THE ROLE OF CASH FLOWS IN VIABILITY ASSESSMENTS
The viability statement is as a result of re-forecasting and stress testing cash flows against key risks attributable to
- operations (sources of internal cash) and
- financial risks (how we finance operations and)
- investing (e.g obsolescence)
- Competitions
Going concern status is based on adequacy of cash flows for =>12 months after financial statements publication date.

What should users take away from reading the Viability statement?
Generically, all stakeholders expect management (as agents of the principal) to achieve the following objectives. Look for evidence of:
- Capital protection (safeguarding strategies, policies and procedures)
- Value added and protected
- Sustainability
- Business model that works for all stakeholders (multiple capitals)

Conceptual Framework disclosure principles
para 7.16 IFRS disclose relevant information
para 7.18 Entity-specific information more useful than "boilerplate" disclosures
para 7.18 Entity-specific information is precious, as it is not readily available elsewhere.

Study the extracts and make notes about how the above principles apply.

The principal risks facing British Land are summarised on pages 50 to 53, including an assessment of the potential impact and likelihood and how the risks have changed in the year, together with how they relate to our strategic priorities.

Which IFRS are most relevant ro viability assessment?
- IFRS 7 Financial isntruments disclosure
- IFRS 3 Business Combinations
- IAS 36 Impairment of assets
- IFRS 9 Financial instruments
- IAS 37 Provisions, contingent liabilities and assets

Credit risk
Liquidity risk

Baseline

Programmed: inputs for contracted product/service deliverables
Committed e.g. capital commitments
Discretionary e.g. expansion and renewal, M&A

This report may be using programmed and committed as synonyms.

Discretionary

Financing implications
- Borrowing levels
- Asset structure
- Risk management
- Capital commitments
- Impairment
- Guarantees
- Security

Strategic business information requires you to think broadly
The Group's "covenant headroom" is affected by changes in investment property values. This has implications for the choice of accounting policy over the measurement basis. This issue is relevant to specimen paper 2, question 4b - an excellent question you are encouraged to attempt and master.

CHECK THE BASIS OF MEASUREMENT OF INVESTMENT PROPERTY AT BRITISH LAND.
- Justify the measurement basis in terms of debt capacity
- What disclosures would you expect to see?
- How do the disclosures reflect the principles of the CONCEPTUAL FRAMEWORK in paras 7.16 - 7.18

Achieving clarity and effectivenss:
- Generalize
- Particularize

The Strategic Report was approved by the Board on 16 May 2017 and signed on its behalf by:

Lucinda Bell
Chief Financial Officer

Viability statement

Assessment of prospects

The Group's annual corporate planning process includes the completion of a strategic review, reassessing the Group's risk appetite and updating the Group's forecasts.

The Group's strategy provides the focus for our annual priorities and is formally reviewed annually. This process is led by the Chief Executive through the Executive Committee and includes the active engagement of the Board. Part of the Board's role is to consider whether the strategy takes appropriate account of the Group's principal risks. The latest updates to the strategic plan and Group's risk appetite were approved by the Board in March 2017.

The strategy and risk appetite drive the Group's forecasts. These cover a five year period and consist of a base case forecast which includes committed transactions only, and a forecast which also includes non-committed transactions the Board expects the Group to make in line with the Group's strategy. A five year forecast is considered to be the optimal balance between the Group's long term business model to create Places People Prefer and the fact that property investment is a long term business (with weighted average lease lengths and debt maturities in excess of five years), offset by the progressively unreliable nature of forecasting in later years, particularly given the historically cyclical nature of the UK property industry.

Assessment of viability

For the reasons outlined above, the period over which the Directors consider it feasible and appropriate to report on the Group's viability is the five year period to 31 March 2022.

The assumptions underpinning these forecast cash flows and covenant compliance forecasts were sensitised to explore the resilience of the Group to the potential impact of the Group's significant risks, or a combination of those risks.

The principal risks table which follows on pages 50 to 53 summarises those matters that could prevent the Group from delivering on its strategy. A number of these principal risks, because of their nature or potential impact, could also threaten the Group's ability to continue in business in its current form if they were to occur.

The Directors paid particular attention to the risk of a deterioration in economic outlook which could impact property fundamentals, including investor and occupier demand which would have a negative impact on valuations, and give rise to a reduction in the availability of finance. The remaining principal risks, whilst having an impact on the Group's business model, are not considered by the Directors to have a reasonable likelihood of impacting the Group's viability over the five year period to 31 March 2022.

The sensitivities performed were designed to be severe but plausible; and to take full account of the availability of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks relating to a single 'downturn scenario':

- Downturn in economic outlook: Key assumptions including occupancy, void periods, rental growth and yields were sensitised in the 'downturn scenario' to reflect reasonably likely levels associated with an economic downturn, including:
  - a reduction in occupier demand, with a fall in occupancy rate of 5% and Offices and Retail ERV declines of 25% and 5% respectively
  - a reduction in investment property demand to the level seen in the last severe downturn in 2008/2009, with outward yield shift to 8% net initial yield
- Restricted availability of finance: based on the Group's current commitments and available facilities there is no requirement to refinance until early 2021. In the normal course of business, financing is arranged in advance of expected requirements and the Directors have reasonable confidence that additional or replacement debt facilities will be put in place. In the 'downturn scenario', the following sensitivity of this assumption was conducted:
  - a reduction in the availability of finance, for the final two years of the five year assessment in tandem with the Group's refinancing date

The outcome of the 'downturn scenario' was that the Group's covenant headroom based on existing debt (i.e. the level by which investment property values would have to fall before a financial covenant breach occurs) decreases from the current 58% to, at its lowest level, 11%, indicating covenants on existing facilities would not be breached.

