

Grainger Trust Limited
Financial statements
30 September 2019



Grainger Trust Limited

Financial statements

Year ended 30 September 2019

Contents	Pages
Company details	1
Report of the Board of Management	2 to 10
Independent auditor's report to the members of of Grainger Trust Limited	11 to 13
Statement of comprehensive income	14
Statement of financial position	15
Statement of changes in equity	16
Notes to the financial statements	17 to 25

Grainger Trust Limited

Company details

The Board of Management

Miss Gina Amoh
Ms Deborah F Shackleton CBE
Mr Manpreet Dillon
Mr Toby E Austin
Mr Paul McGowan

Company secretary

Mrs Rodica Damian

Registered office

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

Auditor

KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Bankers

Barclays Bank plc
Barclays House
5 St Ann's Street
Quayside
Newcastle upon Tyne
NE1 2BH

Solicitors

Womble Bond Dickinson (UK) LLP
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE1 3DX

Registration

Regulator of Social Housing (registration 4743)

Company registration number

04630928

Grainger Trust Limited

Report of the Board of Management

Year ended 30 September 2019

The Board of Management presents its report and the financial statements for the year ended 30 September 2019.

Principal activities

The principal activity of Grainger Trust Limited is the provision of affordable housing units for rent or shared ownership. Grainger Trust is a for profit registered provider (FPRP) of social housing that was registered with the Regulator of Social Housing in November 2012. It is a wholly owned, ring-fenced subsidiary of Grainger plc.

Members of the Board of Management

The Members of the Board of Management during the year ended 30 September 2019, and subsequent to the year end, were:

Ms Deborah F Shackleton CBE (Chairperson)
Miss Gina Amoh
Mr Calum Mercer (resigned 30 September 2019)
Mr Mark J Robson (resigned 30 April 2019)
Mr Toby E Austin
Mr Paul McGowan
Mr Manpreet Dillon (appointed 30 April 2019)

Registration of the company

The company is registered with the Regulator of Social Housing (registration 4743).

Financial statements and state of the company's affairs

The results for the year are shown in the statement of comprehensive income on page 14.

Overview

Grainger Trust was established in 2012 as one of the first for profit housing associations. Today, it is one of the largest, with 496 homes under management at the end of September 2019. Over the next year, Grainger Trust will continue to benefit from the resources and experiences of other Group companies to ensure that our development projects produce a profit which can be recycled into future schemes. We are aiming to invest in 273 more affordable homes during 2020 and we will fund this through profits from other development sites and Grainger plc investment. By balancing communities (private and social housing), we aim to support both economic and physical regeneration. Mixed tenure sites attract infrastructure development and business investment to add value to Local Delivery Plans.

We have adopted this approach since 2012 and will continue into 2020 and beyond. We will be seeking to improve our VfM performance in order to produce greater profits to deliver more homes and savings to the business.

Review of the year

Grainger Trust has continued to grow significantly over the past financial year. At 30 September 2018 it owned 289 units. During 2019, a gross investment of £31.7m has increased total units owned by 207, to 496, split between four sites. The total annualised rent roll as at 30 September 2019 was £2.5m and equity shares in 67 units were sold in the year, generating revenues of £8.2m and profits of £1.8m.

In the last 12 months, Grainger Trust has delivered a further 208 affordable homes, and sold the final share of one shared ownership unit. These homes have been funded by £24.3m of new equity with a secured pipeline of around £40m established for delivery over the period from 2020-22. All schemes bar one have been purchased without any reliance upon housing grant or public subsidy. Indeed, Grainger Trust is a net contributor to the public finances, with a total tax charge of £1.3m for the 12 months to September 2019, an effective tax rate of 17.7%. This comprises current tax payable of £541k and deferred tax of £802k.

Grainger Trust Limited

Report of the Board of Management

Year ended 30 September 2019

Grainger Trust is well placed to complement the property portfolio of Grainger plc by delivering good quality social housing along with strong profits and returns. It is expected that around 132 units will be acquired from house builders in the South East, along with 141 units in mixed tenure development sites in London over the coming year. We expect further significant growth to continue over the coming few years.

There is much uncertainty regarding what impact the UK leaving the European Union ('Brexit') will have on trade, our economy and the future political landscape. We have closely considered the potential risks arising from Brexit. We continue to hold the view that the on-going material lack of supply of homes in the UK substantially mitigates the risks to Grainger Trust that may arise from Brexit. Our opinion is that Grainger Trust's exposure to this risk is not materially higher than similar UK-focused businesses.

Value for money (VfM)

Grainger Trust embeds value for money into its day to day activities from site appraisals to repairs and maintenance. It is our ability to benefit from economies of scale derived working within the wider Grainger plc group that allows Grainger Trust to continue to grow whilst producing financial and social returns.

Our strategic approach to VfM

We define VfM as the best use of resources to achieve our objectives. We organise our VfM work under four themes:

- economy – managing costs
- efficiency – how well we use our resources to deliver objectives
- effectiveness – doing what we set out to do
- environment – improving our sustainability and reducing our impact.

