**	**21,308**	**41,024**
Net book value					
At 31 March 2018	**51,499**	**315**	**6,906**	**6,917**	**65,637**
At 31 March 2017	51,863	390	7,385	5,287	64,925

Peabody (Amalgamated)	Freehold offices £'000	Leasehold Offices £'000	Other £'000	Total £'000
Cost				
At 1 April 2017	50,017	800	14,657	65,474
Additions	(248)	12	3,501	3,265
Disposals	(4)	–	–	(4)
At 31 March 2018	**49,765**	**812**	**18,158**	**68,735**
Depreciation				
At 1 April 2017	12,347	410	9,210	21,967
Charge for the year	924	87	1,840	2,851
Disposals	–	–	(8)	(8)
At 31 March 2018	**13,271**	**497**	**11,042**	**24,810**
Net book value				
At 31 March 2018	**36,494**	**315**	**7,116**	**43,925**
At 31 March 2017	37,670	390	5,447	43,507

16. Investment properties

Investment properties include commercial properties, properties held for market rent and leasehold land.

Investment property is carried at fair value determined annually by an external expert and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the Statement of Comprehensive Income.

	Completed properties		Properties under construction			
Group (Combined)	Commercial £'000	Market rent £'000	Commercial £'000	Market rent £'000	Leasehold land £'000	Total £'000
At 1 April 2017	183,458	132,187	19,243	21,722	10,460	367,070
Additions	531	1,380	12,114	1,906	6	15,937
Surplus on revaluation	9,810	8,162	–	–	3,432	21,404
Completion	–	15,011	–	–	–	15,011
Transfers – tangible fixed assets	–	874	–	(15,772)	26	(14,872)
At 31 March 2018	**193,799**	**157,614**	**31,357**	**7,856**	**13,924**	**404,550**

	Completed properties		Properties under construction			
Peabody (Amalgamated)	Commercial £'000	Market rent £'000	Commercial £'000	Market rent £'000	Leasehold land £'000	Total £'000
At 1 April 2017	83,866	107,294	139	299	7,337	198,935
Transfer from subsidiary	303	148	–	–	935	1,386
Additions	89	1,296	3,405	55	6	4,851
Completion	–	15,011	–	–	–	15,011
Surplus on revaluation	405	8,565	–	–	3,432	12,402
Transfers – tangible fixed assets	–	874	–	(162)	26	738
At 31 March 2018	**84,663**	**133,188**	**3,544**	**192**	**11,736**	**233,323**

17. Other investments

	Group (Combined) 2018 £'000	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Investment in subsidiary undertaking	–	8,282	–	11,750
Deposit investments	3,954	3,954	1,932	1,932
Other investments	187	187	–	–
At 31 March	**4,141**	**12,423**	**1,932**	**13,682**

As part of the substantial transfer of assets and operations of The Governors of Peabody Trust (renamed George Peabody Donation Fund) to Peabody on 9 November 2016, the investments in subsidiary undertakings were transferred to Peabody at their carrying value of £8,989k. Upon amalgamation of Peabody Trust and Gallions Housing Association this investment has been reduced. See note 38 for further details.

Peabody has additional investments in Family Mosaic Housing Development Company Limited (£2,760k share capital) and Family Mosaic Housing Services Limited (£1k share capital). See note 35 for a full list of entities within the Peabody Group.

Notes to the financial statements continued

18. Homebuy loans receivable
Concessionary loans are loans made by the Group that are:

- To further its public benefit objective;
- At a rate of interest which is below the prevailing market rate of interest;
- Repayable on demand.

The Group considers Homebuy loans and equity loans under the Starter Homes Initiative to be concessionary loans.

Under the Homebuy scheme, the Group received Social Housing Grant representing a percentage of the open market purchase price of a property in order to advance interest-free loans to a homebuyer. These loans are measured at the amount advanced at the inception of the loan less amounts received and any provisions for impairment. Any associated grant is recognised as deferred income (Homebuy Grant) until the loan is redeemed.

	Group (Combined) 2018 £'000	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
At 1 April	4,521	–	4,597	–
Redemption	(40)	–	(76)	–
At 31 March	**4,481**	**-**	**4,521**	**-**

19. Starter homes initiative investment
Loans have been made to homeowners as part of the Group's social housing objectives. These are at below market rates of interest and are repayable on demand and so qualify for treatment as public benefit concessionary loans under FRS102.

Starter home loans are repaid upon re-sale of the properties by the owners.

	Group (Combined) 2018 £'000	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Loans				
At 1 April	7,067	7,067	7,570	1,589
Transfer from subsidiary	–	–	–	5,759
Disposals in the year	(165)	(165)	(503)	(281)
At 31 March	**6,902**	**6,902**	**7,067**	**7,067**

20. Investment in joint ventures

An entity is treated as a joint venture where the Group is party to a contractual agreement with one or more parties from outside the Group to undertake economic activity that is subject to joint control.

Interests in associated undertakings and jointly controlled entities are accounted for using the equity method. An investment is initially recognised at the transaction price and is subsequently adjusted to reflect the investor's share of the profit or loss, other comprehensive income and equity of the associate. In the consolidated Statement of Financial Position, the Group's share of identified net assets is recognised.

Peabody Enterprises, a subsidiary of Peabody Trust, signed an agreement in May 2017 with Mount Anvil Holdings Limited, to create Gillender 2, a limited liability partnership.

Both parties own 50% of the share capital, and hold 50% of the voting rights.

Investment in joint venture	2018 £'000	2017 £'000
Gillender 2 LLP		
At 1 April	–	–
Investment in year	1,750	–
Share of profits	–	–
Dividends	–	–
At 31 March	**1,750**	**-**

21. Debtors due in more than one year

	Group (Combined) 2018 £'000	Peabody (Amalgamated) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Amounts owed by subsidiary undertakings	–	428,691	–	266,702
Other debtors	753	–	3,700	–
	753	**428,691**	**3,700**	**266,702**

Amounts owed to Peabody by subsidiary undertakings relate to intercompany loans which are secured by fixed or floating charges over the assets of the subsidiaries. The loans are due for repayment between 5 and 30 years and bear interest at a rate determined by reference to Peabody's weighted average cost of capital at the time of each draw down.