In the 'downturn scenario', mitigating actions would be required to enable the Group to meet its future liabilities at the refinancing date, principally through asset sales, which would allow the Group to continue to meet its liabilities over the assessment period.

Viability statement

Having considered the forecast cash flows and covenant compliance and the impact of the sensitivities in combination in the 'downturn scenario', the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2022.

The need to exercise judgement over what is "reasonable expectation"

Going concern

The Directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the Governance review.

To read more information on going concern, go to page 65.

In light of recent high-profile collapses such as Carillion, the reporting by companies of risks and long-term viability is once again in the spotlight. Investors and other stakeholders expect detailed, specific information in the annual report which clearly sets out the key risks facing the company and the potential impact of these risks on the company's longer-term viability.

The procedure undertaken to enable the Board to provide the fair, balanced and understandable confirmation to shareholders has been reviewed by the Audit Committee. Meetings to review and document the key considerations undertaken to ensure that information presented is fair, balanced and understandable are held between the Chief Financial Officer, Head of Investor Relations and the Group Financial Controller and other appropriate employees. A detailed report is then presented to the Audit Committee which includes a summary of the process undertaken to satisfy management that the confirmation to be given is appropriate and accurate.

Risk management and internal control

The Board determines the extent and nature of the risks it is prepared to take in order to achieve the Company's strategic objectives.

The Board has responsibility for the Company's overall approach to risk management and internal control. The Board's responsibilities include ensuring the design and implementation of appropriate risk management and internal control systems. Oversight of the effectiveness of these systems is delegated to the Audit Committee which undertakes regular reviews to ensure that the Group is identifying, considering and mitigating, as far as practicable, the most appropriate risks for the business (C.2.3).

As well as complying with the Code, the best practice recommendations in 'Guidance for Risk Management, Internal Control and Related Financial and Business Reporting' have been adopted and the Company's internal control framework has been assessed against the internationally recognised COSO Internal Control Integrated Framework. The latter assessment showed that all key control elements are in place.

British Land's approach to risk, including the roles of the Board, the Audit Committee and the Executive Risk Committee in setting risk appetite and monitoring risk exposure, is detailed in the "Managing risk in delivering our strategy" section on pages 46 to 49 (C.2.1).

Formal and transparent arrangements exist for considering how corporate reporting, risk management and internal control principles are applied and for maintaining an appropriate relationship with the Company's auditor.

The Group's internal control system is built on the following fundamental principles, and is subject to review by internal audit:

- a defined schedule of matters reserved for approval by the Board
- a detailed authorisation process: no material commitments are entered into without thorough review and approval by more than one authorised person
- formal documentation of all significant transactions
- a robust system of business and financial planning: including cash flows and profitability forecasting, with scenario analysis performed on major corporate, property and financing proposals
- a robust process for property investment appraisals
- monitoring of key outcomes, particularly expenditure and performance of significant investments, against budget and forecast
- clearly defined policies and review of actual performance against policies
- benchmarking of property performance against external sources such as Investment Property Databank
- key controls testing
- a comprehensive property and corporate insurance programme and a formal whistle-blowing policy

The Audit Committee reviews the effectiveness of the Group's system of internal control annually, including the systems of control for material joint ventures and funds. During the course of its review of the risk management and internal control systems during the year ended 31 March 2017, and to the date of this Report, the Audit Committee has not identified, nor been advised of, a failing or weakness which it has determined to be significant (C.2.3).

Ethical management: fiduciary duty

A number of policies and procedures have been adopted by the Group to ensure that we not only meet our legal obligations, but also behave ethically, act with integrity and protect our assets from the unlawful activities of others. These include policies on anti-bribery and corruption and fraud awareness and know-your-client procedures. All employees are made aware of the Group's policies and receive training appropriate to their roles and responsibilities.

Viability and going concern

and cash deposits exceed current drawn banking facilities

The viability statement is set out on page 49 (C.2.2).

Grounds for going concern basis: liquidity cover secures covenant compliance

The Group has considerable undrawn debt facilities and cash deposits in excess of current drawn banking facilities. There is substantial headroom against the covenants for its unsecured banking facilities. It also benefits from a diverse and secure income stream from leases with long average lease terms.

provides

This suggests liquidity surplus: check note 17, p135

Going concern basis: adequately supported by the grounds laid.

Having assessed the principal risks and other matters discussed in connection with the viability statement, the Directors believe that the Group is well placed to manage its financing and other business risks satisfactorily, and have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for at least 12 months from the date of the Annual Report. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements (C.1.3).

Taxation

Our principles of good governance extend to our responsible approach to tax. It remains important to our stakeholders that this is aligned to the long term values and strategy of the Group. The Chief Financial Officer, with close involvement of the other Executive Directors and senior management, is responsible for developing the Group's approach to tax. A tax update is presented to the Audit Committee annually.

Community investment

British Land's approach to community investment is set out in our Local Charter which details how we build trust by making positive contributions locally. Our Community Funding Guidelines set out how we allocate funding, with a particular focus on initiatives close to our assets that provide opportunities to local people through education, employment and training. Both documents can be found on our website at **www.britishland.com/policies**

Our financial donations to good causes during the year totalled £1,351,000 (2016: £1,371,000). Our Community Investment Committee approves all expenditure from our Community Investment Fund and reports to the Executive Committee on an annual basis.

In addition to funding projects approved by our Community Investment Committee, the Company also supports fundraising and payroll giving for causes that matter to staff. This support includes:

- 50% uplift of staff payroll giving contributions (capped at £5,000 per person and £50,000 per annum for the whole organisation) and
- a staff matched funding pledge, matching money raised for charity by staff up to £750 per person per year