Group Financial Statements
& Annual Review

A business with
social objectives

Southern
Housing
Group

www.shgroup.org.uk


# 2014-15

We do not distribute
our profits – every penny we make
is reinvested in new homes and
improving our services

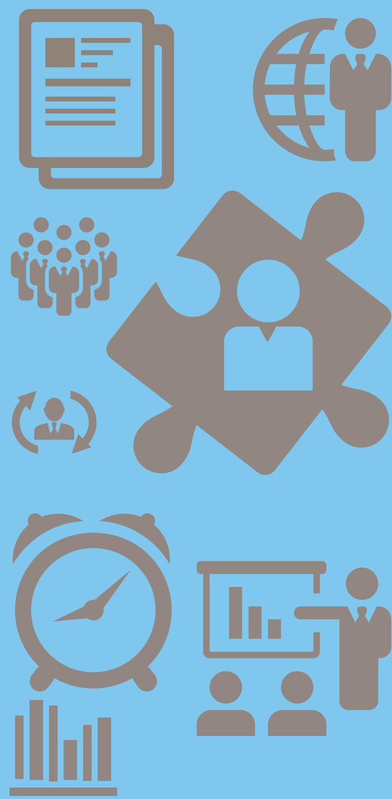
# Contents



The consolidated financial statements of:

Southern Housing Group Limited
Southern Home Ownership Limited
Southern Space Limited
Southern Development Services Limited

# Statement by the Group Chairman and Group Chief Executive



The financial year 2014/15 closed on a high note with the Group reporting a surplus of £51.9m and an increase in our operating surplus on core activities to £13.6m. While the bottom line surplus is heavily influenced by the market conditions in London and the South East of England it is gratifying to see the Group continue on its path of financial stability, which gives us the opportunity to apply the proceeds of property sales to the supply of more new housing.

Built

# 229

new affordable and social rent tenure homes

## Our strong credit rating is a vote of confidence in the way we lead our organisation

Malcolm Groves
Chairman

Tom Dacey
Chief Executive

At the time that this report goes to print we are in the process of factoring into our long term business plan the impact of the various elements of the Chancellor's 2015 Budget which will reduce our social housing rental income and will impact on the welfare benefits available to a large number of our customers. We find that our business model can digest these changes without reducing the quality of our services to customers but we may need to slow down the rate of development of our new housing in future.

During 2014/15 we managed the introductory period of the changes to welfare benefits without tangible impact on our results and widespread hardship for our residents. This is largely due to the industry and determination of our Financial Inclusion staff and the work they carry out with our residents.

Property sales are a vital part of our strategy of producing affordable housing with greatly reduced or no public subsidy. Without our programme of open market sales and shared ownership we would be building very small quantities of sub-market rented housing, which is needed more than ever in today's property market.

This report also marks the end of the first funding programme for affordable rent. We have discovered that prioritising low paid working households for our affordable rent product, which in many ways is a return to one of our traditional target groups, has proved very popular with this new client group. These residents recognise that our rents are lower than the private sector, the quality of homes is higher, and that we provide an excellent management service. It is also very sustainable as evidenced by only five tenancy failures out of 649 affordable rent tenancies let since 2011.

Over the four years of the funding programme we have delivered 250 new affordable rent homes and have converted 399 social rent homes to affordable rent to create funds for new homes. The market in London and the wider South East of England remains challenging, with more issues around the availability of land and the uncertainty of the planning process continuing to produce unpredictable outcomes for the Group.

During the course of 2014/15 the Group Board dedicated a special half-day seminar to risk management and Value for Money (VfM). As a provider of low cost homes we work in an ever increasing risk environment and felt we would benefit from concentrating on risk and VfM for a half-day outside the pressures of busy Group Board agendas. We found it very useful to drill down into the detail and used the opportunity to redraft the Group's major risk map, the highlights of which are covered elsewhere in this report.

We are particularly concerned that we appear to be moving towards a low inflation or even deflationary phase in the economic cycle. Given other pressures on the Group's income stream such as the rollout of Universal Credit this will need careful attention over the next year and possibly beyond.

With a strong balance sheet, a balanced future development programme with a relevant offer to a range of housing needs and a commitment to improve and modernise our customer service, Southern Housing Group is well positioned to view the future with confidence.

# The Board, Senior Executives and Advisers

31 March 2015

## The Board:

Members of the Board and Committees of Southern Housing Group Limited as at 31 March 2015:

| Group/Company | | Southern Housing Group | | | | | | SDSL | SHO | SSL |
|---|---|---|---|---|---|---|---|---|---|---|
| **Committee** | | **Board** | Remuneration and nominations | Treasury | Customer services | Audit | Group development committee | **Board** | **Board** | **Board** |
| Malcolm Groves | | C | M | | | | | | | |
| Justin Chittock | | M | | C | | M | | | | |
| Maureen Corcoran | | M | | | C | | | | | |
| Tom Dacey | CE | M | | | | | | M | | M |
| James Hitch | | M | C | | | | | | | |
| Steve Johnson | | M | | | M | | M | | M | M |
| Arthur Merchant | | M | | M | | M | | | | |
| Preth Rao | | M | M | | M | | | | | |
| Paul Rees | | M | | | | C | | C | | |
| Tim Richards | | M | M | | | | C | | C | C |
| Hugh Stebbing | | | | | | | M | | M | M |
| Peter Phillips | | | | M | | | M | | M | |
| Yvette Morgan | | | | | | | M | | M | M |
| Dale Meredith | E | | | | | | | | M | M |
| Rosemary Farrar | E | | | | | | | M | | M |
| Chris Harris | E | | | | | | | | | |
| Alan Townshend | E | | | | | | | | | |
| Kate Smith | E | | | | | | | | | |

SDSL - Southern Development Services Limited SHO - Southern Home Ownership SSL - Southern Space Limited
C - Chair M - Member CE - Chief Executive E - Executive

### External auditors

PricewaterhouseCoopers LLP
Chartered Accountants
and Statutory Auditors
1 Embankment Place
London WC2N 6RH

### Principal bankers

National Westminster Bank Plc
Corporate Banking
Second Floor, County Gate 2
Staceys Street, Maidstone
Kent ME14 1ST

### Secretary and registered office

Kathryn Worth
Southern Housing Group
Fleet House
59-61 Clerkenwell Road
London EC1M 5LA

# Review of the year

This year has been one of reflection and review. In April we launched our new Corporate Strategy, which set the direction the Group will take over the next three years. Our new strategy addresses changes taking place in our operating environment and adapts our offer to those we house in a way that will maintain our independence, strength and stability.

At the start of the year we set out five challenges:

#1 **Valuing our history, developing our brand and enhancing our reputation:**
We will manage our risks and build on our foundations.

#2 **Providing quality homes:**
We will build to our design standards and maintain and improve our homes.

#3 **Offering sustainable tenures:**
We will provide debt advice and pathways to employment to enable social mobility. We will give our customers choices.

#4 **Building without public subsidy:**
Generating cross subsidy through market-facing tenures and enhancing the bottom line.

#5 **Delivering value:**
Maximising value from our assets and delivery services effectively.

After one year we have made good progress on meeting the changing needs and challenges we are facing, and are in a strong position for future growth.

## Challenge 1:

### Valuing our history, developing our brand and enhancing our reputation


### At a glance

- Retained our A1 Moody's credit rating
- Recognised for external awards for our Vega, Pankhurst, Beveridge Mews and Iris Court developments
- Recognised for our internal training and development offer to staff at major industry awards.

With more than 100 years' experience of providing homes to people who need them we have continued to build on our legacy during the past 12 months. We have both enhanced our reputation and raised our profile by receiving external awards and through participating in events like Comic Relief's Red Nose Day which made use of our call centre for the evening. We have also delivered another financially strong year. All of this has contributed to our overall reputation as a strong, stable and independent housing provider.

A number of our developments have been recognised with external building and design awards during the past year emphasising both the quality of our homes' design and our ability to continue to provide affordable housing, regardless of availability of public subsidy.

In May our latest development in Brighton, Pankhurst, won the Evening Standard Homes and Property Award for the best large affordable development while The Gatehouse in Horsham was shortlisted for the First Time Buyer Readers' Awards in the Best Small Development 2015 category. One of our most recent developments in Reading, Iris Court, was also shortlisted for an Inside Housing UK Housing Award in the Outstanding Development of the Year, 25 homes or more category.

A number of other schemes that we have jointly developed have also been shortlisted for various awards, including Watercolour in Redhill; Surrey East Village on the former Olympic Village site in London; and Royal Arsenal Riverside in Woolwich in London.

However it is not only our developments that have received awards. Our Learning and Development Team won an award through the premier training magazine, Training Journal, for its innovative use of coaching in the Group and was also shortlisted for its work promoting excellence among teams.

As a financially strong and stable organisation, we were proud to see our financial strength recognised through the retention of our Moody's A1 credit rating. This strong credit rating is a vote of confidence in the way we lead our organisation, organise our finances and manage risk and allows us to continue to develop new homes without public subsidy.

As a leading housing provider in the UK we have also taken part in a number of campaigns and supported research into the sector. This year we were one of the main sponsors of the UK Housing Review published by the Chartered Institute of Housing (CIH). Now in its 23rd edition, the UK Housing Review 2015 brings together evidence from a range of sources to assess the health of the UK's housing system. It is a prestigious publication that offers valuable insights and an authoritative, unbiased and reliable analysis of the UK's housing market.

## We have raised our profile by taking part in events like Comic Relief's Red Nose Day

### Success story

Staff members from across the Group, along with their family and friends, helped to raise tens of thousands of pounds in donations by providing an official call centre for Red Nose Day on 13 March 2015.

Our customer service centre, based in Horsham, opened its lines to take donations from all over the country as part of this nationwide event.

This is the second time we have worked as a call centre to take donations for Red Nose Day and this year more than 80 people participated from across the South East of England.

We had so many volunteers wanting to take part that there were more people than telephone lines. To make sure that everyone got a chance to take calls we rotated the people who were on the phones and kept everyone else busy with activities like decorating the office, creating team mascots and holding a cake decorating competition.


## Challenge 2:
### Providing quality homes


### At a glance

- Invested £21m in maintaining our properties
- Gained public subsidy of £5.5m over the next three years for 244 new homes
- Handed over to customers 450 newly built units

Since Samuel Lewis left a bequest that enabled us to invest in bricks and mortar in 1901 our aim as a charitable organisation has always been to provide quality homes. Over the past 12 months we have invested in our homes to maintain and improve them, and have continued to meet high design standards when building new properties.

One of our flagship programmes has been the redevelopment of our Lisgar Terrace estate in West London where we are investing £35m to upgrade this historic site. Originally built in 1928 as a Samuel Lewis Trust Estate, Southern Housing Group first secured planning permission to extend and renovate Lisgar Terrace in 2010. After four years of hard work the first homes are now complete. The investment involved redesigning homes to high standards that will improve living conditions for existing customers, including the provision of much better insulation, double glazed sash windows, new larger kitchens and bathrooms and landscaped courtyard areas. In addition to larger and more modern homes lifts have also been installed. At the same time we have preserved a number of the original features of the building to retain its historic character including the original staircases and external window balconettes and we have reproduced the brick detailing above the entry doors and the glazed bricks at ground level. The next phase of this work has now been started which, when finished in 2020, will result in the total number of homes on the estate increasing by 20%, from 200 to 238. These new homes will be sold or let on a variety of tenures providing homes for more customers and securing additional income for the Group that can then be reinvested in building new homes.

In Reading we have taken a similar approach to preserving the historic nature of a site while providing new, fit for purpose homes for customers. Iris Court in Tilehurst, Reading retains a grade II listed rectory building following the demolition of 1960s sheltered accommodation and is set in a conservation area. We have developed 43 self-contained affordable rented apartments for people aged 50 and above, which feature fully accessible bathrooms and an optional call system. There are shared facilities in the old rectory and two lifts and the overall design of the newly built element complements the conservation area status, the listed building and the traditional Victorian-style landscaped grounds.

It is not only the interior of our customers' homes that we are maintaining and improving. In Sandown on the Isle of Wight we have worked with a partner organisation, Fair Haven Housing Trust, to provide housing specifically for people with Autism Spectrum Disorder.

**43** affordable rented apartments for people aged 50 and above

These homes are the first of their kind on the island and consist of two new, purpose built, one bedroom bungalows and a one bedroom self-contained flat conversion in our St Helena scheme.

While much of our work is dedicated to creating a more physically attractive place for our customers to live in we also take issues our customers raise very seriously. On one of our estates where customers raised complaints about anti-social behaviour we worked closely with residents and local police to identify the key perpetrators and were successful in gaining three property closures. This substantially improved the environment our customers live in.

## Success story

As part of our aim to provide sustainable tenures, we are always looking at how we can improve the quality of the homes we offer.

One of the key steps we have taken is to implement innovative design and building techniques. For example one of our new developments on the Isle of Wight has been built with strong environmental considerations in mind.

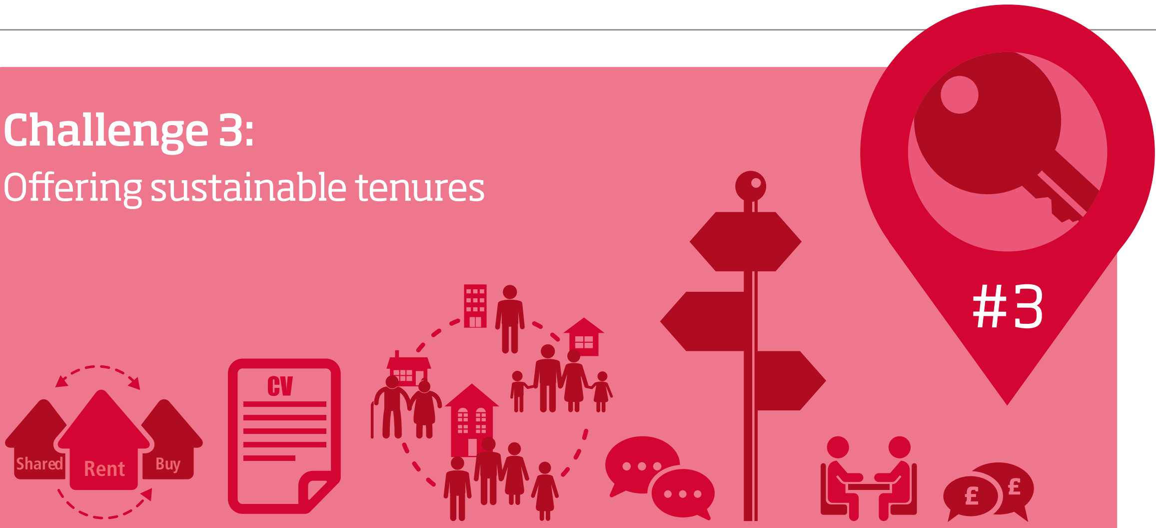
After securing funding we won a bid to build 28 homes on a site in Freshwater and we worked closely with the local council to identify the design and construction features we were aiming to integrate. After much discussion we agreed that the council would provide funding in addition to that which we were offering to ensure that we could build to a Passivhaus standard. This standard provided a high level of comfort while using very little energy for heating and cooling.

In fact, passive heat sources like the sun, human occupants and household appliances meet the demand for most heating.

Not only does this provide an environmentally friendly and sustainable solution for building these homes, but when they are completed the aim is that our residents will also benefit from far lower energy bills than they have previously experienced.

We aim to carry out post occupancy monitoring at the scheme to find out how much energy customers are using and to explore whether we should replicate the approach at other schemes in the future.

## Challenge 3:
### Offering sustainable tenures




### At a glance

- Helped 155 households into full ownership of their home
- Helped young residents on the Isle of Wight access £4,500 to help with job hunting and training
- Held events in Horsham, Worthing and Portsmouth to gain customer feedback and enhance services from contractors

While our role as a housing association is primarily to provide people with a home, we also understand that we have a wider responsibility to meet our social objectives and support our customers in other areas. Our highly successful employment and training advice service, Southern Works, continued to help residents into work this year by providing specialist advice. This advice includes helping residents with CV writing, highlighting transferrable skills and improving confidence and communication levels. This year's successes are highlighted in the Value for Money section of this report.

We have undertaken similar work on the Isle of Wight to help 16-25 year olds improve their chances of getting a job or improving their education. The work began when staff members provided a resident group, Giving Residents Opportunities and Wellbeing (GROW), with assistance to apply for a £4,500 grant through The Island Roads' Isle of Wight Foundation. This money supported a project called Breaking Barriers, which gives young people across the island access to the tools they need to apply for jobs and training.

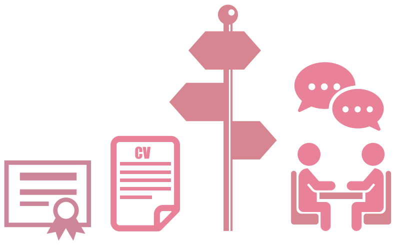
More information on the full range of financial assistance and successful grants can be found in the Value for Money section of this report.