22. Stock

Stocks include work in progress, properties held for sale and other inventory.

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

At each reporting date, stocks are assessed for write down. If stock is written down, the carrying amount is reduced to its selling price less costs to complete and sell. The loss is recognised immediately in the Statement of Comprehensive Income.

Notes to the financial statements continued

22. Stock continued

Properties held for sale represents the costs of land held for development, outright sales units and the first tranche proportion of shared ownership units of development schemes currently under construction and commercial properties held for sale.

Impairment reviews are carried out on an annual basis to compare cost and net realisable value. Where necessary write downs are charged.

	Group (Combined) 2018 £'000	Peabody (Amalgamated) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Work in progress	312,125	5,159	284,265	7,750
Properties held for sale	56,598	14,355	10,295	14,281
Other stocks	60	–	60	–
	368,783	**19,514**	**294,620**	**22,031**

23. Debtors due in less than one year

Trade and other debtors are measured at transaction price, less any impairment. The Group estimates the recoverable value of rental and other receivables and impairs the debtor by appropriate amounts where there is a risk of non-recovery. Former tenants' rent arrears are provided for in full whilst current tenants' rent arrears are provided for based on the risk associated with the type of tenancy.

Loans receivable, including concessionary loans, are measured initially at fair value net of transaction costs, and are measured subsequently at amortised cost using the effective interest method less any impairment. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

	Group (Combined) 2018 £'000	Peabody (Amalgamated) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Rent and service charges in arrears	28,951	27,652	27,389	26,636
Less: provision for bad debts	(18,381)	(17,760)	(16,369)	(15,721)
	10,570	**9,892**	**11,020**	**10,915**
Amounts owed by subsidiary undertakings	–	249,884	–	220,208
Other debtors and prepayments	49,712	32,498	48,561	149,991
Amount owed by FM Community Foundation	–	–	146	146
	60,282	**292,274**	**59,727**	**381,260**

24. Creditors: amounts falling due within one year

Trade and other creditors are recognised at cost with the exception of SHPS deficit funding which is held at valuation (see note 31).

	Group (Combined) 2018 £'000	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Trade creditors	8,610	27,481	17,924	26,921
Recycled capital grant fund (note 27)	17,919	17,364	2,709	2,709
Disposal proceeds fund (note 28)	8,785	8,329	7,119	6,933
Amounts owed to subsidiary undertakings	–	6,486	–	13,302
Other taxation and social security costs	5,117	1,186	1,869	1,807
Accruals and other creditors	154,581	43,656	156,245	110,670
Debt (note 29)	5,396	5,396	15,732	15,732
SHPS deficit funding (note 31)	2,301	2,301	2,217	2,217
	202,709	**112,199**	**203,815**	**180,291**

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

	Group (Combined) 2018 £'000	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Grants (note 26)	1,390,750	1,281,108	1,381,834	1,337,047
Recycled capital grant fund (note 27)	13,774	13,659	37,766	37,136
Disposal proceeds fund (note 28)	1,047	932	2,679	2,295
Debt (note 29)	1,924,351	1,357,383	1,889,023	1,316,573
Derivative financial instruments	–	–	5,410	5,410
Amounts owed to subsidiary undertakings	–	566,975	–	602,158
Deferred consideration for purchase of Peabody Community Foundation	–	18,024	–	19,184
SHPS deficit funding (note 31)	12,348	12,348	14,161	14,161
Other creditors	4,632	472	–	–
	3,346,902	**3,250,901**	**3,330,873**	**3,333,964**

Notes to the financial statements continued

26. Grants

Government grant (known as Social Housing Grant) is received from Homes England and the Greater London Authority to help finance the development of new homes, including land costs.

Government grants are accounted for under the accruals model for assets measured at cost and under the performance model for assets measured at valuation.

Under the accruals model, grants relating to expenditure on tangible fixed assets are credited to the Statement of Comprehensive Income at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants received in relation to assets that are presented at deemed cost at the date of transition to FRS 102 have been accounted for using the performance model as required by SORP 2014. In applying this model, such grant has been presented as if it were originally recognised as income within the Statement of Comprehensive Income in the year it was receivable and is therefore included within brought forward reserves.

Grants received from non-government sources are recognised using the performance model. Under the performance model, grants relating to expenditure on tangible fixed assets are credited to the Statement of Comprehensive Income when the future performance condition has been satisfied. Grants received before the future performance condition has been satisfied are recognised as a liability in the Statement of Financial Position.

Grants of a revenue nature are recognised in the Statement of Comprehensive Income in the same period as the related expenditure.

Grant amortisation for Group of approximately £12m and Peabody Amalgamated of approximately £11m is expected to be charged in 2018/19.