Our approach to VfM is structured around:

- understanding our costs, benchmarking them internally and with our sector peers
- ensuring that we deliver VfM through service, team and individual action plans
- making sure that quality is an essential element in VfM decisions
- challenging how we deliver services and get VfM
- continually quantifying efficiencies to monitor cash savings, quality improvement and to comply with regulations
- buying goods and services more effectively, including leveraging the economies of scale using Grainger plc procurement processes.

We check and challenge our VfM performance regularly in several ways, including:

- benchmarking our performance against peers
- monitoring and challenging key financial margins across the organisation
- pursuing our growth plans without incurring additional costs wherever possible
- monitoring VfM developments to ensure that we do not incur disproportionate costs in the drive for efficiency.

How VfM fits into our structure

The Board has both executive and non-executive members with a wide range of expertise in finance, development, social housing and commercial activity. The Board recognises and embraces its role in delivering VfM. It is not only important to our customers, but is necessary to meet our financial obligations. We have also embedded VfM in our workforce in several ways.

VfM Metrics

Over the past year Grainger Trust has worked as part of the wider Grainger plc Group to deliver new homes, and to build vibrant, mixed communities. We are particularly proud of the work we have done to deliver adaptations to allow families living in our homes to make the most of them.

Grainger Trust Limited

Report of the Board of Management

Year ended 30 September 2019

For us, VfM is about taking an approach which enables us to deliver both financial returns to our investors and social returns through placemaking and regeneration. Delivering VfM means working in a smart and efficient way, focussing on how we can deliver strong performance and making the most of our strengths while also delivering financial efficiencies.

Being part of Grainger plc, and therefore being able to deliver efficiency through sharing resources, skills and experience with the rest of the group is essential to achievement of our VfM objectives.

One of our means of measuring VfM is through meeting the reporting requirements of the new VfM Standard and supporting Code of Practice. The Standard requires us to publish performance evidence in these annual accounts against our own metrics and those defined by the regulator, and report how that performance compares to peers.

Comparing financial performance against other Registered Providers

Due to the somewhat unique nature of Grainger Trust, it is difficult to find small RPs to benchmark against as we utilise the platform of a much larger organisation to reduce costs. In assessing our performance, we have considered the overall performance of the sector based on the 2018 Global Accounts.

Metric 1 – Reinvestment %:

This metric considers the investment in properties, both maintenance of existing stock as well as new supply, as a percentage of the value of total properties held. As a new organisation, we are investing heavily in new supply, while our existing stock needs a relatively small amount of investment, compared to organisations with much older stock. We are ambitious to grow, and as such our investment is focussed on the delivery of new social housing stock for the sector.

In 2018/19 we are pleased to have achieved a very strong level of performance, in this metric, which compares favourably to our peers in the social housing sector.

	GT 2018/19	GT 2017/18	GT 2016/17	Lower Quartile	Median	Upper Quartile
Reinvestment %	43.3%	24.5%	39.8%	4.2%	6.2%	8.7%

Metric 2 – New supply delivered %:

Grainger Trust is growing as part of its role in supporting the wider Grainger plc Group, and this year we have delivered new social homes across a number of our estates, adding to our portfolio and growing the communities we are working with others in the group to build.

Our performance significantly outweighs the peer group reflecting the continued high level of investment and the relatively low volume of homes in place at the start of the year while we are in a period of heavy growth. Many of our peers are significantly more established with a more stable volume of social homes. We expect to continue investing into new homes in the future.

	GT 2018/19	GT 2017/18	GT 2016/17	Lower Quartile	Median	Upper Quartile
New Supply (social homes) %	41.7%	30.4%	52.1%	0.6%	1.4%	2.5%

For Grainger Trust the focus is on the delivery of social homes; we have therefore not delivered any non-social homes in the current financial year.

Grainger Trust Limited

Report of the Board of Management

Year ended 30 September 2019

Metric 3 – Gearing %:

Grainger Trust's financing model, which is not currently based on debt, means this metric is not applicable to our business. However, we are still ensuring that we make the most of our balance sheet and leverage investment in social housing through the strength of the Group as a whole.

As we grow we will consider the most efficient financing model for our business to ensure we deliver VfM.

Metric 4 – EBITDA MRI – Interest cover %:

As with metric 3, this metric is not applicable to our business. As we are currently financed by our parent on an equity basis, we do not have any interest to repay.

Metric 5 – Headline social housing cost per unit (£):

We work with the rest of the group to achieve efficiencies in the management of our homes, and are also working closely with our managing agent Strutt and Parker to deliver a high quality service as efficiently as possible to residents. We are starting to see economies being delivered as we add new homes to the portfolio and start to gain scale. Due to the acquisition of units in 2018/19 being heavily weighted to the second half of the year, along with the change in mix towards shared ownership units which attract a lower cost to operate, the cost per unit for this year is lower than we have seen in previous years.