We hold events across the areas we work in so that customers can come and talk to us about the issues that matter to them. In late 2014 we met with residents in Horsham to ask what small, local changes we could make to improve their area. The feedback we received from this session resulted in a number of changes in our schemes, including creating communal gardens to make the area more attractive and providing equipment to help with the development of these gardens.

We invite our contractors along to these events so that customers can ask questions and talk to them about issues they might have. For example, in Worthing and Portsmouth we invited a service provider to talk to residents to ensure that everyone could get a better understanding about the service they were using and ask their own questions.

In addition to holding specific sessions with residents where they can provide feedback, we have introduced Customer Service Monitors to ensure that services provided meet agreed standards. Residents have enjoyed taking part in these kinds of sessions and have gained a greater understanding of both the work that the Group does and factors, such as health and safety requirements, that can influence decisions.

Staff members provided a resident group, Giving Residents Opportunities and Wellbeing (GROW), with assistance to apply for a £4,500 grant through The Island Roads' Isle of Wight Foundation




## Success story

One of our key aims is to provide our customers with choices, especially around the type of home they live in. With many people unable to afford the purchase of a home on the open market our shared ownership option is a popular alternative. This involves buying a share of between 25% and 75% of a home's value and then paying rent on the remaining share.

Amy Jackson (26), works as an air hostess and was living at home with her parents before she bought a brand new one bedroom flat through Southern Housing Group.

Amy comments: "I previously did not know much about Shared Ownership, but I found the process very straightforward and easy to digest, no more difficult than buying a flat outright. In fact, it was all done and dusted in just two weeks."

Once she knew she could buy, Amy didn't need to look anywhere else: "I knew straight away that The Gatehouse was perfect for me. The moment I saw the show home, I fell in love with the bright spacious rooms and lovely clean finish. I was pleasantly surprised with the size and quality of home I could afford."

Amy also found the service especially helpful: "I was really impressed with the level of service and support I received throughout - the team couldn't have been more helpful. There was always someone available to answer my questions, no matter how small and probably silly."


## Challenge 4:
### Building without public subsidy

### At a glance

- Built 173 of our 450 new homes without any public subsidy
- 95 of these are market-facing homes
- Generated almost £15m from shared ownership sales, selling on average 46% share
- Began building 390 new homes

Following the steep reduction in available government funding one of the biggest challenges we face in continuing to provide low cost homes to people who need them is building without public subsidy. With our strong financial foundations we have been able to raise the financing to fund future building programmes through the issue of a bond. However we are taking a strategic approach to generating the additional income to service our borrowing in a number of different ways.

In August 2014 we handed over the first project in our market rent programme. While our involvement in the scheme at Eaton Road in Margate was initially restricted to 36 affordable housing flats, the opportunity rose to purchase the other 42 flats in another block that had been designated for the open market.

We have continued to build our shared ownership portfolio in the past year and a significant number of shared owners have purchased additional equity in their homes. This work has been managed without the need for additional resources and has generated almost £15m in income for the Group that can then be reinvested to support our corporate objectives.

In addition to maintaining a mix of tenures through our new-build programme, our open market sale subsidiary, Southern Space Limited, continues to generate profit for the Group. This year Southern Space has developed properties in Crowborough, East Sussex and Biddenden in Kent, and worked in partnership with the charitable Registered Provider on Fivash House in Horsham and Bow River Village in London.

£££

42 open market rent flats in Eaton Road, Margate were purchased

Shared ownership sales generated £14.6m

155 households now own 100% of their property

As a Group we are also looking to expand the range of services that we can offer as alternative ways to generate income that can then be reinvested in the Group. In one of the first examples of its kind, we were successful in a competitive tender process with West London-based housing association, Inquilab, to deliver our popular financial skills programme to around 50 of its customers.

While currently in an early stage of development this contracting of internally developed programmes to other housing associations is another way in which we're looking to enhance our bottom line and to reinvest income generated back into building new homes and providing additional services.

## Success story

To ensure we are able to continue to build without public subsidy, we continue to invest in areas that enhance our bottom line. One of the key ways we do this is to offer shared ownership opportunities to customers at a range of sites across the south east of England.

This tenure offers multiple benefits as it generates a significant amount of income through first tranche sales receipts, followed by ongoing funds throughout the life of the shared ownership property through the rent paid on the un-owned portion of the property and customer purchases of additional shares of the property (known as staircasing).

In the past year we have sold a number of shared ownership properties, with 155 households now owning 100% of their property. This generated £14.6m for the Group. One of our flagship sites has been The Edge in Brighton, which saw 55 shared ownership properties sold, helping customers who would not be able to buy a home on the open market to purchase their first home.


## Challenge 5:
Delivering value

### At a glance

- Save almost £290,000 in software costs
- Improved quality and increased competition through renegotiating contracts for graphic design services
- Increased knowledge of resident interests through moving resident magazine online

Our role as a charitable association means that we are always seeking to deliver value where possible. This means that we work to ensure that we maximise the value we receive from our assets and we aim to deliver services as effectively as possible at all times.

In the past we produced printed copies of our quarterly resident newsletter and posted it to more than 28,000 households. In July 2014 we changed the way we communicated with residents in response to residents' request to provide more information and communications online. This has enabled us to identify who actually views the magazine and to record engagement levels for each article. To ensure we do not exclude residents who are not online, we now post a printed copy only to residents who have requested one, which has seen a massive reduction in printing costs and waste.

We have also moved onto a new design framework, which offers a panel of three graphic design companies. This has allowed us to have a greater choice of suppliers, which in turn has improved service as all three designers quote for work and are aware they are competing against other suppliers. This is then used to reduce costs on some work as while the creative aspect of one proposal might be preferred, it is not always necessarily the most financially attractive and so we ask suppliers to reduce their costs, which saves the Group money. This competition has also increased the quality of the work delivered, enhancing creativity and the Group's reputation for delivering high quality work.

We were able to purchase some of our software licences under the UK Public Sector Agreement (PSA12) enabling the Group to save approximately 55%.

Among our teams we are working hard to streamline the way we work and this year we have done a lot of work on our reporting. A number of our routine performance reports, which used to be completed manually are now automated and updated on a daily basis. This means the service is delivered more effectively and has saved the Group time and money.

In addition to enhancing effective service delivery, we are also looking at ways we can maximise the value of our assets, for example in areas where we have demolished older sheltered accommodation schemes that were no longer fit for purpose and have reused the land. In the case of one of our older schemes, Freshwater on the Isle of Wight, we have moved people from sheltered accommodation into new homes that are fit for purpose and then demolished the original buildings. New homes have now been built on this site and marketed on a mix of tenures to ensure we are maximising the use of our assets and providing accommodation that meets the needs of our customers.

## Success story

When it comes to delivering value, renegotiating major IT contracts and taking advantage of available discount rates has proven to be extremely successful.

As the Group qualifies to purchase some software licences under the UK Public Sector Agreement (PSA12), we are able to access these at a discount of approximately 55%. Taking advantage of this agreement also enables us to fix costs for three years with an option to extend this for an additional three years. The net savings of taking advantage of this agreement will see the Group save £276,600 over the six year period.

The IT Team has also been taking advantage of specialist skills it has within the team to manage contracts more closely and to manage the implementation of new products to ensure that the Group both saves money and increases the value it is getting from services.

This year the team was able to employ this specialist knowledge during the implementation of a new property management system to save the Group product costs and consultants' fees. In one instance the team discovered that a particular interface was already in use in another area and could be reused to perform the same function on a new implementation. Another example saw the team identify colleagues who possess the skills to develop key aspects of an existing programme.

The money saved through this approach can now be reinvested into future product development and enhancements to ensure systems continue to meet the Group's needs.

## We operate as a business in times of great challenge with changes to the welfare system, to our rental income and the reduction in public funding to build new homes.

### The year ahead

We launched our new Corporate Strategy last year to change the way we work by building on our foundations and becoming a business with social objectives. We achieved a lot during the year, both providing homes for those in a variety of housing needs and supporting our existing customers. We are now focusing on building our future to deliver transformed customer service and to create a viable future for our business, our customers and their homes.

For more than a century we have built on Samuel Lewis' vision of housing the poor of London, with an emphasis on the low paid. In doing so we have built a business that is strong, reliable and, above all, stable. To maintain this stability and our position in the sector we must continue to change and innovate in the way we do business.

We operate as a business in times of great challenge with changes to the welfare system, to our rental income and the reduction in public funding to build new homes.
In reviewing our Corporate Strategy one year on the direction remains clear. We have refined our five corporate challenges to be explicit about our intention to excel in our standard of customer service while continuing to build quality homes.

Building on our heritage remains our key intention and our improving financial strength provides us with the opportunity to secure our future.

2014 has been a challenging year and we now move into the future with more enthusiasm, focus and clarity.

We've achieved a lot during the year and have supported our residents in the many different ways.

# Business Overview

450

New homes were completed

Southern Housing Group was established in 1901 as the Samuel Lewis Housing Trust. The Group owns and manages more than 28,000 homes in London and the South East of England, and over 40% of our housing stock is located in the high value central London boroughs.

# £47.7m

Operating surplus for 2014/15 demonstrates that our core activities are profitable

Our profits are reinvested into new homes and to help transform people's lives

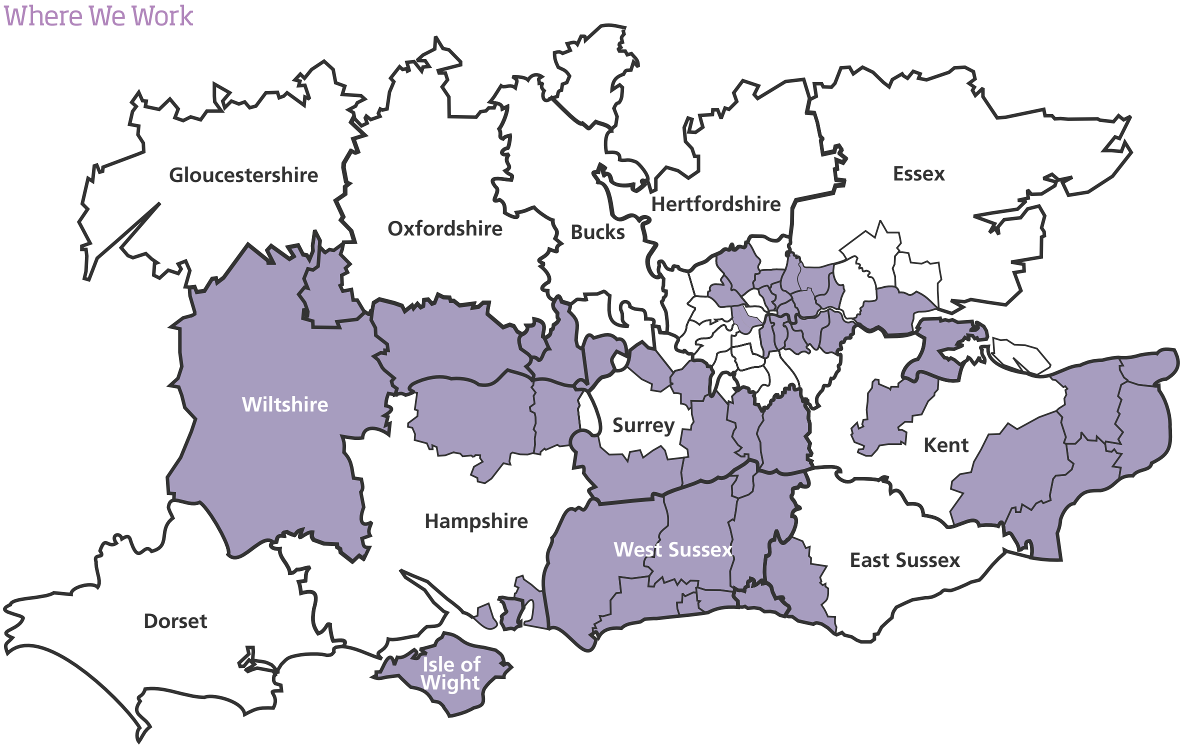
Southern Housing Group was established in 1901 as the Samuel Lewis Housing Trust. The Group owns and manages more than 28,000 homes in London and the South East of England, and over 40% of our housing stock is located in the high value central London boroughs. We provide housing for more than 67,000 residents and employ over 900 people offering a range of housing options for rent and home ownership. We also offer support to our residents to help them maintain their tenancies through our social and economic investment work which involves a range of innovative projects. With a pipeline of new housing stock in development and having just completed our 2011/15 contracts with both the Homes and Communities Agency (HCA) and the Greater London Authority (GLA) we have delivered a modest number of homes under the 'affordable housing' tenure. In addition to investing £57.3m of our resources in the new homes we have built, we also invested £38.4m during the year in the improvement and renewal of our existing housing stock.

The Group retains its A1 rating from Moody's and continues to hold the highest rating for governance and financial viability from the housing regulator, the Homes and Communities Agency (HCA).

## Development performance of new homes:

| | Unit numbers | |
|---|---|---|
| **Southern Housing Group** | **2015** | 2014 |
| Social rented | 20,283 | 20,806 |
| Supported | 249 | 249 |
| Intermediate market rent | 987 | 1,000 |
| Open market rent | 56 | 14 |
| Affordable rent | 635 | 448 |
| Leasehold | 2,431 | 2,437 |
| Shared ownership | 3,540 | 3,490 |
| | **28,181** | **28,444** |

## Where We Work



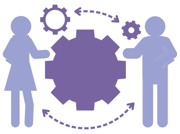
# £10.3m

invested in the improvement and renewal of our existing homes.

## Group structure


Southern Housing Group Limited (SHGL), the parent organisation and Southern Home Ownership Limited (SHO) are Registered Providers of affordable housing regulated by the HCA. Southern Space Limited (SSL) develops properties for outright sale and has a one third share in Triathlon Homes LLP which owns and manages 1,379 affordable homes at the East Village, the former Olympic Park. SHGL has a 50% share in the Reading PFI which manages 1,318 homes, while Southern Development Services Limited (SDSL) provides project delivery services for companies in the Group.

# The Group Board is responsible for the business and strategic direction of Southern Housing Group



## Governance

### The Board

The Group Board is responsible for the business of Southern Housing Group, which includes overseeing and directing our activities, formulating future strategies and plans and maintaining an overview and monitoring the work of its subsidiaries and committees. The Board meets four times a year for regular business and at least once for seminars to discuss strategic issues. Board members serve a maximum of three continuous terms of three years. The Board members who served during the year are listed on page 5 and attendance at meetings is recorded on pages 26 and 27.

The Board and each of its subsidiary Boards and Committees has detailed terms of reference that are established and monitored by the parent Board. The terms of reference include the frequency of meetings, which range from two to four meetings per year.

During 2014/15 the Board fully supported and complied with the principles set out in the National Housing Federation's Code with the only exception being that the shareholding membership of Southern Housing Group is limited to Board members only. From 1 April 2015 the Board has adopted the UK Corporate Governance code.

Members of the Southern Housing Group Limited Board are paid for their services to increase our ability to attract and retain high calibre members and to improve mechanisms for their performance appraisal and development.

The current annual rates of payment are:

| | |
|---|---|
| Chairman | £25,000 |
| Member and Chairman of Committee or subsidiary Board | £12,000 |
| Member | £10,000 |
| Additional payment for Senior Independent Director | £2,000 |
| Committee member | £1,000 |
| Resident Service Panel Chair | £1,500 |
| Resident Service Panel member | £1,000 |

The level of Board member remuneration was reviewed by the Remuneration and Nominations Committee during 2014/15.

## Committees

### The Audit Committee

The Audit Committee reports to the Board on the operation of our risk management and internal control arrangements. It recommends the appointment of internal and external auditors and considers the scope of their work and the reports produced. It reviews in detail the annual financial statements, budgets and the business plan and recommends them to the Board.

### The Customer Services Committee

The Customer Services Committee considers all matters relating to the provision of services to our residents. This includes considering strategic policies and reviewing operational performance covering all aspects of services provided to residents. It also considers the way in which we involve residents in service delivery and other aspects of our work. We have five regional Resident Services Panels (RSP), each of which is chaired by a resident. Each panel meets on a quarterly basis to discuss the performance of the Group in its region. The Chairman of each panel is invited to sit on the Customer Services Committee ensuring that the RSPs play an integral role in the governance of the Group.

### The Group Development Committee

The Group Development Committee considers matters relating to the development strategy of all companies in the Group including the development of new properties and stock reinvestment. It also monitors performance in relation to all property sales and first lettings of intermediate rent properties.

### The Remuneration and Nominations Committee

The Remuneration and Nominations Committee considers matters relating to Board remuneration, recruitment of new Board members, subsidiary Board and Committee members, succession planning for all Boards and Committees, skills training, salary structure, pension arrangements, senior staff remuneration, non-contractual benefits for all staff and the assessment of the performance of the Board and its Members and its subsidiary Boards and Committees and their Members. Succession planning helps to balance the composition of the Boards and Committees in order to reflect the profile of our residents and to ensure that there is the correct mix of skills on each Committee and Board.