	Government grants	Other grants	
Group (Combined)	Completed properties £'000	Completed properties £'000	Total £'000
Cost			
At 1 April 2017	1,490,872	15,656	1,506,528
Grants received in the year	15,372	–	15,372
Grants transferred from RCGF	11,953	–	11,953
Grants recycled on disposals	(7,152)	(40)	(7,192)
At 31 March 2018	**1,511,045**	**15,616**	**1,526,661**
Amortisation			
At 1 April 2017	124,694	–	124,694
Amortisation for the year	11,660	133	11,793
Disposals	(576)	–	(576)
At 31 March 2018	**135,778**	**133**	**135,911**
Net grants			
At 31 March 2018	**1,375,267**	**15,483**	**1,390,750**
At 31 March 2017	1,367,294	14,540	1,381,834

Peabody (Amalgamated)	Government grants Completed properties £'000	Other grants Completed properties £'000	Total £'000
Cost			
At 1 April 2017	1,453,567	5,102	1,458,669
Grants received in the year	13,388	–	13,388
Transfer to subsidiary	(69,314)	–	(69,314)
Grants transferred from RCGF	11,953	–	11,953
Grants recycled on disposals	(7,083)	–	(7,083)
At 31 March 2018	**1,402,511**	**5,102**	**1,407,613**
Amortisation			
At 1 April 2017	121,622	–	121,622
Amortisation for the year	11,439	–	11,439
Disposals	(566)	–	(566)
Transfer to subsidiary	(5,990)	–	(5,990)
At 31 March 2018	**126,505**	–	**126,505**
Net grants			
At 31 March 2018	**1,276,006**	**5,102**	**1,281,108**
At 31 March 2017	1,331,945	5,102	1,337,047

27. Recycled capital grant fund

On disposal of relevant housing properties, any social housing grant applied to that property is allowed to be retained for eligible re-investment. This amount is disclosed separately within creditors. If unused within a three-year period, it will be repayable to Homes England or Greater London Authority with interest.

	Group (Combined) 2018 £'000	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
At 1 April	40,475	39,845	36,036	23,169
Grant recycled	6,430	6,389	9,739	8,229
Transfers to other providers	(3,408)	(3,408)	–	–
Interest accrued	149	150	172	81
Transfer from/(to) subsidiary	–	–	–	13,550
Withdrawals – schemes started on site	(11,953)	(11,953)	(5,472)	(5,184)
At 31 March	**31,693**	**31,023**	**40,475**	**39,845**

£17.9m (2017: £2.7m) of the Peabody and Group recycled capital grant fund is repayable in the 12 months from 1 April 2018 if agreement is not reached to roll forward and use for new development.

Notes to the financial statements continued

28. Disposal proceeds fund

	Group (Combined) 2018 £'000	Peabody (Amalgamated) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
At 1 April	9,798	9,228	9,084	2,838
Funds recycled	–	–	681	567
Transfer from/(to) subsidiary	–	–	–	5,805
Interest accrued	34	33	33	18
At 31 March	**9,832**	**9,261**	**9,798**	**9,228**

£8.8m (2017: £7.1m) of the Peabody and Group disposal proceeds fund is repayable in the 12 months from 1 April 2018 if agreement is not reached to roll forward and use for new development. Withdrawals from the disposal proceeds fund were used for approved works to existing housing properties.

29. Financial instruments

Borrowing

Interest-bearing borrowings, investments and short-term deposits are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Bank loans are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Where loans and other financial instruments are redeemed during the year, any redemption penalty is recognised in the Statement of Comprehensive Income in the year in which redemption takes place.

The initial costs relating to raising finance are amortised over the period of the loan.

Derivative Financial Instruments

The Group measures to fair value at each reporting date. The fair value is priced off the SONIA curve (Sterling Overnight Index Average, the effective reference overnight rate for unsecured transactions in the Sterling market). The value is carried as an asset when the fair value is positive and a liability when the fair value is negative.

Movements in fair value adjustments are recognised in other comprehensive income as far as they relate to the effective part of the swap and presented in a separate cash flow hedge reserve. The Group's last remaining stand-alone hedge instrument with a nominal value of £10m was settled in 2017/18. A loss of £4.2m was recognised in other comprehensive income.

Non-utilisation fee

Lending arrangements (the "Bond Loan Agreements") exist between Peabody (as borrower) and Peabody Capital Plc and Peabody Capital No 2 Plc (as lenders) in relation to the 2043 and 2053 bond issues to facilitate the lending of proceeds from the bonds into the Group. These arrangements contain a provision ("Non-utilisation fee") for the lenders to recover from the borrower the difference between the interest payable to the 2043 and 2053 Bond investors and the income realised by the lenders. This income comprises the interest receivable from amounts on-lent to Peabody and investment income earned from permitted investments and bank deposits.

(A) Book value of debt

	Group (Combined) 2018 £'000	Peabody (Amalgamated) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Nominal value				
Bank and building society loans	1,328,843	1,328,848	1,332,106	1,332,106
Private placement senior notes	40,000	40,000	10,000	10,000
Amounts owed to subsidiary undertaking	–	566,974	–	602,158
2043 Bond	207,358	–	207,939	–
2053 Bond	359,616	–	364,511	–
Derivative financial instruments	–	–	5,410	5,410
	1,935,817	**1,935,822**	**1,919,966**	**1,949,674**
Unamortised issue costs				
Bank and building society loans	(6,069)	(6,069)	(9,801)	(9,801)
Book value	**1,929,748**	**1,929,753**	**1,910,165**	**1,939,873**
Fair value				
Bank and building society loans	1,260,608	1,260,613	1,219,034	1,198,337
Amounts owed to subsidiary undertaking	–	764,715	799,377	439,575
2043 Bond	278,574	–	–	–
2053 Bond	486,140	–	–	–
Derivative financial instruments	–	–	5,410	5,410
	2,025,322	**2,025,328**	**2,023,821**	**1,643,322**

(B) Maturity of debt

	Group (Combined) 2018 £'000	Peabody (Amalgamated) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Within one year	5,396	5,396	15,736	15,736
Between one and two years	14,002	14,002	21,301	20,801
Between two and five years	115,859	115,859	86,805	80,935
After five years	1,800,560	1,800,565	1,796,124	1,832,202
	1,935,817	**1,935,822**	**1,919,966**	**1,949,674**
Issue costs	(6,069)	(6,069)	(9,801)	(9,801)
Loans	**1,929,748**	**1,929,753**	**1,910,165**	**1,939,873**

Notes to the financial statements continued

29. Financial instruments continued

(C) Interest analysis

	Group (Combined) 2018 £'000	Peabody (Amalgamated) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Fixed	1,357,608	1,357,613	1,370,114	1,447,679
Floating	578,209	578,209	549,852	501,995
	1,935,817	**1,935,822**	**1,919,966**	**1,949,674**

Bank and building society loans

The Group's bank and building society loans are secured by specific charges over housing properties. The borrowings bear interest rates of between 0.51% and 11.5% and are repayable in instalments as disclosed in (B) on the previous page.