	GT 2018/19	GT 2017/18	GT 2016/17	Lower Quartile	Median	Upper Quartile
Social housing cost per unit (£)	1,175	3,070	3,717	3,180	3,690	4,690

Metric 6 – Operating margin:

Our operating margin shows the profitability of our business. As a for-profit provider profit is a key driver and a metric that we monitor closely. However, we are also driven by quality and customer service, and our understanding of VfM means that we balance a desire to maximise profitability with ensuring the best outcomes for residents. Our relatively strong performance reflects the high quality of our housing stock and the benefits and efficiencies resulting from being part of a larger organisation.

	GT 2018/19	GT 2017/18	GT 2016/17	Lower Quartile	Median	Upper Quartile
Operating Margin (social housing lettings) %	75.9%	77.5%	70.0%	23.1%	29.2%	34.6%
Operating Margin (overall) %	60.3%	59.8%	45.5%	20.0%	25.8%	30.8%

Metric 7 – Return on capital employed (%):

Our return on capital employed compares favourably to our peers and reflects the high level of investment in homes during the period. The return in 2016/17 was unusually high and benefitted from the surrender of leasehold interests in the period as noted earlier in this report.

	GT 2018/19	GT 2017/18	GT 2016/17	Lower Quartile	Median	Upper Quartile
Return on capital employed %	3.7%	4.0%	9.6%	3.0%	3.8%	4.7%

Grainger Trust Limited

Report of the Board of Management

Year ended 30 September 2019

Additional VfM metrics:

We measure a number of performance measures to test our operational efficiency, and measure and anticipate our current and future growth prospects. This is the first year that we have reported under the revised VfM standard and consequently we expect to revise and develop the additional VfM metrics that are most relevant to Grainger Trust over the forthcoming years.

The table below provides an overview of how we are performing across a selection of these measures, all of which are in line with our targets and expectations:

Performance measure	2018/19	2017/18	2016/17	2015/16
Current arrears (against annual rent roll)	3.3%	2.7%	2.0%	2.9%
Rent collected % (excluding arrears brought forward)	97.8%	96.7%	96.9%	100%
Properties with valid gas safe certificate at the year end	100%	100%	100%	100%
Grainger Lets units	31	31	29	25
Shared ownership units	220	106	86	53
Social housing units	245	152	86	18

Collecting rent

We continue to be effective in collecting income through use of our in-house credit control team. Income collection for the year remained broadly consistent at 96.8% and arrears remain c.3.0%.

Tenant satisfaction

In Spring 2019, we concluded our first online satisfaction survey with, sampling 20% of the portfolio which generated 79% satisfaction with Grainger Trust services. Feedback received indicated that areas to focus on for increasing satisfaction would include improvements to the defects response by the housebuilder, handling of insurance recharges and estate management / parking.

We continued to deliver VfM in other areas during the year, including:

- Reviewing and renegotiating our legal fees for Shared Owners.
- Renegotiating bulk energy contracts to reduce block management costs.
- Adding to our list of trusted contractors to allow faster repair times and lower costs.
- The property management team now do viewings when they are on site rather than using viewing agents to save costs.
- Maintaining a waiting list for intermediate properties so as to avoid marketing costs.
- Working with new residents who want to decorate and personalise their new home to reduce refurbishment costs between tenancies.

The smarter and more effective use of information technology throughout the business will also have a significant impact on VfM. The wider group is in the middle of a major, strategic review of our IT services, operational processes and procurement which will deliver an extensive range of savings, improvements in efficiency, and further enhanced service. Once we are able to use this portal to get feedback from residents more easily we will tailor our services by residents' recommendations to ensure best value for money for our customers.

Grainger Trust Limited

Report of the Board of Management

Year ended 30 September 2019

Community development

Grainger Trust delivers both financial returns to its investors and social returns on the investment made through place making and regeneration. In the last year, Grainger Trust has supported the development of Wellesley Woodlands in Aldershot and the Town Park at Berewood, along with a range of engagement activities, as well as employment skills programmes and creating community spaces in both locations.

Delivering future value

Projects and programmes of work to deliver further VfM in 2019-20:

Information technology

Grainger plc are making a significant investment into a new technology platform, CONNECT. The aim of CONNECT is to enhance the customer experience, increasing operational efficiency and provide scalability, allowing all parts of Grainger to grow while controlling costs and securing our licence to operate. The CONNECT platform is an integrated solution that digitises and puts the entire rental process online, linking together everything from leasing, repairs and maintenance through to financial reporting and payment processing, ensuring that our health and safety credentials, cyber security and data protection is as good as it can be.

Repair service

We are reviewing the way we deliver our repairs service to deliver efficiency savings as our portfolio grows, especially in our headline schemes.

Social and environmental impact

Contributing to local authority affordable homes targets via S106 and nomination agreements to let to those in housing need. The portfolio is designed to meet / exceed building regulatory thermal and fuel efficiency targets to assist in the eradication of fuel poverty. It is recognised that social and environmental value can be difficult to quantify, for this reason we have chosen not to attempt to monetise every example of the value created; preferring to measure this in terms of good links into housing authorities and councils via common housing register nominations and demand for our housing stock. We believe that the quality and security of this accommodation leads to a range of benefits including improved health and well-being and general quality of life.