### The Treasury Committee

The Treasury Committee considers in detail all aspects of treasury management, including the Treasury Strategy and long-term funding requirements, and ensures that loan covenants are maintained.

28,000

homes in London and the South East of England are owned and managed by the Group.

**Southern Housing Group Limited**

**Number of meetings attended out of (total number possible for individual)**

| | SHGL Board | Remuneration & Nominations Committee | Treasury Committee | Customer Services Committee | Audit Committee | Group Development Committee | Other Directorship |
|---|---|---|---|---|---|---|---|
| Malcolm Groves | 5(5) | 4(4) | | | | | Island Cottages Ltd, RBS Pension Trustee Ltd, RBS CIF Trustee Ltd, Sustainable Chale Ltd, Chale Recreation Ground Ltd, IOW County Club Ltd |
| Justin Chittock | 5(5) | | 4(4) | | 4(4) | | Linden Business Consulting Ltd |
| Maureen Corcoran | 5(5) | | | 4(4) | | | Maureen Corcoran Associates, Political Skills Forum, VP – ACCDJ (French Residents Association), Kingston Churches HA, CPD Committee – Guild of Registered Tourist Guides |
| Tom Dacey | 5(5) | 4(4) | 3(4) | | | 2(4) | Southern Space Limited |
| Jim Hitch | 4(5) | 4(4) | | | | | Incomr Ltd (previously English Language Services Ltd) |
| Steve Johnson | 5(5) | | | 3(4) | | 3(4) | Independent Advice Services Ltd, Advanced Case Management Solutions Ltd, VCS Insurance (Guernsey) Ltd, Advice Services Alliance, LawWorks, The Access to Justice Foundation, The School for Social Entrepreneurs, Change Account Ltd, Street UK Foundation |
| Arthur Merchant | 5(5) | | 1(1) | | 4(4) | | Aster Housing Group, Aster Property Ltd, Aster Homes Ltd, Raven Housing Trust, Raven Devco Ltd, Raven Repairs Ltd |
| Preth Rao | 4(5) | 4(4) | | 4(4) | | | |
| Paul Rees | 5(5) | | | | 4(4) | | Chairman of CAB Waverley and Board Member CAB Surrey, Trustee of Greensleeves Homes Trust, Chair of Audit Committee RCN, Chair Audit Committee Surrey Police |
| Tim Richards | 5(5) | 4(4) | | | | 4(4) | Aston Rose (West End) Ltd (practising as Aston Rose Chartered Surveyors), Chair of RICS UK Education Standards Board |

**Members who have retired during the year: 0**

| Southern Development Services Limited | |
|---|---|
| **Number of meetings attended out of (total number possible for individual)** | |
| Paul Rees | 1 (1) |
| Tom Dacey | 1 (1) |
| Rosemary Farrar | 1 (1) |
| **Members who have retired during the year** | **0** |

| Southern Home Ownership Limited | |
|---|---|
| **Number of meetings attended out of (total number possible for individual)** | |
| Tim Richards | 4(4) |
| Peter Phillips | 4(4) |
| Steve Johnson | 3(4) |
| Yvette Morgan | 4(4) |
| Hugh Stebbing | 4(4) |
| Dale Meredith | 4(4) |
| **Members who have retired during the year** | |
| Katherine Lyons | |

| Southern Space Limited | |
|---|---|
| **Number of meetings attended out of (total number possible for individual)** | |
| Tim Richards | 4(4) |
| Steve Johnson | 3(4) |
| Yvette Morgan | 4(4) |
| Hugh Stebbing | 4(4) |
| Dale Meredith | 4(4) |
| Tom Dacey | 2(4) |
| Rosemary Farrar | 3(4) |
| **Members who have retired during the year** | |
| Katherine Lyons | |

900+

people are employed by the Group to offer a range of housing options for rent and home ownership

Our employees provide a range of services to our customers.

# Every penny we make is reinvested in the business either to enhance and maintain our existing housing and services or to build new homes for future tenants

## The year in brief

We have been through another year of political and economic uncertainty. House price levels in London and the South East contributed to another year of record surpluses on our full market sales properties and continued to drive up the demand for affordable home ownership where sales once again achieved higher than expected surpluses. At the same time those existing residents who already owned a share in their homes benefited from the low interest rate environment and we saw record 'staircasing' of shares.

The delayed but expected changes to the benefit system began to be introduced and our tenants showed signs of pressure but arrears have remained well controlled partly as a result of the financial inclusion work we have carried out over the past two years.

Our brand of affordable housing continues to be popular with low income working households and tenant arrears in this tenure are at a very low level.

We have seen more limited growth in our asset base this year but have put in place the resources for a five year non-grant funded future development programme together with investment in existing tenanted stock. Every penny we make is reinvested in the business either to enhance and maintain our existing housing or to build new homes for future tenants.

House price levels in London and the South East contributed to another year of record surpluses on our full market sales properties.

## Facing a changing future

**Failure to respond to the dynamic nature of the external environment presents one of the biggest risks to the business.**

During the year the Group Board and Executive Team have anticipated and responded to external changes by revising the Corporate Strategy framework to address the key challenges facing the organisation. We regularly meet with other housing providers and engage and lobby government decision-makers to discuss key social housing issues. We continue to develop our risk methodology to ensure that risks are understood and managed across the Group, and have extended the stress testing of our business plan to measure what combined pressures we could withstand. We have also put in place processes to meet the revised expectations of the housing regulator.

**Failure to collect our rental income remains a key risk in the light of welfare benefit changes.**

We have continued to model assumptions into our business plan so that we can withstand the long-term likely impact of policy change in light of the 2015 election commitments. Comprehensive checks are made to ensure all new tenants of our affordable housing meet the affordability criteria and our arrears recovery process has become more robust. At the same time our Southern Works programme helps residents find work and reduce their reliance on benefits and a team of dedicated Financial Skills Officers provides appropriate guidance to residents and proactively engages with those at risk of the impact of welfare reform.

**Continuing pressure on the banking sector, our traditional funders poses an ongoing risk both in the form of a potential threat to the availability of loan funding and in constant uncertainty of price.**

We have worked collaboratively with our lenders to ensure that we can retain our low interest rate and at the same time maintain adherence to our covenants. At the same time our strong Moody's rating allows us to go out to obtain future funds in the bond market to finance future growth.

**Failure to demonstrate that we are offering value for money in our housing service provision is a key risk.**

A key strand of our corporate strategy addresses this risk through a combination of robust procurement processes, careful budget monitoring, process reviews to eliminate waste and an active asset management policy.

Comprehensive checks are made to ensure all new tenants of our affordable housing meet the affordability criteria and our arrears recovery process has become more robust.

# Value for money

The Board's full Value for Money Statement for 2014/15 can be found at: http://www.shgroup.org.uk media/282386/value-for-moneystatement-2015.pdf

Making best use of all our assets and extracting good value for money from every part of our business enables us to deliver our objectives.

## Achieving value for money goals

The table below summarises our stated Value for Money goals in 2014/15 and what we have achieved.

| Value for money goal | Achievement in 2014/15 |
|---|---|
| Enhance our financial viability. | **Achieved, with a strong surplus of £51.9m.** |
| Rationalise our stock holding. | **Completed, with the sale of 942 homes over the three year programme.** |
| Develop 300 units of housing each year. | **Exceeded. We completed over 400 units of housing during the year.** |
| Maintain good levels of income collection. | **Achieved with 3.7% rent arrears on social tenure despite a challenging operating environment.** |
| Understand why our performance on re-letting homes has not improved and raise our performance on letting empty homes. | **Achieved. We amended our procedures and average void period dropped from 42 to 30 days. We are not yet satisfied with this result and want to do much better.** |
| Improving how we capture the value of improvements made. | **Still work in progress. We have made strides in defining the value of our social and economic regeneration work.** |
| Embed our asset management methodology. | **Achieved, but more to do. We think more carefully than ever about what to do with our property assets. We are in the process of commissioning new information systems that will enable more detailed understanding and management of our assets.** |
| Reduce costs in areas that are comparatively expensive. | **Not achieved. We acknowledge that in some of our work areas our costs remain high and that we still have work to do to find savings.** |
| Develop our in house repairs and maintenance service and realise some cost savings. | **Achieved. Our Southern Maintenance Services project has been a success and has started to save money while attaining high levels of customer satisfaction.** |

## Value for money and our business

The strength of our operating surplus is a key value for money indicator. If we exclude the profits from property sales our underlying surplus has doubled over the past five years. Our £47.7m operating surplus for 2014/15 demonstrates that our core activities are profitable and we do not need to sell units to fund our operations. In fact as we do not distribute any of our profit out of our business our level of profitability on core activity alone helps to support future development. Our five year business plan aspiration is to improve the return on our core management operations by reducing our running costs by 10% over time. This will be achieved through improving the efficiency of our processes while at the same time increasing customer satisfaction.

Our strong and improved financial performance enables us to deliver our corporate objectives. Every £11,000 earned or saved enables us to lever in sufficient finance to build one new home. Our financial strength also enabled us to provide around £1.8m of funding for our social and economic inclusion work with our residents and communities, which in itself generates social value.

**Income and Expenditure Account essential core activities underlying net surplus in £ millions**

| | **2015** | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| Operating surplus<br>*Underlying core activities only* | **47.7** | 42.6 | 35.6 | 28.9 | 32.5 | 23.4 |
| Operating margin | **32.5%** | 30.6% | 26.7% | 23.2% | 27.1% | 20.1% |

**Income and Expenditure Account - Group consolidated**

| | **2015** | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| Operating surplus | **63.8** | 56.3 | 57.4 | 35.2 | 33.5 | 27.5 |
| Operating margin | **32.6%** | 33.1% | 30.8% | 25.1% | 25.7% | 20.5% |
| Net surplus | **51.9** | 37.3 | 38.8 | 17.9 | 21.1 | 8.0 |
| Net margin | **26.5%** | 21.9% | 20.8% | 12.8% | 16.2% | 6.0% |

Over 942 homes have been sold over the 3 year programme

We aim to reduce our running costs by 10% over the next 5 years

Every £11,000 earned or saved enables us to borrow enough to build one new home

# Our primary aim is to help to house people who are on low incomes and who often have little choice about where they live.

| | 2014/15 | | | 2013/14 | | |
|---|---|---|---|---|---|---|
| | **No. of units** | **Operating surplus £000** | **Operating surplus £ per unit** | No. of units | Operating surplus £000 | Operating surplus £ per unit |
| All social rented housing | **20,532** | **33,811** | **1,647** | 21,055 | 30,090 | 1,429 |
| Shared ownership housing | **3,540** | **5,302** | **1,498** | 3,490 | 5,879 | 1,685 |
| Affordable rented housing | **635** | **961** | **1,513** | 448 | 184 | 411 |
| Intermediate rented housing | **987** | **4,697** | **4,759** | 1,000 | 4,236 | 4,236 |
| Open market rent | **56** | **24** | **429** | 14 | 19 | 1,357 |

## Value for money and our assets

We manage our assets in order to maximise the income they generate and to improve continually their viability. As a provider of affordable housing our main income stream is derived from our housing assets. We are not a commercial property company and therefore we do not seek to rent the majority of our housing property at market rates. Our primary aim is to help to house people who are on low incomes and who often have little choice about where they live. Consequently we set our rents at levels that are affordable to our customers. Some of our rents are heavily regulated and remain well below market levels. Others are rented at sub-market levels as a matter of Group policy. We get value for money from properties as they benefit people with low incomes who are in housing need and are kept fully occupied and generating a rental income. By doing this we maximise the income that we are entitled to and help the people who benefit from our charitable status.

## Financial return on our homes

The operating surplus per unit that is generated by each principle category of our housing is shown above.

Our non-market driven operating surplus has increased because we now have more units of housing defined as affordable. The surplus for properties let at market rent has changed significantly because we increased the number of homes we invested in for this category.

We offer housing to a wide range of people

## We have purchased 411 homes for £30.7m at an average premium over existing use value of just 20%.


### Leveraging grant to deliver value for money

Every £1 grant we received towards our programme during 2011-15 was matched by over £5 of internal funds. We utilise loan finance to match grant received and repay loans with current and future rental income.

#### 2011-15 programme – delivery of 458 units:

| | £m |
|---|---|
| Grant received | 11.4 |
| Internally funded | 61.8 |
| Total cost | 73.2 |

### A rational approach to property holdings

We have a flexible and creative approach to our asset management. Every property that becomes vacant is considered for a range of future options depending on location, return and demand. During the past year we have sold some properties to other housing associations in areas where we have little stock. We have sold properties on the private market that are expensive to maintain and have reinvested in good quality homes in areas where we have a large existing property portfolio. We routinely look at options that include refurbishment, change of use, and change of tenure. As a developing association we have taken the decision to convert suitable vacant properties to 'affordable rented' homes. So a key question that we ask is: "should the next tenure be changed to 'affordable' status?"

Properties that are let as affordable homes generate additional rental income that is used to support our affordable housing development programme in order to provide more affordable homes for working people. Over the past three years we have converted 448 homes from social to affordable rents generating additional income of around £200,000 per year to support our affordable homes development programme. Our target going forward is to convert around 180 homes annually thus further increasing available development finance.

In addition to our routine review of the homes that we own we have just reached the end of a three year formal stock rationalisation programme which has reduced the number of local authority areas where we work by selling homes in the areas where stock levels were sparse and purchasing homes in areas where we have larger concentrations of homes. We have halved the number of local authorities we work with by selling 942 homes for just over £50.5m, achieving an average sale price that exceeded existing use value by 46%. In addition we have purchased 411 homes for £30.7m at an average premium over existing use value of just 20%.

The sales part of the stock rationalisation programme is now complete and has successfully met its objectives. We shall continue to routinely consider our options for the properties that we own and will bid to purchase additional properties that come onto the market in areas where we have a strong presence.

## Better value from our offices

During the year we carried out an extensive building project that increased the floor area of our head office in Clerkenwell, Central London, while improving the quality of the office accommodation. This work has enabled us to vacate an entire floor that will now lower our business rates bill and provide a new income stream in the form of rent in a premium location. The works cost around £2.2m and have added around £5m to the capital value of our building. In addition by negotiating with the local authority and renting out under-used space in our Horsham office we have generated new rental income and business rate savings of around £338,000 per year.

## Repairing our homes

In April 2014 we launched our in house repairs and maintenance service, Southern Maintenance Services (SMS). The first phase of deploying SMS provided routine repairs and maintenance services to our properties in Kent. By directly employing our own operatives we have been able to provide a service at a lower cost, reduce the amount of VAT paid and have far greater control over the quality of works carried out. The outcome for the first year of operation has been very positive. We made savings of around £200,000 at the same time as maintaining customer satisfaction levels at over 95% and an average end-to-end time for emergency repairs of just 3.42 hours.

The next stage of this project in June 2015 is to expand SMS to take over the repairs and maintenance work for our homes in the Thames Gateway region. We expect to save around £297,000 per year by bringing this service in-house while significantly improving the repairs service to our customers in that region.

Over the next year we will use our procurement expertise to create new repairs and maintenance contracts with third party contractors that will deliver improved value and high quality services in our South region and on the Isle of Wight.

95%

Customer satisfaction levels have been maintained

We launched our new in-house repairs service

## Value for money success

**In 2014 we decided to change our tendering arrangements for lift replacements, offering contractors the opportunity to tender for all replacement work over a two year period. By doing this we have achieved an overall cost reduction of around 10%.**

### Investing in new homes

By getting maximum value from our existing assets and strategically selling a small number of homes we are able to achieve a financial surplus and to obtain loan finance to fund new homes and to meet future housing need.

The costs and benefits of all new housing projects are modelled to test their financial viability. We use a discounted cash flow model and benchmark the financial performance against hurdles on the payback period, rate of return, net present value, and cost to value percentage. As a risk management tool we build in tenure flexibility to provide an alternative or exit strategy in case there is a shift in the market. To help ensure that we always build homes that are good value for money we use competitive processes at the procurement stage.

In the year 2014/15 we completed 450 new homes, which exceeded our target and we started work on 390 new homes. Making better use of what we already own is a cost effective way of developing new homes. During 2014/15 we converted Fivash House in Horsham which had been our South Region office until we moved into larger accommodation. We have converted the old office building into 13 flats and one house.

## Value for money success

**Our commercial house building subsidiary Southern Space Limited is now 10 years old. During its lifetime it has generated sales turnover of over £96m providing a little short of £30m profit for the Group to use to subsidise affordable housing for households on low incomes.**

At Taylor Court in Reading we demolished a sheltered housing scheme that no longer met modern requirements and have built 33 new homes for renting and shared ownership in its place.

At Vanston Place in Hammersmith we identified an old laundry building that had been used for storage for many years, which we have demolished and are now building six new flats to rent.