Amounts owed to subsidiary undertaking

Peabody Capital PLC has made a loan to Peabody with a nominal value of £200m repayable in March 2043. The loan incurs an interest charge of 5.25% per annum paid semi-annually. Peabody Capital No2 PLC has issued a loan of £350m to Peabody repayable in December 2053. The loan incurs an interest charge of 4.625% per annum paid semi-annually.

Risks

The main risks associated with the Group's borrowings are interest rate and liquidity risk. The Finance and Treasury Committee reviews and agrees policies for managing these risks which are summarised below:

- Interest rate risk – The Group regularly reviews its policy on the proportion of debt that should be held at fixed and floating interest rates.
- Liquidity risk – Liquidity risk is the risk that the Group might be unable to meets its financial obligations. Expected cash flows from financial assets, in particular its cash resources and trade receivables, are used by the Directors in assessing and managing liquidity risk. At 31 March the Group had total undrawn, fully secured facilities of £744m (2017: £546m) of which £659m is immediately available and £85m is available as an uncommitted private placement shelf facility. The Group had available cash of £117m (2017: £154m).

30. Provisions for liabilities and charges

A provision is recognised when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

In relation to the landfill site and other assets of the Group, expenditure will be required for the foreseeable future in order for the Group to fulfil its legal obligations.

	Deferred tax liability £'000	Other £'000	Group (Combined) Total £'000	Peabody (Amalgamated) Deferred tax liability £'000
At 1 April 2017	5,827	16,070	21,897	226
Increase/(decrease) in provision during the year	(4,505)	(73)	(4,578)	–
At 31 March 2018	**1,322**	**15,997**	**17,319**	**226**

Deferred tax liabilities relate to changes in value of investment property and short term timing differences.

The other brought forward provision relates to future maintenance obligations in respect of property and landfill sites owned by Tilfen Land Limited.

31. Pension liabilities

The Group currently operates both defined contribution and defined benefit schemes for qualifying employees.

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution benefit plans are recognised as an expense in the Statement of Comprehensive Income in the periods during which services are rendered by employees.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted.

Regular valuations are prepared by independent, professionally qualified actuaries. These determine the level of contributions required to fund the benefits set out in the rules of the fund and allow for the periodic increase of pensions in payment. The current service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, cost of curtailments and settlements, are charged against the operating surplus in the year. Actuarial gains and losses are recognised in the Statement of Comprehensive Income.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period, are also recognised in the Statement of Comprehensive Income.

Peabody Group schemes summary

The Group participates in the London Pensions Fund Authority Scheme (LPFA) for those former Peabody employees who elected to join prior to 31 March 2008. The scheme is now closed to new entrants. The pension cost for the LPFA scheme, which includes liability for pension increases, has been determined in accordance with the advice of professionally qualified consulting actuaries based on an actuarial valuation made as at 31 March 2016. In 2018 the Group's total LPFA service cost was £2,127k (2017: £1,775k).

The Group has an ongoing liability for pension commitments under the Social Housing Pension Defined Benefit Scheme (SHPS), Local Government Pensions Schemes (LGPS) and The Pension Trust's Growth Plan. SHPS was closed to all staff from 1 April 2015. The Group participates in four LGPS schemes: Hammersmith and Fulham, Havering, Waltham Forest and West Sussex. The Pension Trust's Growth Plan ('The Plan'), is for voluntary contributions. The Plan is funded and is not contracted out of the State scheme. The plan is a multi-employer pension plan. The Plan is in deficit and the company has recognised a liability of £105k (2017: £116k) for the deficit.

Until 31 March 2016, Peabody Community Foundation also participated in The Pensions Trust CARE Scheme (the 'Scheme'), which is a funded multi-employer defined benefit scheme. Further details of this fund can be found in the Peabody Community Foundation Annual Report.

Current Peabody employees are able to join the defined contribution scheme operated by Friends Life. The assets of this scheme are held separately from those of the Group. Employer contributions in respect of this scheme are charged to the Statement of Comprehensive Income as incurred.

Notes to the financial statements continued

31. Pension liabilities continued
Defined Benefit Schemes Liabilities
Peabody Group (Combined)

	LPFA £'000	SHPS £'000	LGPS £'000	CARE £'000	Total £'000
Present value of the defined benefit obligation	188,744	14,649	10,933	482	214,808
Fair value of the fund assets (bid value)	(118,860)	–	(9,768)	–	(128,628)
Present value of provisions	**69,884**	**14,649**	**1,165**	**482**	**86,180**
Pension scheme actuarial gain/(loss)	12,290	–	214	12	12,516

The pension liability of £86,180k (2017: £81,254k) is made up of amounts for LPFA, LGPS and CARE included in the provision for pension liabilities of £71,531k, and the amount for SHPS included in creditors of £14,649k.

Peabody (Amalgamated)

	LPFA £'000	SHPS £'000	LGPS £'000	Total £'000
Present value of the defined benefit obligation	187,251	14,649	10,933	212,833
Fair value of the fund assets (bid value)	(117,375)	–	(9,768)	(127,143)
Present value of provisions	**69,876**	**14,649**	**1,165**	**85,690**
Pension scheme actuarial gain/(loss)	12,211	–	214	12,425

The London Pensions Fund Authority
The pension cost, which includes liability for pension increases, has been determined in accordance with the advice of professionally qualified consulting actuaries based on an actuarial valuation every 3 years. The most recent valuation was as at 31 March 2016. These figures are prepared in accordance with our understanding of Financial Reporting Standard 102 (FRS 102).