Development pre-construction

We will continue to drive further VfM by giving more time at all stages of the acquisition and procurement processes to focus on efficient design solutions, appropriate internal layouts and optimised specifications. This will help to reduce build costs while maximising values. In addition, a more highly focused, on-site inspection role and an after sales service will reduce minor snags and defects, increase the overall customer experience and improve satisfaction levels with the homes we build. It is too early to quantify what the VfM impact will be from this work. We will capture and measure the impact of the team on overall delivery, value and customer satisfaction.

How the Board monitors performance

Grainger Trust has developed mechanisms for monitoring performance generally and for scrutinising performance in relation to VfM. The Board takes a keen interest in ensuring that Grainger Trust delivers services that our customers consider to be of good value. The Board receives and reviews management accounts detailing key performance data on a quarterly basis and has access to monthly performance packs that are reviewed by the operational team.

Board assurance on VfM

The Board contains non-executive members with expertise in finance, development, social housing and commercial activities. It regularly reviews management reports and receives feedback from the executives. The Board is satisfied that the VfM self-assessment is a fair reflection of VfM within Grainger Trust and will be made available to all of its stakeholders on Grainger plc's website.

Grainger Trust Limited

Report of the Board of Management

Year ended 30 September 2019

Governance

Grainger Trust has adopted, complies with and operates within the regulatory framework adopted by its ultimate parent undertaking, Grainger plc, namely the UK Corporate Governance Code.

In addition, Grainger Trust adopted and complies with the Code of Governance produced by the National Housing Federation (NHF) to the extent that this is legally practicable and able to, having regard to: (1) the group parent organisation and governance (as noted in provision B3 of the NHF Code), (2) insofar as the constitution of Grainger Trust and its parent, Grainger plc, does not conflict with the NHF Code (as noted in provision A2 of the NHF Code) and (3) the Board of the parent organisation must determine how and whether the NHF Code should apply to each of its subsidiaries (as noted in provision C4 of the NHF Code). Certain provisions of non-compliance with the NHF Code which can be specifically noted are:

- The Board of Grainger Trust does not have a non-executive majority of directors on the Board, being currently composed of 2 non-executive directors and 3 executive directors to comply with the requirements of the group parent organisation (provision B4 of the NHF Code). Its Chair is however a non-executive director as required under the NHF Code.
- Grainger Trust does not have the role of Chief Executive as this does not fit with the group parent organisation (main requirement G of the NHF Code).
- Grainger Trust does not have Committees as these are not considered necessary due to the group parent organisation (main provision E of the NHF Code) and the same applies to the requirement of an audit committee under provision F3 of the NHF Code as this function is fulfilled within the group parent organisation.

Grainger Trust has adopted and regularly reviews its Governance Operating Guidelines for the Board which incorporate certain of the requirements and provisions of both the UK Corporate Governance Code and the NHF Code on the basis set out above.

In addition, Grainger Trust complies with the RSH's Governance and Financial Viability standard.

Statement of Board's responsibilities

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

Company law requires the Board to prepare financial statements for each financial year. Under that law the Board has elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the Board must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss 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;
- assess the company'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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Grainger Trust Limited

Report of the Board of Management

Year ended 30 September 2019

The Board is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The Board of Management acknowledges its ultimate responsibility for ensuring that the company has in place a system of controls that is appropriate to the business environment in which it operates. These controls are designed to give reasonable assurance with respect to:

- the reliability of financial information used within the company or for publication;
- the maintenance of proper accounting records, and
- the safeguarding of assets against unauthorised use or disposition and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

It is the responsibility of the Board of Management to establish and maintain systems of internal financial control. Such systems can only provide reasonable and not absolute assurance against material financial misstatement or loss. Key elements include:

- formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of the company's assets;
- experienced and suitably qualified staff take responsibility for important business functions. Annual appraisal procedures have been established to maintain standards of performance;
- forecasts and budgets are prepared which allow the Board of Management to monitor the key business and financial objectives and risks and the progress towards financial objectives set for the year and the medium term; regular management accounts are prepared promptly providing relevant, reliable and up-to-date financial and other information; significant variances from budget are investigated as appropriate;
- all investment projects are subject to formal authorisation procedures by the Board of Management;
- the Board of Management reviews reports from the managing agents, Strutt and Parker, and specialist Regulated Housing advisors Altair to provide reasonable assurance that control procedures are in place and are being followed. This includes a general review of the major risks facing the company; and
- formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.

The Board of Management has reviewed the effectiveness of the system of internal financial control in existence in the company for the year ended 30 September 2019. No weaknesses in internal financial control resulted in material losses, contingencies, or uncertainties which require disclosure in the financial statements or the auditor's report on the financial statements.

Grainger Trust Limited

Report of the Board of Management

Year ended 30 September 2019

Statement of Disclosure of information to Auditors

We, the Board members of the company who held office at the date of approval of these financial statements as set out above each confirm, so far as we are aware, that:

- there is no relevant audit information of which the company's auditor is unaware; and
- we have taken all steps that we ought to have taken as Board members to make ourselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Small company provisions

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemption.