We are investing over £35m in order to upgrade our historic Lisgar Terrace estate in Barons Court, West London. We are redesigning these homes to modern standards that will improve living conditions for existing residents while increasing the total number of homes by 20%. Profits generated by selling new homes on the site will be used to fund future housing development projects. The works include extending the 10 existing blocks, adding mansard roofs, creating larger flats with improved layouts, and installing lifts. Our residents will see other benefits including much better insulation, double glazed sash windows, new larger kitchens and bathrooms and landscaped courtyard areas. Some original features that enhance the historic character of the buildings have been preserved and reproduced. Phase 2 is currently on site and due to complete towards the end of 2015. Once the development is fully complete in 2020 the total number of homes will increase from 200 to 238, across a variety of tenures. In addition, our Home Energy Advice Team (HEAT) has been doing some post occupancy monitoring of residents' bills at Lisgar Terrace and early indications are that residents are saving roughly £400 per year in their new homes.

Each year we take part in a development benchmarking exercise with the London G15 associations. The latest report published in the autumn of 2014 indicates that we do well on keeping scheme costs low and our resident satisfaction with new homes is stable and high at 96%.

During 2014 the Board increased the new housing development target from 300 units each year to 500 units each year, which our strong financial performance over the past two years has enabled.

## Value for money success

The Group has been selected by the GLA to pilot a new shared ownership product called 'Second Steps'. We have secured funding to help pay for 50 shared ownership homes that existing shared owners can transfer into. This will provide our residents with a much needed move on service and add to our asset base without incurring planning or development risks.

### Social value

The Group continues to work to add value to the communities where we own our housing stock. Our Social and Economic Regeneration Department (SERD) takes the lead in this important area of our work and we invested £1.8m on this part of our business last year. In addition to providing homes for people who are in housing need, we work to:

- Support our residents into work
- Support our residents to maximise and manage their income
- Maximise our business relationships for the benefit of our residents
- Improve neighbourhoods

450 new homes were completed

£35m is being invested to upgrade our historic Lisgar Terrace Estate

We have increased our new housing development target to 500 units each year

## Value from letting our homes

In 2014/15 we let 1,995 homes to people in housing need: 330 on affordable and sub-market rent tenures to working households on modest incomes and 1,665 social rent lettings to people on low incomes, often with some benefit dependency. The HACT Social Value model puts an average social value to society of £10,000 to every letting to households in housing need. Using this the social value of our allocations and letting work during the year was around £20m. A key objective for 2015/16 is to reduce the amount of time that it takes to re-let a void home from the current 30 days towards a target of 14 days. This will not only save money for the Group but will also enhance the social value gained from our lettings work.

Additionally our policy to let affordable rented homes to working households who can afford the higher rent levels has also proven to be good value for money as our rent arrears level for affordable rented homes is just 1%.

## Value for our residents

Our work to support our residents into work has delivered an estimated £2m of social value during the year. As part of our work support programmes we:

- Provided advice and active support to 279 residents
- Supported 119 residents through formal training courses
- Secured 128 places for resident volunteers
- Helped 50 residents into part-time jobs
- Helped 66 residents into full-time work.

Our financial inclusion staff work with residents to help them maximise their income and manage their income better. During the year they secured additional grants and benefits for 500 residents totalling around £1m in real value.

We use our existing and new business relationships to generate benefits for our residents. During the year we obtained 35 training and work placements for residents through our contractors and suppliers and we estimate the social value of this assistance to be in the region of £100,000.

The Group has continued to benefit from ‘Big Lottery’ funding, this year receiving £58,000 for its work.

Social value is included as standard practice in all of our business discussions and contractually in every new tender process.

# 1,995

homes were let to people in housing need

£1.8m was invested in our Social and Economic Regeneration Department

6 residents were helped into full-time work

500 residents gained additional grants and benefits, an estimated £1m in real value

Our Social and Economic Regeneration Department is working across the Group to:

- Create employment and training opportunities
- Support residents to gain financial resilience
- Improve residents' health and well-being
- Enhance the local environment
- Deliver on our commitment of being a 'Business with Social Objectives'

In 2014/15 we created four new apprenticeships through our development programme. A further 17 existing apprentices have been able to continue their employment through our schemes and another two people were given work experience. We also enabled six people to progress from unemployment to employment.

### Value for Money Success

During 2014/15 our financial inclusion officers identified £760,000 to benefit our residents. Of this, £315,000 was new housing benefit that came directly into the Group.

### Keeping warm

We have established the Home Energy Advice Team (HEAT) to help our residents reduce their heating bills. The team became operational in the autumn of 2014. Since then it has carried out 448 energy advice visits to residents, which will generate potential total annual savings for households of £101,365.

The average potential saving per household visited is £226. Our work in this area has been so successful that HEAT has been approached by two other housing associations with a view to providing similar services to their residents.

In 2015/16 we intend to expand this valuable service by recruiting and training resident volunteers to become qualified energy advisors.

We are approaching the completion of our first ever Passivhaus scheme at Cameron Close in Freshwater on the Isle of Wight. The site was previously a sheltered housing scheme owned by the Group called Ainsworth Court. Our residents were rehoused in a new modern sheltered facility in 2011. We are now developing 28 affordable rent units including 16 large family houses and 12 flats which are designated as housing for older people. We took a fabric first approach and have built to the Passivhaus standards with the help of some additional funding from the Isle of Wight Council. The outcome from this new approach will be to reduce dramatically the requirement for space heating and cooling while also creating excellent indoor comfort levels. This is primarily achieved by specifying high levels of insulation to the thermal envelope with exceptional levels of air tightness added to the use of whole house mechanical ventilation heat recovery system. The cost of heating these new homes should be minimal. As part of the project we have also created new accommodation for a protected species of bats found on the scheme.

## Absolute and comparative costs

We are performing well on rent arrears and overall management and operating costs per home, and our void re-let period has improved significantly, although it is still higher than we would like. Our void period losses are much higher than we would like at 1.1% of our annual rent debit. We are continuing to work to improve the lettings process and speed up the time taken to re-let a property. Our resident satisfaction level is not as high as we would like and our forthcoming transformation project will be designed to ensure that our services have a positive impact and improve our customers' experience.

### Benchmarking

We participate in the HouseMark benchmarking exercise, which provides reports for the G15, the group of London's largest housing associations. In addition to measuring the value of our service to residents, we also benchmark our internal departments.

During 2014 we looked at our service quality, customer satisfaction level, and costs and concluded that the Group can do better. Our service delivery performance could and should be better than it is and our costs in some key areas should be lower. We aim to become a top quartile performer on service delivery and to this end we have embarked on a comprehensive service transformation project to design and implement a new modern housing service for the Group.

**Benchmarking our costs over time**

| Measure | 2014/15 | 2013/14 | 2012/13 | 2011/12 | G15 2013/14 Average |
|---|---|---|---|---|---|
| Management costs per home | £1,303 | £1,230 | £1,184 | £1,156 | £1,425 |
| All maintenance costs per home | £960 | £845 | £860 | £1,021 | £868 |
| Total operating costs per home | £3,446 | £3,320 | £3,412 | £3,415 | £3,515 |
| Service costs per home | £567 | £540 | £566 | £576 | £254 |
| Operating margin for social housing lettings | 31% | 30% | 26% | 23% | 27% |
| Rent loss between lettings | 1.1% | 1.5% | 1.5% | 1.33% | 0.46% |
| Average re-let days for empty homes | 30 | 43 | 23 | 20 | 35 |
| Social rent arrears as a % of annual rent due | 3.7% | 3.51% | 4.04% | 4.08% | 4.51% |
| Resident satisfaction | 75% | 81% | 84% | 74% | 78% |

**HouseMark G15 benchmarking summary 2013/14**

| Indicator | Southern | Quartile | Upper | Median | Lower |
|---|---|---|---|---|---|
| Housing management £ cost per general needs property | 474 | 1 | 481 | 547 | 580 |
| Cost of finance dept as a % of turnover | 2.1% | 3 | 1.8% | 2.0% | 2.2% |
| HR Costs as a % of turnover | 1.3% | 3 | 0.8% | 1.2% | 1.5% |
| Cost of IT as a % of turnover | 2.2% | 1 | 2.6% | 3.2% | 3.5% |
| Central support functions as a % of turnover | 1.9% | 1 | 1.9% | 3.4% | 3.8% |

# The Group procured 63 contracts with a lifetime value of £17.8m

## Procurement

Our procurement objectives are to ensure compliance with procurement regulations and to improve value for money. In 2014/15 the Group procured 63 contracts with a lifetime value of £17.8m. These procurement projects generated cash savings of around £883,000.

The table below details the savings made during the year.

Procurement at Southern is not just about obtaining low prices. We want to procure sustainable contracts that provide us and our residents with good quality goods and services while reducing administrative costs wherever possible. Much of our procurement activity is concentrated on the quality of what we are procuring and ensuring that contracts are set up in a way that will work effectively for us and our suppliers.

| | No. of contracts | Overall contract spend | Overall annual spend | Total savings | Total savings % | Annual savings | Annual savings % |
|---|---|---|---|---|---|---|---|
| Reinvestment and development | 11 | £10,083,106 | £6,437,175 | n/a | n/a | n/a | n/a |
| EU projects | 13 | £4,689,792 | £3,525,529 | £726,493 | 15.49% | £626,675 | 17.78% |
| Non-EU projects | 39 | £3,003,177 | £2,039,502 | £729,195 | 24.28% | £256,180 | 12.56% |
| | **63** | **£17,776,075** | **£12,002,206** | **£1,455,688** | **8.19%** | **£882,855** | **7.36%** |

Around

# £883,000

cash savings were generated through procurement


We are attracting a new customer base through our 'affordable home' offering

We want to expand the work of our in-house maintenance team into the Thames Gateway region, saving money and improving service quality

We want to generate development funding by moving 180 homes each year from 'social' to 'affordable' tenure

## Future improvement at Southern Housing Group

During 2015/16 we will work on the following areas in order to further deliver value for money improvements.

| New objectives | Anticipated value for money improvements |
|---|---|
| Develop an efficient customer-focused, digital first, housing service. | **Over time greater choice over how to access our services, improved service quality, improved performance, better value, and increased customer satisfaction.** |
| Continue to rationalise our use of office space. | **Less office space used and more efficient mobile working.** |
| Generate development funding by moving 180 homes each year from 'social' to 'affordable' tenure. | **Increased funding for affordable housing.** |
| Expand the work of our in-house maintenance team into the Thames Gateway region, saving money and improving service quality. | **Improved repairs service quality, higher customer satisfaction and reduced costs.** |
| Procure two new repairs contracts. | **Maintained or improved service quality.** |
| Build a new portfolio of market facing products, that enhances the financial strength of our business and provides a wider range of housing options for our customers. | **Greater number of market rented properties contributing to our financial viability.** |

# Analysis of our results

| **Balance Sheet** Group | **2015 £m** | 2014 £m | 2013 £m | 2012 £m | 2011 £m |
|---|---|---|---|---|---|
| Housing properties at cost less depreciation | **1,743.6** | 1,758.3 | 1,737.4 | 1,659.2 | 1,631.1 |
| Less: Social housing and other grants | **(866.3)** | (880.2) | (881.9) | (847.5) | (839.6) |
| | **877.3** | 878.1 | 855.5 | 811.7 | 791.5 |
| Other tangible fixed assets | **41.1** | 40.5 | 39.5 | 39.9 | 40.4 |
| Investments excluding JV liabilities | **110.8** | 109.1 | 103.0 | 100.1 | 87.1 |
| Net current assets/(liabilities) including JVs | **53.9** | 50.9 | 72.2 | 80.2 | 41.4 |
| | **1,083.1** | 1,078.6 | 1,070.2 | 1,031.9 | 960.4 |
| Loans due after one year | **656.1** | 706.6 | 737.9 | 741.7 | 689.0 |
| Other long term liabilities | **21.4** | 17.0 | 22.9 | 15.8 | 9.7 |
| Reserves | **405.6** | 355.0 | 309.4 | 274.4 | 261.7 |
| | **1,083.1** | 1,078.6 | 1,070.2 | 1,031.9 | 960.4 |
| **Statistics** | | | | | |
| Gearing | **55%** | 57% | 62% | 65% | 62% |
| Units of accommodation in management | **28,181** | 28,444 | 27,953 | 25,847 | 25,480 |

| **Income and Expenditure Account** Group consolidated | **2015 £m** | 2014 £m | 2013 £m | 2012 £m | 2011 £m |
|---|---|---|---|---|---|
| **Total turnover** | **195.7** | 170.1 | 186.3 | 140.2 | 130.4 |
| Less: Share of joint ventures' turnover | **(20.4)** | (10.8) | (5.6) | (5.1) | (.6) |
| **Group and association turnover** | **175.3** | 159.3 | 180.7 | 135.1 | 129.8 |
| Operating costs excluding impairment | **(120.9)** | (109.0) | (121.9) | (102.3) | (96.7) |
| Impairment | **-** | - | (4.8) | (1.6) | 0.4 |
| **Operating costs** | **(120.9)** | (109.0) | (126.7) | (103.9) | (96.3) |
| **Operating surplus** | **54.4** | 50.3 | 54.0 | 31.2 | 33.5 |
| Share of operating surplus in joint venture | **9.4** | 6.0 | 3.4 | 4.0 | - |
| **Operating surplus incl. joint ventures** | **63.8** | 56.3 | 57.4 | 35.2 | 33.5 |
| Surplus on sale of fixed assets | **27.3** | 18.1 | 13.4 | 10.4 | 6.3 |
| Net interest payable and similar charges | **(33.0)** | (31.7) | (27.7) | (24.5) | (28.2) |
| Fair value writeback | **-** | - | - | - | 9.5 |
| Joint venture net interest | **(2.9)** | (3.6) | (3.4) | (2.9) | - |
| Tax on surplus on ordinary activities | **(3.3)** | (1.8) | (.9) | (.3) | - |
| **Surplus for the year** | **51.9** | 37.3 | 38.8 | 17.9 | 21.1 |
| | | | | | |
| **Operating margin** | **32.6%** | 33.1% | 30.8% | 25.1% | 25.7% |
| **Operating margin excluding impairment** | **32.6%** | 33.1% | 33.4% | 26.2% | 25.4% |

| **Income and Expenditure Account**<br>Core activities | **2015**<br>**£m** | 2014<br>£m | 2013<br>£m | 2012<br>£m | 2011<br>£m |
|---|---|---|---|---|---|
| **Total turnover** | **146.8** | 139.4 | 133.4 | 124.6 | 119.9 |
| Operating costs excluding impairment | **(99.1)** | (96.8) | (94.9) | (94.2) | (87.7) |
| Impairment | **-** | - | (2.9) | (1.5) | 0.3 |
| **Operating costs** | **(99.1)** | (96.8) | (97.8) | (95.7) | (87.4) |
| **Operating surplus** | **47.7** | 42.6 | 35.6 | 28.9 | 32.5 |
| Net interest payable | **(33.0)** | (31.7) | (27.7) | (24.5) | (28.2) |
| Tax on surplus on ordinary activities | **(1.1)** | (.7) | (.9) | (.3) | - |
| **Surplus for the year** | **13.6** | 10.2 | 7.0 | 4.1 | 4.3 |
| | | | | | |
| **Operating margin** | **32.5%** | 30.6% | 26.7% | 23.2% | 27.1% |
| **Operating margin excluding impairment** | **32.5%** | 30.6% | 28.9% | 24.4% | 26.9% |

| **Income and Expenditure Account**<br>Property sales and joint ventures | **2015**<br>**£m** | 2014<br>£m | 2013<br>£m | 2012<br>£m | 2011<br>£m |
|---|---|---|---|---|---|
| **Total turnover – Group** | **49.0** | 30.7 | 52.9 | 15.5 | 10.6 |
| **Turnover excl. joint ventures** | **28.5** | 19.9 | 47.3 | 10.5 | 9.9 |
| Operating costs excluding impairment | **(21.8)** | (12.2) | (27.0) | (8.1) | (9.0) |
| Impairment | **-** | - | (1.9) | (.1) | 0.1 |
| **Total operating costs** | **(21.8)** | (12.2) | (28.9) | (8.2) | (8.9) |
| **Operating surplus on property sales** | **6.7** | 7.7 | 18.4 | 2.3 | 1.0 |
| | | | | | |
| **Operating surplus incl. joint ventures** | **16.1** | 13.7 | 21.8 | 6.3 | 1.0 |
| Surplus on sale of fixed assets | **27.3** | 18.1 | 13.4 | 10.4 | 6.3 |
| Fair value writeback | **-** | - | - | - | 9.5 |
| Joint venture interest payable | **(2.9)** | (3.6) | (3.4) | (2.9) | - |
| Tax on surplus on ordinary activities | **(2.2)** | (1.1) | - | - | - |
| **Surplus for the year** | **38.3** | 27.1 | 31.8 | 13.8 | 16.8 |
| | | | | | |
| **Operating margin** | **32.9%** | 44.6% | 41.2% | 40.6% | 9.4% |
| **Operating margin excluding impairment** | **32.9%** | 44.6% | 44.8% | 41.3% | 8.5% |

## Accounting policies

There have been no significant changes in accounting policies in the year.