As part of the Group reconstruction exercise (see note 38), Peabody assumed responsibility for the substantial assets and operations of George Peabody Donation Fund on 9 November 2016, the engagements of CBHA on 29 March 2017, and the amalgamation of Peabody Trust and Gallions Housing Association. These funds have been combined within Peabody (Amalgamated) in this report.

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2018 is estimated to be 4% (2017:21%.) The actual return on Fund assets over the year may be different.

The estimated asset allocation for the scheme as at 31 March is as follows:

	Group (Combined) 2018 £'000	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Equities	72,680	71,772	69,295	68,399
Target return portfolio	26,638	26,305	24,711	24,391
Infrastructure	5,199	5,134	6,158	6,078
Property	8,554	8,447	5,963	5,886
Cash	5,789	5,717	10,821	10,681
Total	**118,860**	**117,375**	**116,948**	**115,435**

The demographic assumptions are consistent with those used for the formal funding valuation as at 31 March 2016. The post retirement mortality tables adopted were based on the Club Vita mortality analysis. These base tables are then projected using the CMI 2015 Model, allowing for a long-term rate of improvement of 1.5% p.a.

The assumed life expectations are:	Peabody (Amalgamated)	Peabody Community Foundation
Retiring today – male	86.3	87.4
Retiring today – female	89.2	89.4
Retiring in 20 years – male	88.7	89.7
Retiring in 20 years – female	91.4	91.7

The major assumptions used by the actuary to value the liabilities of the scheme at 31 March 2018 under FRS 102 are:

% per annum	Peabody (Amalgamated)	Peabody Community Foundation
RPI increases	3.3%	3.3%
CPI increases	2.3%	2.3%
Salary increases	3.8%	4.2%
Pension increases	2.3%	2.7%
Discount rate	2.6%	2.7%

Statement of Financial Position as at 31 March:	**Group (Combined) 2018 £'000**	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Present value of the defined benefit obligation	188,744	187,251	196,662	195,066
Fair value of fund assets (bid value)	(118,860)	(117,375)	(116,948)	(115,435)
Net defined benefit liability	**69,884**	**69,876**	**79,714**	**79,631**

The amounts recognised in the Statement of Comprehensive Income are:	**Group (Combined) 2018 £'000**	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Service cost	2,127	2,127	1,775	806
Net interest on the defined benefit liability	2,126	2,124	2,212	1,117
Administration expenses	152	150	126	59
Total cost	**4,405**	**4,401**	**4,113**	**1,982**

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	**Group (Combined) 2018 £'000**	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Opening defined benefit obligation	196,662	195,066	158,428	39,948
Current service cost	2,048	2,048	1,653	734
Interest cost	5,248	5,206	5,786	3,025
Change in financial assumption	(10,646)	(10,588)	41,197	14,470
Change in demographic assumption	–	–	(2,812)	–
Experience loss/(gain) on defined benefit obligation	–	–	(3,635)	(1,544)
Estimated benefits paid net of transfer in	(4,875)	(4,788)	(4,378)	(1,730)
Past service costs, including curtailments	79	79	122	72
Contribution by scheme participants and other employers	407	407	480	212
Unfunded pension payments	(179)	(179)	(179)	(146)
Transfers from subsidiaries	–	–	–	140,025
Closing defined benefit obligation	**188,744**	**187,251**	**196,662**	**195,066**

Notes to the financial statements continued

31. Pension liabilities continued

Reconciliation of opening and closing balances of the fair value of fund assets	Group (Combined) 2018 £'000	Peabody (Amalgamated) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Opening fair value of Fund assets	116,948	115,435	97,633	26,287
Interest on assets	3,122	3,082	3,574	1,908
Return on assets less interest	1,644	1,623	16,290	6,640
Other actuarial gains/(losses)	–	–	1,578	403
Administration expenses	(152)	(150)	(126)	(59)
Contribution by employer including unfunded	1,945	1,945	2,076	878
Contribution by Scheme participants and other employers	407	407	480	212
Estimated benefits paid plus unfunded net of transfer in	(5,054)	(4,967)	(4,557)	(1,876)
Transfers from subsidiaries	–	–	–	81,042
Closing fair value of fund assets	**118,860**	**117,375**	116,948	115,435
Actual return on plan assets	**8,834**	**8,548**	**19,864**	**19,578**

Remeasurement of the net defined liability	Group (Combined) 2018 £'000	Peabody (Amalgamated) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Return on Fund assets in excess of interest	1,644	1,623	16,290	6,640
Other actuarial gains on asset	–	–	1,578	403
Change in financial assumptions	10,646	10,588	(41,197)	(15,174)
Change in demographic assumptions	–	–	2,812	704
Experience gain/(loss) on defined benefit obligation	–	–	3,635	1,544
Remeasurement of the net defined liability	**12,290**	**12,211**	**(16,882)**	**(5,883)**

Projected pension expense for the year to 31 March	Group (Combined) 2019 £'000	Peabody (Amalgamated) 2019 £'000
Service cost	2,378	2,378
Net interest on the defined liability (asset)	1,929	1,928
Administration expenses	146	144
Total cost	**4,453**	**4,450**
Employer contributions	**1,765**	**1,415**

SHPS Defined Benefit Scheme

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

The scheme is classified as a 'last-man standing arrangement'. Therefore the company is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme. A full actuarial valuation, certified on 23 November 2015, for the scheme was carried out at 30 September 2014. This actuarial valuation showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

Deficit contribution

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

The aggregate deficit payments made by Family Mosaic Housing (now Peabody Trust) in relation to the Tier 1, 2, 3 and 4 contributions were £2.2m (2017: £2.1m).

It is not possible for the company to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

Where the scheme is in deficit and where the company has agreed to a deficit funding arrangement the company recognises a liability for this obligation. At year end the value of this obligation has been calculated as £14.7m (2017: £16.4m). The amount recognised is the net present value of the deficit reduction contributions payable under the agreement.