This report was approved by the board of directors on 25 February 2020 and signed on behalf of the board by:



Toby Austin
Director

Independent auditor's report to the members of Grainger Trust Limited

Opinion

We have audited the financial statements of Grainger Trust Limited ("the association") for the year ended 30 September 2019 which comprise the Statement of comprehensive income, Statement of financial position, Statement of changes in equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the association as at 30 September 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006, 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 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, see note 2, and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

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

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 a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

**Independent auditor's report to the members of
Grainger Trust Limited (continued)**

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Other information

The directors are responsible for the other information, which comprises the report of the board of management. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. 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 Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on pages 8 to 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the association or to cease operations, or have no realistic alternative but to do so.

**Independent auditor's report to the members of
Grainger Trust Limited (continued)**

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and section 128 of the Housing and Regeneration Act 2008. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Tara Stonehouse (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

28 February 2020

Grainger Trust Limited

Statement of comprehensive income

Year ended 30 September 2019

	Note	2019 £	2018 £
Turnover	4	10,354,216	3,378,602
Cost of sales		(7,169,416)	(1,358,019)
Gross profit		3,184,800	2,020,583
Administrative expenses		(341,339)	(273,766)
Fair value gain on investment property	5	4,715,650	1,629,489
Operating profit	6	7,559,111	3,376,306
Other interest receivable and similar income		5,154	64
Profit on ordinary activities before taxation		7,564,265	3,376,370
Tax on profit on ordinary activities	8	(1,342,897)	(608,920)
Profit for the financial year		6,221,368	2,767,450
Unrealised surplus on revaluation of housing properties	9	2,327,789	2,620,505
Total tax on components of other comprehensive income	8	(395,724)	(445,486)
Total comprehensive income for the year		8,153,433	4,942,469

All the activities of the company are from continuing operations.

The notes on pages 17 to 25 form part of these financial statements.

Grainger Trust Limited

Statement of financial position

30 September 2019

	Note	2019 £	2018 £
Fixed assets			
Investment properties	9	29,243,420	15,709,204
Housing properties	9	40,890,330	24,774,334
		<u>70,133,750</u>	<u>40,483,538</u>
Current assets			
Stocks	10	19,020,455	10,003,377
Debtors	11	1,545,519	1,456,289
Cash at bank and in hand		2,311,106	3,993,396
		<u>22,877,080</u>	<u>15,453,062</u>
Creditors: amounts falling due within one year	12	(15,965,731)	(12,542,318)
Net current assets		<u>6,911,349</u>	<u>2,910,744</u>
Total assets less current liabilities		<u>77,045,099</u>	<u>43,394,282</u>
Provisions			
Deferred tax	14	(3,703,749)	(2,506,365)
Net assets		<u>73,341,350</u>	<u>40,887,917</u>
Capital and reserves			
Called up share capital	15	47,957,128	23,657,128
Revaluation reserve	16	8,208,685	6,276,620
Profit and loss account	16	17,175,537	10,954,169
Shareholders' funds		<u>73,341,350</u>	<u>40,887,917</u>

These financial statements were approved by the board of directors and authorised for issue on 25 February 2020, and are signed on behalf of the board by:



Toby Austin
Director

Company registration number: 04630928

The notes on pages 17 to 25 form part of these financial statements.

Grainger Trust Limited

Statement of changes in equity

Year ended 30 September 2019

	Called up share capital £	Revaluation reserve £	Profit and loss account £	Total £
At 1 October 2017	16,741,128	4,101,601	8,186,719	29,029,448
Profit for the year	–	–	2,767,450	2,767,450
Other comprehensive income for the year:				
Unrealised surplus on revaluation of housing properties	–	2,620,505	–	2,620,505
Deferred tax relating to components of other comprehensive income	–	(445,486)	–	(445,486)
Total comprehensive income for the year	–	2,175,019	2,767,450	4,942,469
Issue of shares	6,916,000	–	–	6,916,000
Total investments by and distributions to owners	6,916,000	–	–	6,916,000
At 30 September 2018	23,657,128	6,276,620	10,954,169	40,887,917
Profit for the year	–	–	6,221,368	6,221,368
Other comprehensive income for the year:				
Unrealised surplus on revaluation of housing properties	–	2,327,789	–	2,327,789
Deferred tax relating to components of other comprehensive income	–	(395,724)	–	(395,724)
Total comprehensive income for the year	–	1,932,065	6,221,368	8,153,433
Issue of shares	24,300,300	–	–	24,300,000
Total investments by and distributions to owners	24,300,000	–	–	24,300,000
At 30 September 2019	47,957,128	8,208,685	17,175,537	73,341,350

The notes on pages 17 to 25 form part of these financial statements.

Grainger Trust Limited

Notes to the financial statements

Year ended 30 September 2019

1. Statement of compliance

These financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'.

The entity is a limited company incorporated and domiciled in the UK. The registered office is:

Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JE

The results of Grainger Trust Limited are included in the consolidated financial statements of Grainger plc which are available from Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE.

2. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable UK accounting standards.

The financial statements have been prepared on the going concern basis in accordance with applicable Accounting Standards in the United Kingdom, the Accounting Direction for Social Housing 2015 and the Statement of Recommended Practice Accounting by Registered Social Landlords, Update 2014 ('SORP 2014').

Going concern

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

The company has net assets of £73,341,350 at 30 September 2019 and has generated total comprehensive income for the period then ended of £8,153,433. The company is a subsidiary of Grainger plc. Whilst the entity does not expect to rely on future support from its ultimate parent undertaking, or any of its fellow subsidiaries, Grainger plc has indicated that it will make available such funds as are needed by the entity for the foreseeable future. As with any entity placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. The directors do not intend to nor have they identified any circumstances which may lead to the entity being liquidated or to cease operating.

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

Disclosure exemptions

The entity satisfies the criteria of being a qualifying entity as defined in FRS 102. Its financial statements are consolidated into the financial statements of Grainger plc which can be obtained from The Secretary, Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE. As such, advantage has been taken of the following disclosure exemptions available under paragraph 1.12 of FRS 102:

- (a) No cash flow statement has been presented for the company.
- (b) Disclosures in respect of financial instruments have not been presented.

Grainger Trust Limited

Notes to the financial statements (continued)

Year ended 30 September 2019

2. Accounting policies (continued)

Revenue recognition

Turnover represents rental income and sale proceeds of trading properties. Sales of properties are only recognised when the significant risks and returns have been transferred to the buyer, which is generally deemed to be on legal completion. Rental income is recognised on a straight line basis over the lease term on an accruals basis.

Income tax

The taxation charge for the year represents the sum of the tax currently payable and deferred tax. The charge is recognised in the statement of comprehensive income according to the accounting treatment of the related transaction.

Current tax payable or receivable is based on the taxable income for the period and any adjustment in respect of prior periods and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Tax payable upon the realisation of revaluation gains recognised in prior periods is recorded as a current tax charge with a release of the associated deferred tax.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will give rise to a future tax liability against which the deferred tax assets can be recovered.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Housing properties

Social Housing properties are classified as property, plant & equipment in fixed assets. This class of properties are held under the revaluation model. In accordance with SORP 2014 they are revalued each year to their existing use value for social housing (EUV-SH).

Major components of housing properties are accounted for and depreciated separately from the housing structure over their expected useful economic lives. The components currently identified and their useful economic lives are as follows:

Housing properties	
Main fabric	100 years
Roof	50 years
Windows & Doors	30 years
Kitchens	20 years
Bathrooms	25 years
Heating	
Boilers	20 years
Other fixed assets	
Electrics / mechanical systems and lifts	40 years

The useful economic lives of all tangible fixed assets are reviewed annually.

Grainger Trust Limited

Notes to the financial statements *(continued)*

Year ended 30 September 2019

2. Accounting policies *(continued)*

Investment properties

Grainger lets

These properties are not subject to regulation by the RSH (ie Intermediate Rent properties) and are revalued annually to their market value.

Shared ownership

The proportion of shared ownership properties not included in stock (see accounting policy for stocks) is classified as investment property and is revalued annually to its existing use value for social housing (EUV-SH).

Stocks

Under the Housing Statement of Recommended Practice (SORP): Accounting by Registered Social Housing Providers: Update 2014, the initial percentage of a shared ownership house to be sold (first tranche) is treated as stock (Trading Property), with the remainder being classified as Investment Property.

Trading properties are shown in the financial statements at the lower of cost to the company and net realisable value. Cost to the company includes legal and surveying charges incurred during the acquisition plus improvement costs. Net realisable value is the net sale proceeds which the company expects on sale of the first tranche of the property.

Repairs and improvements are the responsibility of the shared ownership tenant.

Work in progress

Work in progress comprises stage payments for the construction of shared ownership units.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors are recognised initially at transaction value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade and other creditors are recognised initially at transaction value and subsequently measured at amortised cost using the effective interest method.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make significant judgements, estimates and assumptions that affect the amounts reported. The judgements, estimates and assumptions that the directors consider to be most significant to the financial statements relate to the valuation of tangible fixed assets and are detailed at note 9.

Grainger Trust Limited

Notes to the financial statements (continued)