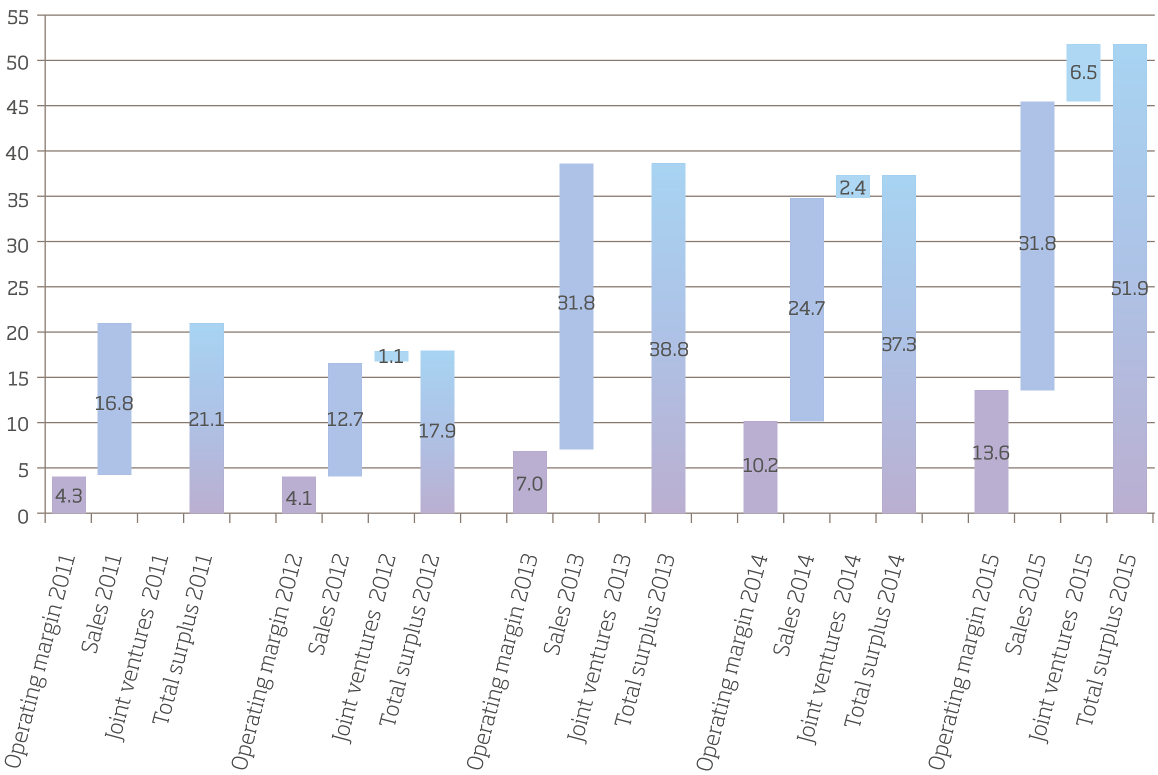
## Turnover and operating surplus

The Group performed strongly during 2014/15 both in overall financial terms and in strengthening the outcome from its core management activities. As every £1 that we make is invested into the business either to provide new housing or to improve the quality of our service to existing residents our net surplus is the result of our strong foundations and steady management of our resources. The year's positive results add strength to our forward business plan which allows us to continue to offer a steady housing service at a time of huge economic and political change and pressure.

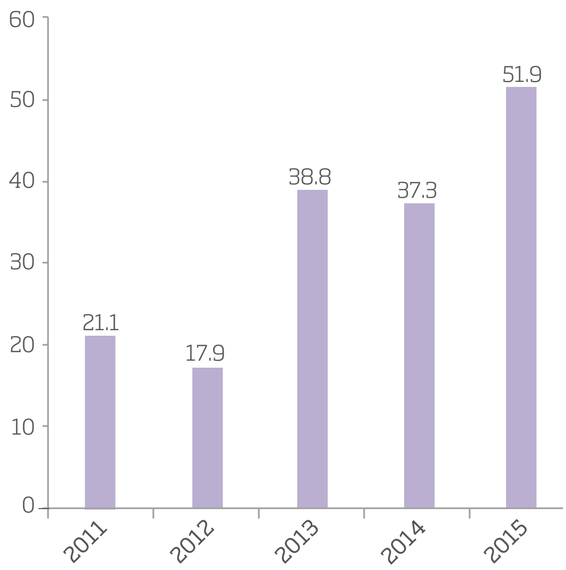
Gross turnover for the Group rose by £16m (10%) over the year, excluding our share in our joint venture results. Our operating margin fell very slightly by 0.5%, however the operating margin on core activities improved by just under 2% to 32.5%.

The volume of open market sales and staircasing sales of shared ownership properties drove up headline turnover but the margins achieved fell slightly because fewer of the sales were London properties. Like other social housing providers which continue to develop affordable housing for rent at a cost to the tenant that is well below the market the Group generates the subsidy it needs through the development of a mixture of outright market sale and shared ownership. Profits on housing sold are used to cross-subsidise our affordable housing and to maintain our housing stock in good repair. All our profits are reinvested in our housing assets.

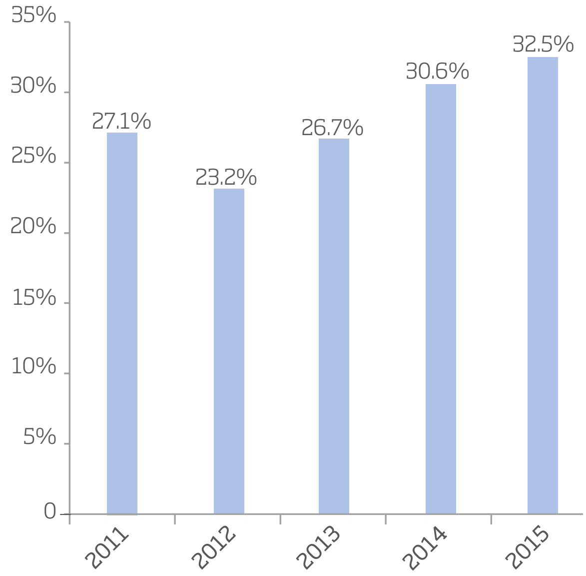
Breakdown of annual surplus 2011 to 2015 £m



### Group surplus (£m)




### Operating margin on core activities




The margin on core social housing management improved due to costs rising only 2% while income rose by just over 5%. The Group's operating margin has risen steadily year on year since 2011/12 and demonstrates a strong basis for future growth.

During the year we invested some of our surplus cash in properties for market rental which are giving us a better return than the investment of cash in financial institutions.

Turnover was double the previous year at £66,000 (2013/14: £33,000) and brought in a margin of 36%. This is a growing investment activity and it is still a very small part of our business but we plan to spread our risk and invest in longer term activities as a way of managing the current changing economy.

Gross turnover for the Group rose by £16m (10%)

Operating margin on core activities improved by just under 2% to 32.5%

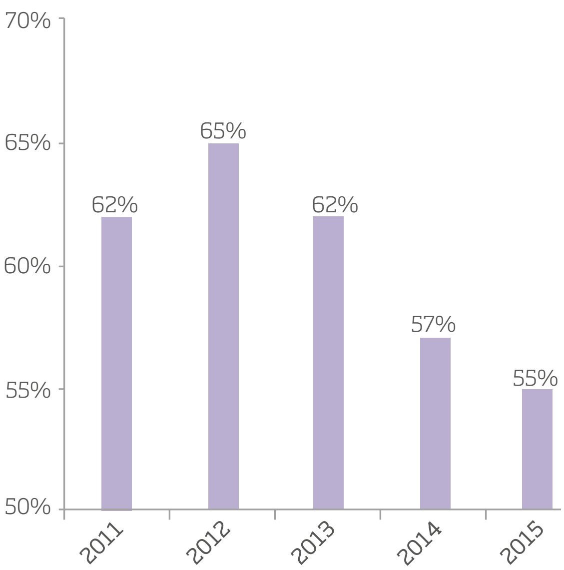
Market rent turnover was double the previous year at £66,000

# £405.6m total accumulated reserves

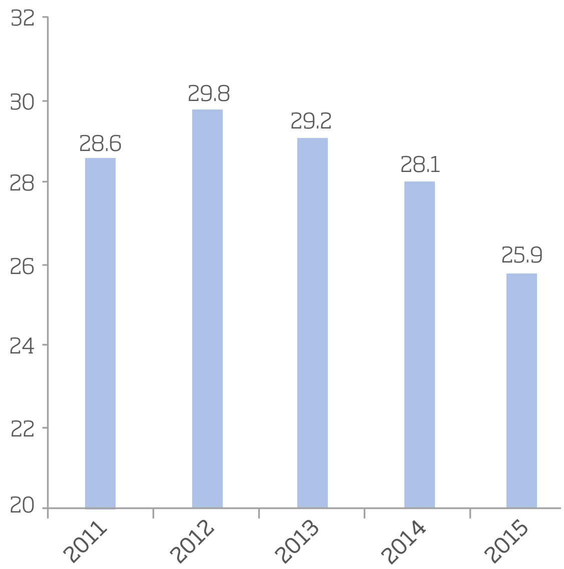
## Reserves

As at 31 March 2015 our total accumulated reserves stood at £405.6m (2014: £355m) reducing our gearing to 55% which has been a steady improvement over the past three years giving us good capacity for future growth.

### Net gearing (%)




### Debt per unit owned (£000)




### Our reserves are invested in our existing housing stock:

| Investment from reserves | **2015 £m** | % | 2014 £m | % |
|---|---|---|---|---|
| **Investment in housing stock** | **1,743** | | 1,758 | |
| Other net assets | **28** | | 25 | |
| | **1,771** | | 1,783 | |
| **Funded by:** | | | | |
| Reserves | **405** | 23% | 355 | 20% |
| Grants | **866** | 49% | 880 | 49% |
| Loans (net of cash) | **500** | 28% | 548 | 31% |
| Total funding | **1,771** | 100% | 1,783 | 100% |

## Tangible fixed assets

The value of housing properties at 31 March 2015 at historic cost less depreciation stood at £1.7bn (2014: £1.7bn). There has been a slight decrease in value of a little over 1% during 2014/15 as the Group completed a three year stock rationalisation programme. This involved the sale of housing stock in locations where the Group had a small stock holding and acquiring stock from other registered providers in our areas of core operation. The net effect in the year was a reduction of over 200 general needs and 96 homes for older people. The buoyancy of the staircasing activity during the year has limited the net increase of shared ownership property to 50 units. The estimated vacant possession value of our housing stock is now £5.3bn much of which is uncharged to our lenders. As at the Balance Sheet date we have a steadily growing pipeline which can be funded by existing loan finance and accommodated within our business plan capacity.

## Impairment

We have reviewed the value of our assets in the Balance Sheet in the light of current economic conditions to ensure that these values do not exceed the future expected benefit from the continued use of these assets. We have concluded that as in 2013/14 no additional charge should be made for impairment as we have prudently provided in the past.

## Pension costs

The Group contributes to two defined contribution pension schemes and two final salary pension schemes on behalf of its employees. The most recent Southern Housing Group scheme triennial valuation was completed during 2013/14. At this point the Southern Housing Group Pension Scheme, a defined benefit scheme, was 87% funded. The Group also contributes to the Social Housing Pension Scheme (SHPS) defined benefit pension scheme. We have considered the impact of the future funding of our defined benefit pension commitments and have accommodated this into our long-term business capacity.

## Taxation

The Group manages taxation payable on surpluses made by the non-charitable parts of the business through payment of gift aid to be used for charitable purposes where possible. We are expecting to pay £3.3m in taxation on the year's results. £1.4m relates to taxation on profits from shared ownership sales in Southern Space Limited's joint venture holding in Triathlon.

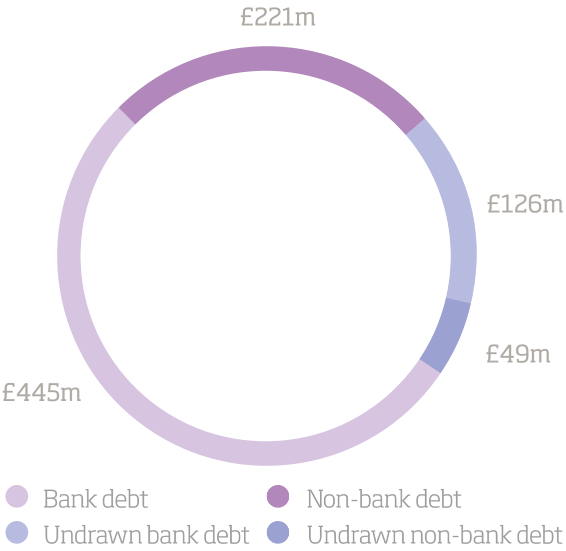
## Loans and cash held

Housing loans have decreased during the year by £50.5m to £656m. Cash held at 31 March 2015 at £133.5m fell by £30m due to the use of a number of revolving credit facilities held with the Group's lenders. The Group held sufficient liquid assets to fund the development pipeline for the next two years.

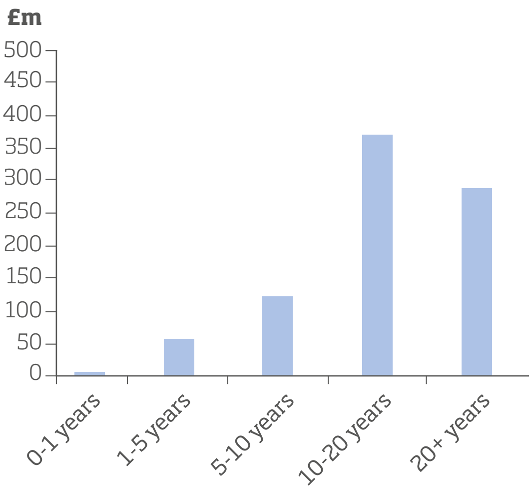
# £3.3m

taxation costs this year

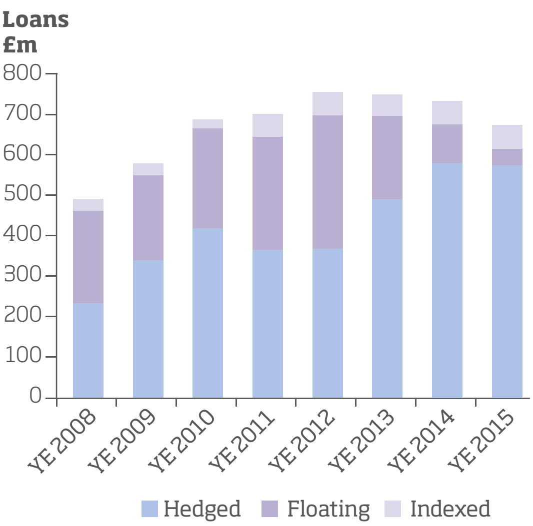
### Group funding profile as at 31 March 2015




### Group debt maturity at 31 March 2015




### Interest exposure profile




## Treasury management

At 31 March 2015 the Group had £840m committed debt funding with £665m drawn (2014: £727m). The Group holds a diversified debt portfolio with 33% drawn funding from the capital markets and 67% from banks and building societies.

The Group has limited refinancing risk in the next five years with less than 10% of the debt maturing within this period. This risk is further mitigated by the Group being contracted to issue another £49m of bonds in 2019 to match an equivalent amount of bank debt maturing at this point and with a future option to issue a further £50m prior to this date.

As at 31 March 2015 the Group had available £175m undrawn funds and £133.5m cash in hand being total liquidity of £308.5m which is sufficient to fund all contractual commitments and non-contracted pipeline development.

Both the Registered Providers in the Group have the ability in their rules to manage interest rate risk. A total of six stand alone derivatives have been transacted by Southern Housing Group Ltd with a notional principal of £150m. We do not use derivatives for speculative purposes or in such a way that exposes the Group further to market forces. The Treasury Committee regularly reviews the creditworthiness of the parties with whom we do business.

Our Treasury Policy dictates that we hold a mix of fixed/hedged, variable and indexed linked interest rate loans. Under normal economic circumstances rates should be fixed/hedged on no less than 50% of total debt. Due to the unusually low interest rate environment, a larger than usual proportion of our debt has been fixed to lock in to this benefit. The average cost of interest for the Group during the year was 4.9% (2013/14: 4.6%).

## Credit rating

The Group holds a rating of A1 with a Stable Outlook with Moody's Investor Service.

We continue to invest in new and existing housing

# Financial Statements

The Group owns

**28,000**

properties

During 2014/15 the Board fully supported and complied with the principles set out in the National Housing Federation's Code.



# £402m

of our own money invested in homes

## Statement of Board's responsibilities

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

The Co-operative and Community Benefit Societies Act 2014 and registered social housing legislation require the board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Registered Provider of Social Housing (RPSH) and of the surplus or deficit for that period. In preparing these financial statements, the Board is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the RPSH will continue in business.