Each year the creditor is adjusted to reflect payments made as well as a nominal financing charge. This nominal charge is calculated using the prevailing rates on good quality long term corporate bonds. As at 31 March 2018 a rate of 2.55% (2017: 2.7%) was used.

Reconciliation of opening and closing balances:

	Group (Combined) 2018 £'000	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Opening balance at 1 April	16,380	16,380	17,317	17,317
Unwinding of the discount factor	408	408	570	570
Deficit contribution paid	(2,216)	(2,216)	(2,136)	(2,136)
Impact of change in discount rate	77	77	508	508
Amendments to opening balance	–	–	121	121
Closing balance at 31 March	**14,649**	**14,649**	**16,380**	**16,380**

Notes to the financial statements continued

31. Pension liabilities continued

Impact on income and expenditure:

	Group (Combined) 2018 £'000	Peabody (Amalgamated) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Unwinding of the discount factor	408	408	570	570
Impact of change in discount rate	77	77	508	508
Total cost recognised in Statement of Comprehensive Income	**485**	**485**	**1,078**	**1,078**

The defined benefit scheme was closed to active members on 31 March 2015.

Local Government Pension Schemes – LGPS

All schemes are valued every three years and the most recent actuarial valuations were carried out as at 31 March 2016. Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities discounted to their present value at appropriate high quality corporate bond rates.

The estimated average asset allocation of all schemes is as follows:

	Group and Peabody 31 March 2018 %	Group and Peabody 31 March 2017 %
Equities	58	67
Other bonds	16	11
Property	8	8
Cash	3	1
Other	15	13
Total	**100**	**100**

The main average assumptions are presented below:

	Group and Peabody 31 March 2018 %	Group and Peabody 31 March 2017 %
RPI increases	3.4	3.5
CPI increases	2.3	2.4
Salary increases	3.7	3.7
Pension increases	2.4	2.4
Discount rate	2.6	2.6

The following tables give a reconciliation of the opening and closing balances for the defined benefit obligation and fair value of plan assets for all LGPS schemes in aggregate:

	Group and Peabody 31 March 2018 £'000	Group and Peabody 31 March 2017 £'000
Opening defined benefit obligation	11,004	15,739
Current service cost	168	117
Interest cost	293	355
Actuarial loss/(gain)*	(373)	1,006
Estimated benefits paid net of transfers in	(196)	(197)
Contributions by scheme participants	26	25
Unfunded pension payments	(5)	(1)
Past service costs	16	(6,040)
Closing defined benefit obligation	**10,933**	**11,004**

	Group and Peabody 31 March 2018 £'000	Group and Peabody 31 March 2017 £'000
Opening fair value of plan assets	9,772	13,849
Expected return on assets	263	302
Actuarial gains/(losses)*	(159)	1,273
Contributions by employer	78	78
Contributions by scheme participants	22	25
Estimated benefits paid	(201)	(5,748)
Administration expenses	(7)	(7)
Closing fair value of plan assets	**9,768**	**9,772**
Net pension liability	**1,165**	**1,232**

* The net actuarial gain for the year on LGPS schemes is £214k (2017: £267k) and is shown in the Statement of Comprehensive Income under total comprehensive income for the year.

Aviva Friends Life Defined Contribution Pension Scheme

Employer contributions in respect of this scheme are charged to the Statement of Comprehensive Income as incurred.

	Group (Combined) 2018 £'000	**Peabody (Amalgamated) 2018 £'000**	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Year ending 31 March	**1,909**	**1,755**	**1,806**	**593**

Notes to the financial statements continued

32. Capital commitments

	Group (Combined) 2018 £'000	Peabody (Amalgamated) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Development expenditure contracted for but not provided for within the financial statements	851,797	444,167	314,386	213,930
Development expenditure authorised by the Board, but not contracted	621,401	388,143	898,979	575,899
Total commitment	**1,473,198**	**832,310**	**1,213,365**	**789,829**
Of which:				
Stock commitment	527,405	–	326,775	–
Capital commitment	**945,793**	**832,310**	**886,590**	**789,829**

The Group will fund the following commitments from:

	Group (Combined) 2018 £'000	Group (Combined) 2017 £'000
Debt funding available	744,000	546,000
Cash available	117,039	154,199
Funds to be sourced from future surpluses, debt funding and grant	612,159	513,166
Total	**1,473,198**	**1,213,365**

33. Commitments under operating leases

Rentals payable under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the lease term, unless the rental payments are structured to increase in line with expected general inflation, in which case the Group recognises annual rent expense equal to amounts owed to the lessor. The aggregate benefit of lease incentives are recognised as a reduction to the expense over the lease term on a straight-line basis.

Where the unavoidable costs of a lease exceed the economic benefit expected to be received from it, a provision is made for the present value of the obligations under the lease.

Total future minimum lease payments under non-cancellable operating leases are due as follows:

	Group (Combined) 2018 £'000	Peabody (Amalgamated) 2018 £'000	Group (Combined) 2017 £'000	Peabody (Amalgamated) 2017 £'000
Operating leases which expire:				
Within one year	1,681	1,321	1,601	1,334
In the second to fifth years inclusive	2,695	2,272	3,191	2,548
Over five years	3,576	1,479	3,538	1,394
Total	**7,952**	**5,072**	**8,330**	**5,276**

34. Contingent liabilities

Grants received in relation to assets that are presented at deemed cost at the date of transition to FRS 102 have been accounted for using the performance model as required by SORP 2014. In applying this model, such grant has been presented as if it were originally recognised as income within the Statement of Comprehensive Income in the year it was receivable and is therefore included within brought forward reserves.

The grant which has been written off to reserves represents a contingent liability to Peabody Trust and the Group of £308,467k (£2017: £308,639k). This contingent liability will be realised if the assets to which the written off grant relates are disposed.