Year ended 30 September 2019

3. Turnover, cost of sales, administrative expenses and operating profit for the year

	2019 £	2018 £
<i>Income from social/intermediate/shared ownership housing lettings:</i>		
Gross rents receivable	2,189,717	1,485,862
Less: Rent losses from voids	—	—
Net rents receivable	2,189,717	1,485,862
<i>Income from property sales:</i>		
Income from shared ownership sales	8,157,800	1,882,000
Other income	6,699	10,740
Total income from housing lettings and sales	<u>10,354,216</u>	<u>3,378,602</u>
<i>Expenditure on social/intermediate housing activities:</i>		
Property operating expenses	533,846	334,032
Property book cost of sales	6,464,934	939,963
Property disposal fees	170,636	84,024
Cost of sales	<u>7,169,416</u>	<u>1,358,019</u>
<i>Surplus on shared ownership sales</i>	<u>1,522,230</u>	<u>858,013</u>
Intercompany management charges	250,733	172,783
Consultancy fees	23,290	25,736
Marketing	—	120
Directors' remuneration	20,000	20,000
Board meeting costs	—	500
General expenditure	11,316	9,984
Speculative development costs	—	18,043
Administrative expenses	<u>341,339</u>	<u>273,766</u>
Total expenditure on social/intermediate housing lettings and sales	<u>7,510,755</u>	<u>1,631,785</u>
Fair value gain on investment property	<u>4,715,650</u>	<u>1,629,489</u>
Operating profit	<u>7,559,111</u>	<u>3,376,306</u>

Intercompany management charges represent property management services provided to Grainger Trust by other companies within the Grainger plc group and are calculated on an arm's length basis and determined by the number of property units held.

4. Turnover

Turnover arises from:

	2019 £	2018 £
Rental income	2,189,717	1,485,862
Proceeds from sale of shared ownership properties	8,157,800	1,882,000
Other income	6,699	10,740
	<u>10,354,216</u>	<u>3,378,602</u>

The whole of the turnover is attributable to the principal activity of the company wholly undertaken in the United Kingdom.

Grainger Trust Limited

Notes to the financial statements (continued)

Year ended 30 September 2019

5. Fair value gain on investment property

	2019 £	2018 £
Fair value gain on investment properties	<u>4,715,650</u>	<u>1,629,489</u>

6. Operating profit

Audit fees of £3,300 (2018: £2,400) are statutory audit fees only and are borne by another group company.

7. Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services was:

	2019 £	2018 £
Remuneration	<u>20,000</u>	<u>20,000</u>

The remuneration of Deborah Shackleton, Calum Mercer, and Gina Amoh totalled £20,000 (2018: £20,000). In addition to their directorship of Grainger Trust Limited, Mark Robson (resigned 30 April 2019), Paul McGowan, Toby Austin and Manpreet Dillon (appointed 30 April 2019) were directors/employees of other group companies and their remuneration was borne by another group company. The remuneration of the highest paid director totalled £10,000 (2018: £10,000).

8. Taxation

Tax expense included in profit or loss

	2019 £	2018 £
Current tax:		
UK current tax expense	541,237	331,907
Deferred tax:		
Origination and reversal of timing differences	895,973	309,603
Impact of tax rate changes	(94,313)	(32,590)
Tax on profit on ordinary activities	<u>1,342,897</u>	<u>608,920</u>

Tax expense included in other comprehensive income

	2019 £	2018 £
Deferred tax:		
Origination and reversal of timing differences	395,724	445,486
Tax on components of other comprehensive income	<u>395,724</u>	<u>445,486</u>

Reconciliation of tax expense

The tax assessed on the profit on ordinary activities for the year is lower than (2018: lower than) the standard rate of corporation tax in the UK of 19% (2018: 19%). Tax is chargeable at an effective rate of 17.7% (2018: 18.0%).

	2019 £	2018 £
Profit on ordinary activities before taxation	<u>7,564,265</u>	<u>3,376,370</u>
Profit on ordinary activities by rate of tax	1,437,210	641,510
Impact of tax rate changes	(94,313)	(32,590)
Tax on profit on ordinary activities	<u>1,342,897</u>	<u>608,920</u>

Grainger Trust Limited

Notes to the financial statements (continued)

Year ended 30 September 2019

8. Taxation (continued)

Factors that may affect future tax expense

No provisions have been made for tax that would become payable if the company's trading properties were sold at their year end replacement values. The total unprovided deferred tax in respect of this is £443,964 (2018: £54,386).

At the date of approval of these financial statements, the government has announced that it intends to revoke the enacted reduction in the UK corporation tax rate expected to take effect from 1 April 2020, but has not yet legislated for such a change. Any changes in corporation tax rates, once enacted, will impact the company's future current tax charge and any deferred tax balances accordingly.

9. Tangible assets

	Investment properties £	Housing properties £	Total £
Cost or valuation			
At 1 October 2018	15,709,204	24,774,334	40,483,538
Additions	8,818,566	13,788,207	22,606,773
Revaluations	4,715,650	2,327,789	7,043,439
At 30 September 2019	29,243,420	40,890,330	70,133,750
Depreciation			
At 1 October 2018	—	—	—
Charge for the year	—	328,169	328,169
Reversal of depreciation	—	(328,169)	(328,169)
At 30 September 2019	—	—	—
Carrying amount			
At 30 September 2019	29,243,420	40,890,330	70,133,750
At 30 September 2018	15,709,204	24,774,334	40,483,538

Investment properties comprise Grainger Lets properties and shared ownership properties. Grainger Lets properties have been valued at their open market value as at 30 September 2019 by Allsop LLP. Shared ownership properties have been valued on an existing use value for social housing (EUV-SH) basis. The number of Grainger Lets units under management at 30 September 2019 was 31 (2018: 31) and the number of shared ownership units was 220 (2018: 106).