The Board is responsible for keeping proper accounting records that are sufficient to show and explain the RPSH's transactions and disclose with reasonable accuracy at any time the financial position of the RPSH and to enable it to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and Regulations thereunder, the Housing and Regeneration Act 2008 and the Accounting Direction for Social Housing in England 2012. It is also responsible for safeguarding the assets of the RPSH and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

## Statement of internal control

### Corporate governance

During 2014/15 the Board fully supported and complied with the principles set out in the National Housing Federation's Code with the only exception being that the shareholding membership of Southern Housing Group is limited to Board members only. From 1 April 2015 the Board has adopted the UK Corporate Governance code.

### Internal controls

The Board is responsible for the Association's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage, rather than to eliminate, the risk of failure to achieve business objectives. It can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Group operates ongoing processes for identifying, evaluating and managing the significant risks that it faces. They have been in place for the year to 31 March 2015 and up to the date of the approval of the Annual Report and the Financial Statements. The processes are reviewed at least annually by the Board and twice annually by the Audit Committee.

## Main policies established to provide effective internal control

### Risk assessment

The Group's objectives are established within the context of the Group's Corporate Plan. There is a process of cascading these objectives throughout the Group to each operational team and to individual staff members' targets. Assessment of resultant risk is mapped for each Group member organisation. The Group's risk management strategy includes requirements for formal risk assessments to be presented to the Board for discussion and approval.

### Control environment

Authority, responsibility and accountability are set out in the following ways:

- Standing Orders and Delegated Authorities
- Policies and procedures manuals in all key areas
- Codes of Conduct for Board and Committee members, and for staff
- Staff job descriptions and supervisory procedures.

### Information

There is a timely system for reporting progress in the Group, at many levels. The Boards and their sub-committees receive regular and extensive reports on all key areas of performance.

### Monitoring

The Group has a comprehensive internal audit programme which encompasses the Association. It is undertaken by KPMG LLP, Chartered Accountants. The internal audit programme is designed to review key areas of risk for the Group. The internal auditors report to the Group Director of Compliance. Each audit assignment is sponsored by a senior director who approves the scope of the work and takes responsibility for ensuring that recommendations are acted upon. Group wide progress on completing work on recommendations is monitored by the Head of Compliance. KPMG LLP meet quarterly with the Chief Executive and report to each meeting of the Group Audit Committee on their recent and prospective activity. They also meet informally with the Chair of Audit.

The risk management process incorporates reviews of high level risks across the Group, including the identification of newly emerging risks.

Both the internal audit and risk management activities incorporate follow up reporting on actions identified for improving the Association's control environment.

### Review of effectiveness

The Board has reviewed the effectiveness of the Group's internal controls through the work of the Audit Committee, which regularly reports to the Board. In addition the Group Chief Executive has submitted to the Board a detailed report on the operation of internal controls during the period under review and up to the date of approval of this report. The Board confirms no weaknesses were found in the internal controls for the year ended 31 March 2015 which might otherwise have resulted in material losses, contingencies or uncertainties which require disclosure in the financial statements.

### Disclosure of information to auditors

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 Association's auditors are 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 Association's auditors are aware of that information.

### Independent auditors

A resolution is to be proposed at the annual general meeting for the re-appointment of PricewaterhouseCoopers LLP as auditors of the Association.

**Malcolm Groves**
Chairman
On behalf of the Board
20 July 2015

## Report on the financial statements

### Our opinion

In our opinion the financial statements, defined below:

- Give a true and fair view of the state of the Group's and Association's affairs as at 31 March 2015 and of the Group's and Association's surplus and the Group's cash flows for the year then ended; and
- Have been properly prepared in accordance with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Social Housing in England 2012.

### What we have audited

The financial statements comprise:

- The Group and Association Balance Sheets as at 31 March 2015;
- The Group and Association Income and Expenditure Accounts for the year then ended;
- The Consolidated Cash Flow Statement for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### Other matters on which we are required to report by exception

Adequacy of accounting records, system of control and information and explanations received Under the Co-operative and Community Benefit Societies Act 2014 we are required to report to you if, in our opinion:

- A satisfactory system of control over transactions has not been maintained; or
- We have not received all the information and explanations we require for our audit; or
- Proper accounting records have not been kept by the association; or
- The association financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the Board

As explained more fully in the Statement of Board's Responsibilities, the Board is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the association's members as a body in accordance with Section 87 (2) and Section 98 (7) of the Co-operative and Community Benefit Societies Act 2014 and the Housing and Regeneration Act 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the Board; and
- The overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Board's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Group Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Julian Rickett**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London 23 July 2015

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

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

# Income and Expenditure Accounts

| Income and Expenditure Accounts | Note | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|---|
| **Turnover** | | **195,749** | 170,062 | **156,582** | 140,904 |
| Less: share of joint ventures' turnover | | **(20,482)** | (10,786) | **-** | - |
| **Group and Association turnover** | 2 | **175,267** | 159,276 | **156,582** | 140,904 |
| Cost of sales | | **(21,709)** | (12,242) | **(11,507)** | (4,734) |
| Operating costs | 2 | **(99,119)** | (96,795) | **(97,989)** | (96,134) |
| **Operating surplus** | | **54,439** | 50,239 | **47,086** | 40,036 |
| Share of operating surplus in joint ventures | 13 | **9,431** | 6,032 | **-** | - |
| **Total operating surplus including share in joint ventures** | | **63,870** | 56,271 | **47,086** | 40,036 |
| Profit on sale of fixed assets | 5 | **27,254** | 18,138 | **23,969** | 12,193 |
| Interest receivable and other income | 6 | **1,349** | 2,080 | **1,956** | 1,693 |
| Interest payable and similar charges | | | | | |
| Group | 7 | **(34,541)** | (33,440) | **(34,923)** | (33,198) |
| Joint ventures | 7 | **(2,944)** | (3,596) | **-** | - |
| Other finance income/(costs) | 8 | **204** | (387) | **204** | (387) |
| Gift aid | | **-** | - | **7,000** | 10,885 |
| **Surplus on ordinary activities before taxation** | 9 | **55,192** | 39,066 | **45,292** | 31,222 |
| Tax on surplus on ordinary activities | 10 | **(3,283)** | (1,758) | **-** | - |
| **Surplus for the year** | | **51,909** | 37,308 | **45,292** | 31,222 |

All results for the current and prior years are attributable to continuing operations. The notes on pages 64 to 100 form part of these financial statements.

| Statement of total recognised surpluses and deficits | Note | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|---|
| Surplus for the year from parent and subsidiaries | | **45,422** | 34,872 | **45,292** | 31,222 |
| Share of surplus in joint ventures | | **6,487** | 2,436 | **-** | - |
| Surplus for the year | | **51,909** | 37,308 | **45,292** | 31,222 |
| Unrealised surplus on investments | 24 | **1,180** | 195 | **1,180** | 195 |
| Actuarial (loss)/gain relating to pension | 27 | **(2,480)** | 8,166 | **(2,480)** | 8,166 |
| **Total recognised surplus relating to the year** | | **50,609** | 45,669 | **43,992** | 39,583 |

There is no material difference between the historical cost surplus for the year and the surplus for the year reported in the above Income and Expenditure Accounts.

## Balance Sheets

| Balance Sheets | Note | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Housing properties at cost less depreciation | 11 | **1,743,598** | 1,758,325 | **1,662,786** | 1,672,447 |
| Social Housing Grant and other grants | 11 | **(866,286)** | (880,215) | **(821,918)** | (833,089) |
| Net book value of housing properties | | **877,312** | 878,110 | **840,868** | 839,358 |
| Other fixed assets | 12 | **41,050** | 40,494 | **40,689** | 40,127 |
| Total tangible fixed assets | | **918,362** | 918,604 | **881,557** | 879,485 |
| **Investments** | | | | | |
| Investments at market value | 13a | **12,867** | 12,753 | **12,867** | 12,753 |
| Investment in subsidiaries | 13b | **-** | - | **24,651** | 12,241 |
| Investment in joint ventures – share of gross assets | 13b | **92,098** | 94,998 | **25** | 25 |
| Investment in joint ventures – share of gross liabilities | 13b | **(82,279)** | (91,666) | **-** | - |
| Investment properties | 13c | **5,470** | 926 | **5,470** | 926 |
| Homebuy and starter home initiatives | 13c | **8,758** | 9,180 | **300** | 300 |
| Social Housing Grant | 13c | **(8,377)** | (8,732) | **(300)** | (300) |
| | | **946,899** | 936,063 | **924,570** | 905,430 |
| **Current assets** | | | | | |
| Properties for sale | 14 | **42,443** | 29,364 | **8,550** | 16,218 |
| Debtors | 15 | **21,261** | 21,720 | **17,347** | 21,038 |
| Cash at bank and in hand | | **133,524** | 162,316 | **115,691** | 137,684 |
| | | **197,228** | 213,400 | **141,588** | 174,940 |
| **Creditors: Amounts falling due within one year** | 16 | **(61,000)** | (70,868) | **(46,006)** | (57,052) |
| **Net current assets** | | **136,228** | 142,532 | **95,582** | 117,888 |
| **Total assets less current liabilities** | | **1,083,127** | 1,078,595 | **1,020,152** | 1,023,318 |
| **Creditors: Amounts falling due after more than one year** | | | | | |
| Housing loans | 17 | **656,149** | 706,563 | **631,914** | 682,134 |
| Recycled capital grant fund | 18 | **11,147** | 8,402 | **5,452** | 3,920 |
| Disposal proceeds fund | 19 | **91** | 5 | **91** | 5 |
| Deferred income | 20 | **784** | 985 | **784** | 985 |
| **Provisions for liabilities and charges** | 21 | **142** | 80 | **25** | 25 |
| **Pension liability** | 27 | **9,185** | 7,540 | **9,185** | 7,540 |
| **Capital and reserves** | | | | | |
| Share capital | 22 | **-** | - | **-** | - |
| Revenue reserve | 23 | **401,574** | 352,145 | **368,646** | 325,834 |
| Revaluation reserves | 24 | **3,625** | 2,445 | **3,625** | 2,445 |
| Designated and restricted reserves | 25 | **430** | 430 | **430** | 430 |
| | | **1,083,127** | 1,078,595 | **1,020,152** | 1,023,318 |

The financial statements on pages 60 to 100 were approved by the Board of Directors on 20 July 2015 and signed on its behalf by

**Malcolm Groves**
Chairman

**Paul Rees**
Board Member

**Kathryn Worth**
Secretary

Southern Housing Group Limited is incorporated under the Industrial and Provident Societies Act 1965 (Registered Number 31055R)

# Consolidated Cash Flow Statement

| Consolidated Cash Flow Statement | Note | Group 2015 £000s | Group 2014 £000s |
|---|---|---|---|
| **Net cash inflow from operating activities** | (a) | **70,907** | 72,727 |
| | | | |
| **Distributions from joint ventures** | | **-** | 550 |
| | | | |
| Interest received Group | | **1,403** | 1,590 |
| Interest received from joint ventures | | **40** | 585 |
| Interest paid | | **(35,809)** | (35,800) |
| **Returns on investments and servicing of finance** | | **(34,366)** | (33,625) |
| | | | |
| **UK corporation tax paid** | | **(2,826)** | (1,030) |
| | | | |
| Housing properties purchased | | **(41,606)** | (66,263) |
| Capital grants received | | **(1,929)** | 18,525 |
| Other fixed assets purchased | | **(1,748)** | (3,798) |
| Housing and other fixed asset sale receipts | | **44,963** | 37,211 |
| **Capital expenditure** | | **(320)** | (14,325) |
| | | | |
| Investment sale | | **180** | 202 |
| **Financial investment** | | **180** | 202 |
| | | | |
| **Net cash inflow before management of liquid resources and financing** | (b) | **33,575** | 24,499 |
| | | | |
| **Financing and management of liquid resources** | | | |
| Debt due within one year | (c) | **(11,780)** | 13,542 |
| Debt due after one year | (c) | **(50,587)** | (31,711) |
| | | **(62,367)** | (18,169) |
| | | | |
| **(Decrease)/increase in cash in the year** | (c) | **(28,792)** | 6,330 |

# Notes to the Consolidated Cash Flow Statement

| a) Reconciliation of operating surplus to net cash inflow from operating activities | 2015 £000s | 2014 £000s |
|---|---|---|
| Operating surplus | **63,870** | 56,271 |
| Depreciation charges | **15,430** | 15,044 |
| Component write off | **1,024** | 5,168 |
| Share of Joint venture surplus | **(9,431)** | (6,032) |
| Decrease in stock of homes for re-sale | **264** | 777 |
| Decrease in debtors | **423** | 1,687 |
| (Decrease) in creditors | **(735)** | (216) |
| Increase in provisions for liabilities and charges | **62** | 28 |
| **Net cash inflow from operating activities** | **70,907** | 72,727 |

| b) Reconciliation of net cash flow to movement in net debt | | |
|---|---|---|
| (Decrease)/Increase in cash in the year | **(28,792)** | 6,330 |
| Cash inflow/(outflow) from: | | |
| Loans received | **(55)** | (74,976) |
| Loans repaid | **62,422** | 93,145 |
| Change in net debt resulting from cash flows | **33,575** | 24,499 |
| Change in net debt resulting from non cash flows | **(173)** | (329) |
| Movement in net debt in the year | **33,402** | 24,170 |
| Net debt at the start of the year | **(561,756)** | (585,926) |
| **Net debt at the end of the year** | **(528,354)** | (561,756) |

| c) Analysis of net debt | At 1 April 2014 £000s | Non cash flow £000s | Cash flow £000s | At 31 March 2015 £000s |
|---|---|---|---|---|
| Cash at bank and in hand | 162,316 | - | (28,792) | **133,524** |
| Debt due within one year: Housing loans | (17,509) | - | 11,780 | **(5,729)** |
| Debt due after more than one year: Housing loans | (706,563) | (173) | 50,587 | **(656,149)** |
| **Total** | (561,756) | (173) | 33,575 | **(528,354)** |

# 1. Principal accounting policies

The financial statements have been prepared in accordance with applicable Generally Accepted Accounting Standards in the United Kingdom, the Co-operative and Community Benefit Societies Act 2014, the Statement of Recommended Practice "Accounting by Registered Social Landlords" updated in 2010, the Accounting Direction for Social Housing in England from April 2012, and on the historical cost basis (as modified by the revaluation of certain investments). The accounting policies have been consistently applied.

Each accounting policy adopted by the Board of Directors of the Southern Housing Group is presented as an introduction to the Note to the Financial Statements to which the policy applies.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of Southern Housing Group Limited (SHGL) (Parent Body), Southern Home Ownership Limited (SHO), Southern Space Limited (SSL) and Southern Development Services Limited (SDSL) and are consolidated in accordance with Industrial and Provident Societies (Group Accounts) Regulations 1969 and the Accounting Direction for Social Housing in England from April 2012. The Group has taken advantage of the exemption in FRS 8 – 'Related Party Disclosures' and has therefore not disclosed transactions or balances with entities which form part of the Group, except those required by the Direction in Note 31. The Association has taken advantage of the exemptions under FRS 1 – 'Cash Flow Statement' and has not prepared a cash flow statement.

The joint venture investments in Triathlon Homes LLP and Affinity Housing Services (Reading) are consolidated using the gross equity accounting method as per FRS9. SSL has accounted for its investment in Triathlon Homes LLP as an investment at cost as it is exempt from preparing consolidated financial statements and under FRS9 it need not disclose its share of the assets and liabilities of the joint venture as it is disclosed in these Group Financial Statements.

The Parent Body, under certain circumstances, has the power to appoint and remove the Board members of Southern Home Ownership Limited, thereby establishing a quasi-subsidiary relationship, which requires that their results should be consolidated with Southern Housing Group Limited.

### Going concern

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

# 2. Particulars of turnover, operating costs and operating surplus

### Policies:

### Turnover

Turnover represents rental and service charge income receivable from properties owned by the Group and those managed for third parties, fees receivable (excluding VAT) when they fall due; and revenue grants from the public bodies are credited to the Income & Expenditure Account in the same period as the expenditure to which they relate. It also includes receipts from the sale of the 1st tranche of shared ownership properties, proceeds from the sale of properties developed for the open market which are recognised on legal completion, and fees receivable for Design and Build services.

### Service charges

The Group operates both fixed and variable service charges on a scheme-by-scheme basis in full consultation with residents. The service charges on all schemes are set on the basis of budgets. Where variable service charges are used the budget will include an allowance for the surplus or deficit from prior years, with a surplus being returned to residents in the form of a reduced charge for the year and a deficit being recovered via a higher service charge or by alternative methods if the contract allows. Until these surpluses are returned they are held on the Balance Sheet as a creditor and a deficit is held as a debtor.