35. Legislative provisions, taxation and subsidiary undertakings

Peabody is a charitable Community Benefit Society formed under the Co-Operative and Community Benefit Societies Act 2014 and a provider of social housing registered with the Regulator of Social Housing. Peabody has the following wholly owned subsidiaries:

- CBHA (a charitable Community Benefit Society and a registered social landlord) – cancelled 5 September 2017
- Charlton Triangle Homes Limited
- Cobalt Estate Management Limited
- Create Communities Limited
- Family Mosaic Housing Development Company Limited
- Family Mosaic Home Ownership Limited
- Family Mosaic Housing Services Limited
- Freshleaf Homes Limited
- Peabody South East (formerly Gateway Sustainable Investments)
- George Peabody Donation Fund (registered charity formed under an Act of Parliament)
- Harris Lodge Residents Company Limited*
- Maple Lodge Residents Company Limited*
- Old Oak Housing Association Limited
- Oxley Close (Number 2) Residents Company Limited*
- Peabody Capital PLC
- Peabody Capital No 2 PLC
- Peabody Community Foundation
- Peabody Enterprises Limited (registered social landlord)
- Peabody Group Maintenance Limited
- Peabody Investment Limited
- Peabody Land Limited
- Peabody (Services) Limited
- Sienna Management Limited
- Southmere Village Management Company Limited
- Tamesis Point Limited
- Tilfen Land Limited
- Tilfen Investment Properties Limited
- Tilfen Regeneration Limited
- Tilflex Management Company Limited
- Veridion Park Management Company Limited
- White Hart Triangle Management Limited

* Peabody Trust has a majority shareholding in Harris Lodge, Oxley Close and Maple Lodge which exist to administer service charges where there are owner-occupiers in addition to Peabody tenants.

Gallions Housing Association and Family Mosaic Housing were subsidiaries of Peabody Trust in 2017/18, but were amalgamated into Peabody Trust. See note 38 for further details.

Notes to the financial statements continued

35. Legislative provisions, taxation and subsidiary undertakings continued
Peabody Land Limited, Peabody Enterprises Limited, Peabody (Services) Limited, Create Communities Limited, Family Mosaic Home Ownership Limited, Family Mosaic Housing Development Company Limited, Family Mosaic Housing Services Limited and Freshleaf Homes Limited are trading subsidiaries involved in the development and sale of land and private residential property.

Peabody Group Maintenance provides repairs and maintenance services to CBHA and Peabody.

Peabody Capital PLC and Peabody Capital No 2 PLC raise finance for use by Peabody Trust and its subsidiaries.

Southmere Village Management Company Limited provides management services for Peabody Trust.

36. Transactions with related parties
Related party transactions in the Group include transactions with subsidiaries, associates, joint ventures and compensation paid to key management personnel. Key management personnel are senior management team, board members and their close family.

Rents received from tenant and leaseholder board members during the year are £34k (2017: £34k). Their tenancy agreements have been granted on the same terms as for all residents, and housing management procedures, including those relating to management of arrears, have been applied consistently to them. Their position on the Board does not favour their tenancy agreement, nor allow any preferential treatment.

Peabody has taken advantage of the exemption permitted by FRS 102 – 'Related Party Disclosures' and does not disclose transactions with other wholly owned entities within the Group that are eliminated on consolidation.

37. Intra group transactions between regulated and non-regulated entities
Peabody, a registered provider, transacts with non-registered entities within the Group. These transactions can be summarised as follows:

- Payment of invoices and other expenses on behalf of all non-regulated subsidiaries which is reimbursed in full.
- Provision of intercompany loans to non-regulated subsidiaries. These loans fund capital development and working capital requirements. Any interest is charged at commercial rates of interest.
- Reimbursement of development costs paid by Family Mosaic Housing Services Limited and Peabody Services Limited.
- Gift aid receipts from non registered entities (note 11).

The recharges for services between non-regulated entities and regulated entities are:

	2018 £'000	2017 £'000
Total cash inflows from non-registered treasury entities of the group	26,688	26,632
Total cash outflows to other non-registered entities of the group	(18,601)	(2,697)
Total cash inflows from other non-registered entities of the group	38,179	40,011

38. Group reconstruction

The Group has been working towards achieving a simplified structure to better support our growth agenda, mitigate risk, and reduce the administration and compliance costs of maintaining multiple providers of social housing. Further significant progress has been made during the year including:

- On 28 March 2018, a transfer of trade and assets from Family Mosaic Housing into Peabody South East (formerly Gateway Sustainable Investments).
- On 29 March 2018, Gallions Housing Association, Peabody Trust and Family Mosaic Housing amalgamated into a single legal entity.

Family Mosaic Housing and Peabody South East

The business transfer to Peabody South East resulted in a donation of housing properties and loan liabilities from Family Mosaic Housing totalling £17.9m. This amount has been recognised in other comprehensive income in Family Mosaic Housing. The housing properties were valued using the EUV-SH method. The grants attached to these properties are now included within the property value, and held as a contingent liability in Peabody South East's financial statements. There have been no accounting adjustments to the Group financial results. All trade has been accounted for within Peabody Trust (formerly Family Mosaic Housing) in the financial year as the transfer occurred on 28 March 2018.

Gallions, Family Mosaic Housing and Peabody Trust

Family Mosaic and Gallions have been subsumed into Peabody Trust, and no longer report separately. All are social housing landlords regulated by the Regulator of Social Housing.

No accounting adjustments were required to align accounting policies.

An analysis of the pre and post-merger results is presented below.