Housing properties comprises social housing properties and are valued on an existing use value for social housing (EUV-SH) basis. The number of social housing properties at 30 September 2019 was 245 (2018: 152).

The valuations represent estimates of the open market value of the properties subject to the tenancies then existing. The historical cost of these properties is £48,308,495 (2018: £25,740,210).

Grainger Trust Limited

Notes to the financial statements (continued)

Year ended 30 September 2019

10. Stocks

	2019 £	2018 £
Trading properties	3,035,448	356,081
Work in progress	15,985,007	9,647,296
	<u>19,020,455</u>	<u>10,003,377</u>

The replacement value of trading properties (sale at market value of the property subject to occupation by a resident) is £5,647,000 (2018: £676,000) based on market value at 30 September 2019.

Stock is stated in the balance sheet at the lower of cost and net realisable value. Net realisable value is the net sales proceeds which the company expects on the sale of a property with vacant possession. The Directors have reviewed the vacant possession valuations of the properties. They concluded that there was no provision necessary against the carrying value of stock.

11. Debtors

	2019 £	2018 £
Rent arrears	79,181	43,259
Other debtors	1,466,338	1,413,030
	<u>1,545,519</u>	<u>1,456,289</u>

12. Creditors: amounts falling due within one year

	2019 £	2018 £
Trade creditors	61,206	105,159
Amounts owed to group undertakings	12,776,128	10,048,754
Other creditors	2,979,087	2,271,231
Accruals and deferred income	149,310	117,174
	<u>15,965,731</u>	<u>12,542,318</u>

The amount owed to group undertakings is unsecured, is repayable on demand, and does not bear interest.

13. Deferred tax

The deferred tax included in the statement of financial position is as follows:

	2019 £	2018 £
Included in provisions (note 14)	<u>3,703,749</u>	<u>2,506,365</u>

The deferred tax account consists of the tax effect of timing differences in respect of:

	2019 £	2018 £
Revaluation of investment properties	2,022,453	1,220,793
Revaluation of housing properties	1,681,296	1,285,572
	<u>3,703,749</u>	<u>2,506,365</u>

Grainger Trust Limited

Notes to the financial statements (continued)

Year ended 30 September 2019

14. Provisions

	Deferred tax (note 13) £
At 1 October 2018	2,506,365
Additions dealt with in profit or loss	801,660
Additions dealt with in other comprehensive income	395,724
At 30 September 2019	<u>3,703,749</u>

15. Called up share capital Issued, called up and fully paid

	2019		2018	
	No.	£	No.	£
Ordinary shares of £1 each	<u>47,957,128</u>	<u>47,957,128</u>	<u>23,657,128</u>	<u>23,657,128</u>

Share movements

	No.	£
Ordinary		
At 1 October 2018	23,657,128	23,657,128
Issue of shares	24,300,000	24,300,000
At 30 September 2019	<u>47,957,128</u>	<u>47,957,128</u>

On 31 January 2019, the company issued 13,000,000 ordinary £1 shares for consideration of £1 each, on 2 May 2019 issued a further 5,300,000 ordinary £1 shares for consideration of £1 each, and on 19 September 2019 issued a further 6,000,000 ordinary £1 shares for consideration of £1 each. Subsequent to the year end, on 25 November 2019, the company issued a further 12,000,000 ordinary £1 shares for consideration of £1 each. The shares have full voting, dividend and capital distribution rights.

16. Reserves

Revaluation reserve – This reserve records gains and losses on asset revaluations in respect of housing properties.

Profit and loss account – This reserve records retained earnings and accumulated losses.

17. Capital commitments

Capital expenditure contracted for but not provided for in the financial statements is as follows:

	2019 £	2018 £
Tangible assets	<u>77,266,898</u>	<u>69,989,616</u>

Grainger plc has indicated that it will make available such funds as needed by the company to fulfil these capital commitments.

Grainger Trust Limited

Notes to the financial statements (continued)

Year ended 30 September 2019

18. Operating leases

As lessor

The total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2019	2018
	£	£
Not later than 1 year	2,000,085	1,476,038
Later than 1 year and not later than 5 years	6,433,248	5,149,621
Later than 5 years	1,468,887	1,376,928
	<u>9,902,220</u>	<u>8,002,587</u>

19. Related party transactions

Administrative expenses include an intercompany management recharge payable to another company within the Grainger plc group, which is not a Private Registered Provider of Social Housing, representing property services costs, office costs, IT costs and similar other costs.

20. Legislative provisions

The company is registered with the Regulator of Social Housing (RSH) (registration 4743).

21. Ultimate controlling party

The Members of the Board of Management regard Grainger plc, a company registered in England and Wales, as the ultimate parent undertaking and the ultimate controlling party, being the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the Grainger plc consolidated financial statements may be obtained from The Secretary, Grainger plc, Citygate, St James' Boulevard, Newcastle upon Tyne, NE1 4JE.

Grainger Housing & Developments Limited is the immediate controlling party and parent company by virtue of its 100% shareholding in the company.