## 2. Particulars of turnover, operating costs and operating surplus (continued)

| Particulars of turnover, operating costs and operating surpluses Group | 2015 turnover £000s | 2015 cost of sales £000s | 2015 operating costs £000s | 2015 operating surplus £000s | 2014 turnover £000s | 2014 cost of sales £000s | 2014 operating costs £000s | 2014 operating surplus £000s |
|---|---|---|---|---|---|---|---|---|
| **Social housing lettings** | 141,118 | - | (96,347) | **44,771** | 134,805 | - | (94,416) | 40,389 |
| **Other social housing activities** | | | | | | | | |
| Charges for support services | 3,194 | - | (2,318) | **876** | 3,024 | - | (2,330) | 694 |
| Current asset property sales | 14,922 | (11,507) | - | **3,415** | 7,007 | (4,868) | - | 2,139 |
| Other | - | - | (412) | **(412)** | 1 | - | - | 1 |
| **Non-social housing activities** | | | | | | | | |
| Commercial income | 1,893 | - | - | **1,893** | 1,359 | - | - | 1,359 |
| Market renting lettings | 66 | - | (42) | **24** | 33 | - | (14) | 19 |
| Open market sales | 13,533 | (10,202) | - | **3,331** | 12,856 | (7,374) | - | 5,482 |
| Other | 541 | - | - | **541** | 191 | - | (35) | 156 |
| **Total** | **175,267** | **(21,709)** | **(99,119)** | **54,439** | 159,276 | (12,242) | (96,795) | 50,239 |

| Particulars of income and expenditure from social housing lettings Group | General needs £000s | Supported and older people's housing £000s | Affordable rent £000s | Intermediate rent £000s | Shared ownership £000s | 2015 total £000s | 2014 total £000s |
|---|---|---|---|---|---|---|---|
| Rent receivable net of identifiable service charges | 90,708 | 12,614 | 3,506 | 8,321 | 11,060 | **126,209** | 120,430 |
| Service charges receivable | 9,372 | 1,303 | - | 767 | 3,376 | **14,818** | 14,290 |
| **Gross rental income** | 100,080 | 13,917 | 3,506 | 9,088 | 14,436 | **141,027** | 134,720 |
| Income from properties managed for third parties | 91 | - | - | - | - | **91** | 85 |
| **Turnover from social housing lettings** | 100,171 | 13,917 | 3,506 | 9,088 | 14,436 | **141,118** | 134,805 |
| Management | (24,431) | (3,431) | (889) | (1,295) | (5,859) | **(35,905)** | (34,973) |
| Service charge costs | (10,464) | (1,455) | (377) | (557) | (3,149) | **(16,002)** | (15,361) |
| Rent losses from bad debts | (658) | (90) | (21) | (33) | (126) | **(928)** | (146) |
| Routine maintenance | (16,819) | (2,339) | (607) | (1,175) | - | **(20,940)** | (19,687) |
| Planned maintenance | (4,723) | (657) | (170) | (603) | - | **(6,153)** | (4,037) |
| Depreciation | (13,353) | (1,857) | (481) | (728) | - | **(16,419)** | (20,212) |
| **Operating costs on social housing lettings** | (70,448) | (9,829) | (2,545) | (4,391) | (9,134) | **(96,347)** | (94,416) |
| **Operating surplus on social housing lettings** | 29,723 | 4,088 | 961 | 4,697 | 5,302 | **44,771** | 40,389 |
| **Void losses** | 1,772 | 246 | 143 | 226 | - | **2,387** | 2,594 |

Major repairs are included in planned and cyclical maintenance.

## 2. Particulars of turnover, operating costs and operating surplus (continued)

| Particulars of turnover, operating costs and operating surpluses Association | 2015 turnover £000s | 2015 cost of sales £000s | 2015 operating costs £000s | 2015 operating surplus £000s | 2014 turnover £000s | 2014 cost of sales £000s | 2014 operating costs £000s | 2014 operating surplus £000s |
|---|---|---|---|---|---|---|---|---|
| **Social housing lettings** | 136,051 | - | (95,259) | **40,792** | 129,504 | - | (93,804) | 35,700 |
| **Other social housing activities** | | | | | | | | |
| Charges for support services | 3,194 | - | (2,318) | **876** | 3,024 | - | (2,330) | 694 |
| Current asset property sales | 14,922 | (11,507) | - | **3,415** | 6,655 | (4,734) | - | 1,921 |
| Other | - | - | (412) | **(412)** | - | - | - | - |
| **Non-social housing activities** | | | | | | | | |
| Non-social housing activities | 1,876 | - | - | **1,876** | 1,342 | - | - | 1,342 |
| Other | 539 | - | - | **539** | 379 | - | - | 379 |
| **Total** | **156,582** | **(11,507)** | **(97,989)** | **47,086** | 140,904 | (4,734) | (96,134) | 40,036 |

| Particulars of income and expenditure from social housing lettings Association | General needs £000s | Supported and older people's housing £000s | Affordable rent £000s | Intermediate rent £000s | Shared ownership £000s | 2015 total £000s | 2014 total £000s |
|---|---|---|---|---|---|---|---|
| Rent receivable net of identifiable service charges | 91,470 | 12,719 | 3,506 | 7,828 | 6,023 | **121,546** | 115,576 |
| Service charges | 9,372 | 1,303 | - | 479 | 2,134 | **13,288** | 12,717 |
| **Gross rental income** | **100,842** | **14,022** | **3,506** | **8,307** | **8,157** | **134,834** | 128,293 |
| Income from properties managed for third parties | 295 | - | - | - | 922 | **1,217** | 1,211 |
| **Turnover from social housing lettings** | **101,137** | **14,022** | **3,506** | **8,307** | **9,079** | **136,051** | 129,504 |
| Management | (24,971) | (3,472) | (900) | (1,277) | (5,686) | **(36,306)** | (35,805) |
| Service charge costs | (10,464) | (1,455) | (377) | (535) | (2,382) | **(15,213)** | (14,588) |
| Rent losses from bad debts | (658) | (90) | (21) | (33) | (148) | **(950)** | (112) |
| Routine maintenance | (16,819) | (2,339) | (607) | (860) | - | **(20,625)** | (19,382) |
| Planned maintenance | (4,723) | (657) | (170) | (241) | - | **(5,791)** | (3,790) |
| Depreciation | (13,353) | (1,857) | (481) | (683) | - | **(16,374)** | (20,127) |
| **Operating costs on social housing lettings** | **(70,988)** | **(9,870)** | **(2,556)** | **(3,629)** | **(8,216)** | **(95,259)** | (93,804) |
| **Operating surplus on social housing lettings** | **30,149** | **4,152** | **950** | **4,678** | **863** | **40,792** | 35,700 |
| **Void losses** | **1,772** | **246** | **143** | **212** | **-** | **2,373** | 2,580 |

Major repairs are included in planned and cyclical maintenance.

## 3. Board and senior executive emoluments

The remuneration paid to the directors (who for the purposes of this note include the members of the Board, the Group Chief Executive and any other person who is a member of the Group Strategy Team) was as follows:

| Group | 2015 £000s | 2014 £000s |
|---|---|---|
| Emoluments | **840** | 769 |
| Compensation for loss of office | **112** | - |
| Pension contributions | **109** | 108 |
| Non-executive emoluments | **66** | 67 |
| | **1,127** | 944 |

| Emoluments paid to directors in bands were: | No. | No. |
|---|---|---|
| £0 - £10,000 | **12** | 13 |
| £10,000 - £20,000 | **1** | 1 |
| £20,000 - £30,000 | **1** | - |
| £40,000 - £50,000 | **1** | - |
| £100,000 - £110,000 | **-** | 1 |
| £140,000 - £150,000 | **1** | - |
| £150,000 - £160,000 | **-** | 1 |
| £160,000 - £170,000 | **-** | 1 |
| £170,000 - £180,000 | **1** | - |
| £180,000 - £190,000 | **1** | 1 |
| £210,000 - £220,000 | **1** | - |
| £260,000 - £270,000 | **-** | 1 |
| £280,000 - £290,000 | **1** | - |

Emoluments include salary, allowances, benefits in kind, bonus, pension contribution and employers NI.

| The remuneration (excluding pension contributions but including bonus) payable to the Group Chief Executive, who is also the highest paid director, were: | £ | £ |
|---|---|---|
| *Salary | **243,895** | 188,971 |
| Benefits in kind | **6,169** | 5,532 |
| **Total remuneration** | **250,064** | 194,503 |

*The Remuneration and Nominations Committee during the year agreed that the Group Chief Executive would cease payments into the Southern Housing Group Pension Plan Scheme. The Chief Executive's salary has been adjusted by adding £45,475 in lieu of the contributions that the employer would have made to this scheme.

## 3. Board and senior executive emoluments (continued)

| Remuneration of the Group Executive Team was: | 2015 £000s | 2014 £000s |
|---|---|---|
| Tom Dacey | **250** | 195 |
| Rosemary Farrar | **147** | 142 |
| Dale Meredith | **166** | 141 |
| Paul Smith (left September 2014) | **175** | 121 |
| Kate Smith | **119** | 89 |
| Chris Harris (commenced December 2014) | **36** | - |
| Alan Townshend (commenced February 2015) | **23** | - |

Remuneration includes salary, allowances, benefits in kind and bonus.
These are in accordance with the Accounting Direction for Social Housing in England from 2012.

| Chief Executive and Chairman's remuneration on a £ per unit basis: | 2015 £/Unit | 2014 £/Unit |
|---|---|---|
| *Chief Executive | **7.26** | 6.84 |
| Chairman (2014 part year) | **0.53** | 0.33 |

*For the purposes of this table and as noted on page 67, the Chief Executive's remuneration includes an amount of £45,475 in lieu of the contributions that the employer would have made to the Southern Housing Group Pension Plan Scheme. This amount has been excluded in the above calculation to ensure comparability with the 2013/14 disclosure.

The Remuneration and Nominations Committee sets the pay of the Executive Directors at a level to attract and retain the talent required to lead the Group. In doing this it takes account of a market comparative exercise which is carried out annually by an independent body. Our aim is not to pay the highest salaries in the market but to remain competitive.

The pension schemes available to the Executive Directors are offered on the same terms as to other staff. Executive Directors participate in a bonus scheme, non-consolidated for pension purposes. The awards are determined by personal performance against objectives and targets.

## 4. Employee information

| Monthly average number of full-time equivalent employees (FTE = 35 hours per week): | Group 2015 FTE | Group 2014 FTE | Association 2015 FTE | Association 2014 FTE |
|---|---|---|---|---|
| Housing management | **585** | 575 | **585** | 575 |
| Office staff | **236** | 225 | **234** | 222 |
| **Average number of full-time equivalent employees** | **821** | 800 | **819** | 797 |

| Staff costs (for the above employees) | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Wages and salaries | **24,876** | 23,419 | **24,657** | 23,199 |
| Social security costs | **2,388** | 2,218 | **2,362** | 2,192 |
| Other pension costs | **2,104** | 2,277 | **2,085** | 2,250 |
| | **29,368** | 27,914 | **29,104** | 27,641 |

| Remuneration paid to staff including Executives in bands from £60,000 upwards: | Group 2015 FTE | Group 2014 FTE |
|---|---|---|
| £60,000 - £70,000 | **12** | 8 |
| £70,000 - £80,000 | **8** | 11 |
| £80,000 - £90,000 | **6** | 4 |
| £90,000 - £100,000 | **2** | 4 |
| £100,000 - £110,000 | **1** | - |
| £110,000 - £120,000 | **2** | - |
| £120,000 - £130,000 | **-** | 2 |
| £140,000 - £150,000 | **1** | 2 |
| £160,000 - £170,000 | **1** | - |
| £170,000 - £180,000 | **1** | - |
| £190,000 - £200,000 | **-** | 1 |
| £250,000 - £260,000 | **1** | - |

Remuneration includes salary, allowances, benefits in kind and bonus. In accordance with the Accounting Direction for Social Housing in England from 2012.

## 5. Profit on sale of fixed assets

| Profit on sale of fixed assets | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Sale proceeds | **45,607** | 38,021 | **48,302** | 27,105 |
| Cost of sales | **(18,099)** | (19,561) | **(24,121)** | (14,657) |
| Incidental sale expenses | **(254)** | (322) | **(212)** | (255) |
| | **27,254** | 18,138 | **23,969** | 12,193 |

## 6. Interest receivable and other income

| Interest receivable and other income | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Income from investments | **319** | 589 | **1,031** | 453 |
| Income from bank deposits | **1,030** | 1,491 | **925** | 1,240 |
| | **1,349** | 2,080 | **1,956** | 1,693 |

## 7. Interest payable and similar charges

| Interest payable and similar charges | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| On loans | **36,299** | 35,799 | **35,910** | 35,433 |
| Less: Interest payable capitalised | **(1,677)** | (2,298) | **(906)** | (2,174) |
| Joint venture interest payable | **2,944** | 3,596 | **-** | - |
| | **37,566** | 37,097 | **35,004** | 33,259 |
| **Deferred interest and indexation** | | | | |
| Index linked loan | **55** | 75 | **55** | 75 |
| Deferred income written back | **(136)** | (136) | **(136)** | (136) |
| | **37,485** | 37,036 | **34,923** | 33,198 |

Interest is capitalised on properties under construction using the weighted average interest rate for borrowing which was 4.9% per annum for the Group (2014: 4.59% per annum).

Deferred income written back relates to debenture premium, the policy for which is in note 17.

## 8. Other finance costs

| Other finance costs | Group and Association 2015 £000s | Group and Association 2014 £000s |
|---|---|---|
| **Group pension scheme** | | |
| Expected return on pension scheme assets | **1,769** | 1,336 |
| Interest on pension scheme liabilities | **(1,535)** | (1,627) |
| **Isle of Wight Council pension scheme** | | |
| Expected return on pension scheme assets | **255** | 232 |
| Interest on pension scheme liabilities | **(285)** | (328) |
| | **204** | (387) |

## 9. Surplus on ordinary activities before taxation

| Surplus on ordinary activities before tax for the year is stated after charging: | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| **Depreciation:** | | | | |
| Property | **13,082** | 12,597 | **13,007** | 12,518 |
| Other tangible fixed assets | **2,349** | 2,447 | **2,343** | 2,441 |
| Component write off | **1,024** | 5,168 | **1,024** | 5,167 |
| **Operating leases:** | | | | |
| Property | **229** | 256 | **229** | 256 |
| Other equipment | **229** | 184 | **229** | 184 |
| **Auditors' remuneration:** | | | | |
| External audit fee (including expenses, excluding vat) | **132** | 131 | **111** | 111 |
| Non-audit fee (including expenses, excluding vat) | **-** | 62 | **-** | 62 |

## 10. Tax on surplus on ordinary activities

### Policies:

### Taxation

No taxation is payable on the charitable surpluses of the Parent Body. Taxation is chargeable on the surpluses of SHO, SSL and SDSL. Surpluses either in whole or in part are transferred by gift aid. The Group is registered for Value Added Tax. As the majority of group activities are exempt from VAT the recovery under partial exemption is minimal.

### Deferred taxation

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the Balance Sheet date, except as otherwise required by FRS 19.

## 10. Tax on surplus on ordinary activities (continued)

### Note:

| UK corporation tax | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Current tax at 21% (2014: 23%) | **3,228** | 1,892 | **-** | - |
| Adjustment to tax charge in respect of previous years | **55** | (134) | **-** | - |
| **Current tax at 21% (2014: 23%)** | **3,283** | 1,758 | **-** | - |

The current tax charge for the year is lower (2014:lower) than the standard rate of corporation tax in the UK (21% (2014 : 23%)). The differences are explained below.

| Current tax reconciliation | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Surplus on ordinary activities before tax | **48,827** | 37,180 | **45,292** | 31,222 |
| Share of joint venture surplus | **6,365** | 3,341 | **-** | - |
| less surplus from charitable activities | **(45,292)** | (31,222) | **(45,292)** | (31,222) |
| Taxable surplus on ordinary activities before tax | **9,900** | 9,299 | **-** | - |
| **Current tax at 21% (2014: 23%)** | **2,080** | 2,138 | **-** | - |
| **Effects of:** | | | | |
| Non-taxable income | **(10)** | (92) | **-** | - |
| Indexation allowances in year | **(144)** | (157) | **-** | - |
| Utilisation of tax losses | **-** | (41) | **-** | - |
| Marginal relief | **(1)** | - | **-** | - |
| Expenses not deductible/(income not taxable) | **2,506** | 16 | **-** | - |
| Gift aid deductible | **(1,470)** | - | **-** | - |
| Depreciation for year in excess of capital allowances | **-** | 20 | **-** | - |
| Adjustments to share of LLP surplus | **37** | - | **-** | - |
| Other timing differences | **(8)** | 8 | **-** | - |
| Deferred gains brought into charge | **238** | - | **-** | - |
| Adjustment to tax charge in respect of previous years | **55** | (134) | **-** | - |
| **Total current tax charge (see above)** | **3,283** | 1,758 | **-** | - |

### Factors that may affect future tax charges

A number of changes to the UK corporation tax system were announced in the March 2013 UK Budget. These were substantively enacted as part of the Finance Bill on 2 July 2013. These reduced the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes had been substantively enacted at the Balance Sheet date.