	Gallions 2018 £'000	**Family Mosaic 2018 £'000**	**Peabody Trust 2018 £'000**	**Total 2018 £'000**	Gallions 2017 £'000	Family Mosaic 2017 £'000	Peabody Trust 2017 £'000	Total 2017 £'000
Surplus on ordinary activities	7,244	120,054	41,479	168,777	9,226	94,575	25,589	129,390
Donation to PSE	–	(17,900)	–	(17,900)	–	–	–	–
Pension scheme actuarial gain/(loss)	2,905	214	9,306	12,425	(2,745)	267	(3,138)	(5,616)
Change in value of hedged instruments	–	(4,213)	–	(4,213)	–	(296)	–	(296)
Total comprehensive income	**10,149**	**98,156**	**50,785**	**159,089**	**6,481**	**94,546**	**22,451**	**123,478**
Net assets at date of merger	266,823	725,234	1,522,060	2,514,117	-	-	-	-

All amounts are pre-amalgamation as amalgamation took place on 29 March 2018.

c) George Peabody Donation Fund and Peabody Trust

On 31 July 2017 George Peabody Donation Fund completed the transfer of engagements to Peabody Trust which commenced in 2016/17. As a result, a gain of £16.9m has been recognised in the Statement of Changes in Equity which equates to the value of the properties transferred.

Notes to the financial statements continued

39. Merger

As stated in note 1, the Family Mosaic Group joined the Peabody Group as a subsidiary on 30 June 2017. Both are social housing landlords regulated by the Regulator of Social Housing.

This transaction has been accounted for as a merger as allowed by FRS 102. Therefore, these financial statements are presented as if the Peabody Group had existed in its current form since the start of the reporting period.

The accounting policies of the two merging parties have been aligned and any costs relating to the merger have been expensed. Any transactions between the two parties prior to the merger are now required to be eliminated as part of the consolidation, but no material amounts were identified.

The following disclosures provide an analysis of the numbers reported in these financial statements between the two parties prior to the merger, and the combined Group post-merger. No material transactions occurred between the two entities pre-merger.

Group

Total comprehensive income for the year ended 31 March 2018:

	Peabody 1 April 2017 to 30 June 2017 £'000	Family Mosaic 1 April 2017 to 30 June 2017 £'000	Group 1 July 2017 to 31 March 2018 £'000	Combined £'000
Turnover	56,808	98,012	454,117	608,937
Operating Surplus	20,572	45,794	145,939	212,305
Surplus for the year	10,971	40,930	123,509	175,410
Total comprehensive income	**10,971**	**41,377**	**131,365**	**183,713**
Net assets at date of merger	1,847,309	693,784	–	–

Total comprehensive income for the year ended 31 March 2017:

	Peabody £'000	Family Mosaic £'000	Combined £'000
Turnover	292,551	265,064	557,615
Operating Surplus	110,686	111,458	222,144
Surplus for the year	87,819	92,427	180,246
Total comprehensive income	**70,925**	**92,398**	**163,323**

There have been no accounting policy adjustments as a result of the merger.

The following material changes in presentation have been made as a result of the merger (all numbers quoted are for the respective Group):

1. Peabody previously included Cost of Sales as a separate line item on the Statement of Comprehensive Income. Peabody has adopted Family Mosaic's approach and reclassified £40,959k in 2016/17 to Operating Costs.
2. Family Mosaic previous included intangible assets within Other Tangible Assets, whereas Peabody included these assets separately. Family's Mosaic assets of £1,181k have been reclassified.
3. All Investment Properties are shown as Investments to the Group. £9,102k of properties were reclassified from Housing Properties to Investments at 31 March 2017.
4. Family Mosaic reclassified any bank accounts in overdrafts to Creditors less than one year. At 31 March 2017 £358k was reclassified to Cash and Cash Equivalents.
5. Peabody did not present any recycled capital grant funds ('RCGF') or disposal proceeds funds ('DPF') within Creditors less than one year whereas Family Mosaic did so. £1.8m of RCGF and £5.7m of DPF at 31 March 2017 was reclassified from Creditors greater than one year.
6. Deferred tax liabilities in Family Mosaic were reclassified from Creditors to Provisions (31 March 2017: £125k).
7. LPFA pension liabilities have been reclassified from within Creditors to Provisions (31 March 2017: £1,232k).

All the changes above are strictly presentational and do not affect the surplus for the year or reserves.

Additionally, the following changes to accounting estimates have been made as a result of the merger, and are being applied prospectively:

8. The useful economic lives of fixed assets – which determine the amortisation/depreciation charged – used by both Peabody and Family Mosaic have been reviewed and aligned. In some cases, this has resulted in new lives which differ from the previous Peabody and Family Mosaic policies.
9. Peabody Group estimated the long run investment value within its leasehold units from which it derived ground rents, whereas Family Mosaic held these assets at £nil value. Family Mosaic has adopted the Peabody method, with a £3.4m gain in leasehold land in 2017/18. See note 16 for further details.

Notes to the financial statements continued

40. Reconciliation of surplus for the year to net cash generated from operating activities

	Note	Group Combined 2018 £'000	Group (Combined) 2017 £'000
Cash flows from operating activities			
Surplus for the year		175,410	180,246
Adjustments for:			
Taxation on surplus on ordinary activities	12	70	3,521
Change in value of investment property	16	(21,404)	(21,332)
Net interest payable/(receivable)		58,514	57,709
Amortisation of intangible fixed assets	13	3,802	4,573
Depreciation of tangible fixed assets		58,398	58,695
Amortisation of grants	26	(11,793)	(11,749)
Surplus on sales of fixed assets	7	(42,171)	(53,186)
Impairment	14	–	1,394
Decrease/(increase) in trade and other debtors		22,496	12,837
Decrease/(increase) in stocks	22	(74,163)	(19,312)
Increase/(decrease) in trade creditors		(39,214)	(36,982)
Increase/(decrease) in provisions	30	3,195	464
Taxation paid		–	(12)
Net cash generated from operating activities		**133,140**	**176,866**

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Peabody

45 Westminster Bridge Road
London
SE1 7JB

Tel: 020 7021 4000
Fax: 020 7021 4004
Email: info@peabody.org.uk
Website: www.peabody.org.uk

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