Further changes were announced in the budget on 8 July 2015 reducing the rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. These changes were not substantively enacted at the Balance Sheet date.

## 11. Housing properties at cost

### Policies:

#### Housing properties

Housing properties are held at cost less the amount of grants received towards their costs and accumulated depreciation. Cost includes the cost of acquiring land and buildings, development costs, interest capitalised during the development period, and directly attributable administration costs.

Housing properties are split between the structure and those major components which require periodic replacement. Replacement or restoration of such major components is capitalised and depreciated over the average estimated useful life which has been set taking into account professional advice, the Group's asset management strategy and the requirements of the Decent Homes Standard.

Works to existing properties which result in an increase in the net rental income over the lives of the properties, thereby enhancing the economic benefits of the assets, are capitalised as improvements. Examples would be work that results in an increase in rental income, a reduction in future maintenance costs or a significant extension of the useful economic life of the property.

Housing properties in the course of construction are held at cost and are not depreciated. They are transferred to completed properties when handed over for letting or sale. Capitalisation of development costs ceases at practical completion including the accrual of known costs at that time and all subsequent costs are expensed. It is Group policy to ensure resident shared owners meet their obligations of maintaining the property in a continuous state of sound repair and the Group considers that any depreciation calculation based on the property's current value would be insignificant, due to the large residual values and long economic lives.

#### Depreciation and impairment

Freehold land is not subject to depreciation. Depreciation is charged on a straight-line basis over the useful economic lives of fixed assets to write off the cost less any attributable grant to the estimated residual value at the following useful economic lives:

| Housing properties held for letting: | |
|---|---|
| Structure | 100 years |
| **Major components** | |
| Bathroom | 30 years |
| Heating system gas | 15 years |
| Heating system electric | 25 years |
| Kitchen | 20 years |
| Roof (pitched) | 60 years |
| Roof (flat) | 20 years |
| Windows | 30 years |
| Wiring | 30 years |

For all properties impairment reviews are carried out on an annual basis to ensure the carrying value in the Balance Sheet does not exceed the recoverable amount.

#### Social housing grant

Where developments have been financed wholly or partly by Social Housing Grant the cost of those developments have been reduced by the grant received and receivable. Social Housing Grant may be repayable where a property is sold or the development of a property is not completed. Social Housing Grant received in advance in respect of housing properties in the course of construction is shown as a current liability.

#### Other grants

These include grants from local authorities and other organisations. The capital costs of housing properties are stated net of grants received and receivable on these properties. Grants in respect of revenue expenditure are credited to the Income and Expenditure Account in the same period as the expenditure to which they relate. On disposal grants are dealt with in accordance with the terms of the original agreement.

## 11. Housing properties at cost (continued)

| Housing properties at cost<br>Group | Housing properties held for letting £000s | Housing properties for letting under construction £000s | Shared ownership housing properties £000s | Shared ownership housing properties under construction £000s | Total £000s |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2014 | 1,567,938 | 46,532 | 219,137 | 15,380 | **1,848,987** |
| Transfer within Group | (364) | - | - | - | **(364)** |
| Reclassification | 806 | - | (806) | - | **-** |
| Transfer to other fixed assets | - | (2,682) | - | - | **(2,682)** |
| Schemes completed | 22,651 | (23,489) | 23,305 | (22,467) | **-** |
| Additions: New properties | - | 23,115 | - | 23,886 | **47,001** |
| Existing properties | 10,180 | - | 108 | - | **10,288** |
| Components written off | (1,544) | - | (81) | - | **(1,625)** |
| Transfer to investment properties | (421) | (3,145) | - | - | **(3,566)** |
| Transfer to stock | (242) | - | (11,168) | (2,963) | **(14,373)** |
| Disposals | (14,842) | (2,903) | (12,997) | (7,194) | **(37,936)** |
| At 31 March 2015 | 1,584,162 | 37,428 | 217,498 | 6,642 | **1,845,730** |
| **Social Housing Grant** | | | | | |
| At 1 April 2014 | (734,144) | (17,279) | (85,970) | (2,610) | **(840,003)** |
| Reclassification | 1,244 | 4,007 | - | (5,131) | **120** |
| Transfer to current liabilities | - | 3,421 | - | 2,585 | **6,006** |
| Schemes completed | (7,770) | 8,060 | (1,437) | 1,147 | **-** |
| Additions | - | (5,903) | - | (1,019) | **(6,922)** |
| Transfer to recycled capital grant/disposal proceeds fund | 297 | - | 4,725 | - | **5,022** |
| Disposals | 9,498 | - | 214 | - | **9,712** |
| At 31 March 2015 | (730,875) | (7,694) | (82,468) | (5,028) | **(826,065)** |
| **Other grants** | | | | | |
| At 1 April 2014 | (36,202) | (1,710) | (1,965) | (335) | **(40,212)** |
| Reclassification | (1,244) | 964 | - | 160 | **(120)** |
| Schemes completed | (120) | 120 | - | - | **-** |
| Additions | - | (120) | - | - | **(120)** |
| Transfer to recycled capital grant fund | - | 217 | - | - | **217** |
| Disposals | 5 | - | 9 | - | **14** |
| At 31 March 2015 | (37,561) | (529) | (1,956) | (175) | **(40,221)** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2014 | 90,662 | - | - | - | **90,662** |
| Charge for year | 13,082 | - | - | - | **13,082** |
| Eliminated in respect of disposals | (1,612) | - | - | - | **(1,612)** |
| At 31 March 2015 | 102,132 | - | - | - | **102,132** |
| **Net book value** | | | | | |
| **At 31 March 2015** | **713,594** | **29,205** | **133,074** | **1,439** | **877,312** |
| At 31 March 2014 | 706,930 | 27,543 | 131,202 | 12,435 | 878,110 |

## 11. Housing properties at cost (continued)

| Housing properties at cost<br>Association | Housing properties held for letting £000s | Housing properties for letting under construction £000s | Shared ownership housing properties £000s | Shared ownership housing properties under construction £000s | **Total £000s** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2014 | 1,565,235 | 46,532 | 135,273 | 15,380 | **1,762,420** |
| Transfer to other fixed assets | - | (2,682) | - | - | **(2,682)** |
| Schemes completed | 22,651 | (23,489) | 23,305 | (22,467) | **-** |
| Additions: New properties | - | 23,115 | - | 13,253 | **36,368** |
| Existing properties | 10,180 | - | - | - | **10,180** |
| Components written off | (1,544) | - | - | - | **(1,544)** |
| Transfer to investment properties | (421) | (3,145) | - | - | **(3,566)** |
| Transfer (to)/from stock | (242) | - | (11,168) | 7,670 | **(3,740)** |
| Disposals | (14,842) | (2,903) | (8,307) | (7,194) | **(33,246)** |
| At 31 March 2015 | 1,581,017 | 37,428 | 139,103 | 6,642 | **1,764,190** |
| **Social Housing Grant** | | | | | |
| At 1 April 2014 | (732,731) | (17,358) | (41,385) | (2,610) | **(794,084)** |
| Reclassification | 1,244 | (964) | - | (160) | **120** |
| Transfer to current liabilities | - | 3,421 | - | 2,585 | **6,006** |
| Schemes completed | (7,770) | 8,060 | (1,437) | 1,147 | **-** |
| Additions | - | (5,903) | - | (1,019) | **(6,922)** |
| Transfer to recycled capital grant/disposal proceeds fund | 297 | - | 2,380 | - | **2,677** |
| Disposals | 9,498 | - | 18 | - | **9,516** |
| At 31 March 2015 | (729,462) | (12,744) | (40,424) | (57) | **(782,687)** |
| **Other grants** | | | | | |
| At 1 April 2014 | (36,202) | (1,710) | (758) | (335) | **(39,005)** |
| Reclassification | (1,244) | 964 | - | (160) | **(120)** |
| Schemes completed | (120) | 120 | - | - | **-** |
| Additions | - | (120) | - | - | **(120)** |
| Disposals | 5 | - | 9 | - | **14** |
| At 31 March 2015 | (37,561) | (746) | (749) | (175) | **(39,231)** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2013 | 89,973 | - | - | - | **89,973** |
| Charge for year | 13,007 | - | - | - | **13,007** |
| Eliminated in respect of disposals | (1,576) | - | - | - | **(1,576)** |
| At 31 March 2015 | 101,404 | - | - | - | **101,404** |
| **Net book value** | | | | | |
| **At 31 March 2015** | **712,590** | **23,938** | **97,930** | **6,410** | **840,868** |
| At 31 March 2014 | 706,329 | 27,464 | 93,130 | 12,435 | 839,358 |

## 11. Housing properties at cost (continued)

| Housing properties comprise: | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Freehold | 1,788,611 | 1,791,868 | 1,738,523 | 1,736,753 |
| Long leasehold | 57,119 | 57,119 | 25,667 | 25,667 |
| | 1,845,730 | 1,848,987 | 1,764,190 | 1,762,420 |

Short term leasehold £nil (2014:£nil)

Total Social Housing Grant received or receivable to date is as follows:

| SHG and other capital grants deducted from: | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Housing properties at cost | 866,286 | 880,215 | 821,918 | 833,089 |
| Homebuy and starter home initiative | 8,377 | 8,732 | 300 | 300 |
| Add: Cumulative amount credited to Income and Expenditure Account | 21,432 | 21,432 | 21,432 | 21,432 |
| | 896,095 | 910,379 | 843,650 | 854,821 |

Additions to housing properties during the year included net capitalised interest paid of £1,677,000 (2014: £2,298,000). Cumulative interest capitalised on historic developments is not separately identifiable.

Total expenditure on works to existing group properties during the year amounted to £38,412,000 (2014: £37,183,000) of which £11,316,000 (2014: £13,459,000) was capitalised.

| Accommodation in management comprises: | Group 2015 units | Group 2014 units | Association 2015 units | Association 2014 units |
|---|---|---|---|---|
| **Units owned and managed:** | | | | |
| General needs | 17,768 | 18,193 | 17,768 | 18,193 |
| Housing for older people | 2,435 | 2,531 | 2,435 | 2,531 |
| Supported housing | 249 | 249 | 249 | 249 |
| Intermediate market rent | 987 | 1,000 | 934 | 947 |
| Open market rent | 56 | 14 | 56 | 14 |
| Affordable rent | 635 | 448 | 635 | 448 |
| RTB/RTA/Owned | 1,538 | 1,546 | 1,280 | 1,287 |
| Shared ownership | 3,535 | 3,485 | 1,671 | 1,695 |
| 100% staircased | 871 | 873 | 191 | 108 |
| | 28,074 | 28,339 | 25,219 | 25,472 |
| **Units managed on behalf of other landlords:** | | | | |
| General needs | 29 | 31 | 29 | 31 |
| Housing for older people | 51 | 51 | 51 | 51 |
| Intermediate market rent | - | - | 53 | 53 |
| RTB/RTA/Owned | 19 | 15 | 277 | 274 |
| Shared ownership | 5 | 5 | 1,869 | 1,795 |
| 100% staircased | 3 | 3 | 683 | 768 |
| | 107 | 105 | 2,962 | 2,972 |
| **Total units managed (including freeholds)** | 28,181 | 28,444 | 28,181 | 28,444 |
| **Total units owned** | 28,074 | 28,339 | 25,219 | 25,472 |

## 12. Other fixed assets

### Policies:

### Depreciation and impairment

Depreciation is charged on a straight-line basis over the useful economic lives of fixed assets to write off the cost less any attributable grant to the estimated residual value at the following annual rates:

| | |
|---|---|
| Commercial, freehold and leasehold properties | between 5 and 60 years |
| Plant, machinery, fixtures and vehicles | between 3 and 15 years |
| Computer hardware and software | 3 years |
| Estate equipment | between 5 and 100 years |

Subject to those properties held on short lease where the maximum period is that of the remaining lease.

For all properties impairment reviews are carried out on an annual basis in accordance with FRS 11.

| Group | Commercial, freehold and leasehold properties £000s | Estate equipment £000s | Plant, machinery, fixtures and vehicles £000s | Computer, hardware and software £000s | **Total £000s** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2014 | 34,472 | 20,084 | 2,119 | 4,859 | **61,534** |
| Transfer from housing fixed assets | 2,682 | - | - | - | **2,682** |
| Additions | - | 1,186 | - | 562 | **1,748** |
| Disposals | (1,351) | (494) | - | (233) | **(2,078)** |
| At 31 March 2015 | 35,803 | 20,776 | 2,119 | 5,188 | **63,886** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2014 | 6,818 | 8,450 | 1,880 | 3,892 | **21,040** |
| Charge for year | 616 | 1,143 | 27 | 563 | **2,349** |
| Disposals | (339) | (214) | - | - | **(553)** |
| At 31 March 2015 | 7,095 | 9,379 | 1,907 | 4,455 | **22,836** |
| **Net book value** | | | | | |
| **At 31 March 2015** | **28,708** | **11,397** | **212** | **733** | **41,050** |
| At 31 March 2014 | 27,654 | 11,634 | 239 | 967 | 40,494 |

## 12. Other fixed assets (continued)

### Note:

| Association | Commercial, freehold and leasehold properties £000s | Estate equipment £000s | Plant, machinery, fixtures and vehicles £000s | Computer, hardware and software £000s | **Total £000s** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2014 | 34,066 | 20,084 | 2,119 | 4,859 | **61,128** |
| Transfer from housing fixed assets | 2,682 | - | - | - | **2,682** |
| Additions | - | 1,186 | - | 562 | **1,748** |
| Disposals | (1,351) | (494) | - | (233) | **(2,078)** |
| At 31 March 2015 | 35,397 | 20,776 | 2,119 | 5,188 | **63,480** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2014 | 6,779 | 8,450 | 1,880 | 3,892 | **21,001** |
| Charge for year | 610 | 1,143 | 27 | 563 | **2,343** |
| Disposals | (339) | (214) | - | - | **(553)** |
| At 31 March 2015 | 7,050 | 9,379 | 1,907 | 4,455 | **22,791** |
| **Net book value** | | | | | |
| **At 31 March 2015** | **28,347** | **11,397** | **212** | **733** | **40,689** |
| At 31 March 2014 | 27,287 | 11,634 | 239 | 967 | 40,127 |

| Freehold and leasehold properties comprise: | **Group 2015 £000s** | Group 2014 £000s | **Association 2015 £000s** | Association 2014 £000s |
|---|---|---|---|---|
| Freehold | **35,754** | 34,423 | **35,348** | 34,017 |
| Long leasehold | **49** | 49 | **49** | 49 |
| | **35,803** | 34,472 | **35,397** | 34,066 |

# 13. Investments

## Policy:

### Investments

Investments in subsidiaries and joint ventures are stated at cost. Unlisted investments are stated at market value.

SHGL retains a 25% stake in homes purchased through the Homebuy scheme and variable percentage stakes in homes purchased through the Starter Home Initiative. Investments in Homebuy and Starter Home Initiatives are funded through Social Housing Grant and held in the Balance Sheet at historic cost.

Properties held for their investment potential are accounted for in accordance with SSAP19 'Accounting for Investment Properties'. These properties are held at market valuation vacant possession and valued externally by a qualified RICS Chartered Surveyor. Valuations at 31 March 2015 were carried out by Hose Rhodes Dickson and Strutt & Parker LLP.

## Note:

### 13a Investments at market value

| Investments at market value | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| **Cost** | | | | |
| Unlisted investments | **10,525** | 10,555 | **10,525** | 10,555 |
| **Total investments at cost** | **10,525** | 10,555 | **10,525** | 10,555 |
| **Market value** | | | | |
| Unlisted investments | **12,867** | 12,753 | **12,867** | 12,753 |
| **Total investments at market value** | **12,867** | 12,753 | **12,867** | 12,753 |

Unlisted investments represent holdings in managed funds.

The year-end valuations of investments managed by external funds managers are made as follows:

- COIF Charities Investment Fund – the mid-market value of one unit in the relevant funds is advised by the fund managers
- Black Rock Charitrak Fund – the unit value for valuation purposes was advised by the fund managers.

| | Group £000s | Association £000s |
|---|---|---|
| At 1 April 2014 | 12,753 | 12,753 |
| Additions | - | - |
| Investment repayment | (30) | (30) |
| Release of THFC charged funds | - | - |
| | 12,723 | 12,723 |
| Change in value | 202 | 202 |
| Write downs | (58) | (58) |
| **At 31 March 2015** | **12,867** | **12,867** |

Other investments are held at cost less, where appropriate, a write down provision.

## 13. Investments (continued)

### 13b Investments in subsidiaries and joint ventures

| Investment loan to wholly owned subsidiary | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| **Cost** | | | | |
| Investment loan to wholly owned subsidiary | - | - | **24,651** | 12,241 |

The investment loan in the association is to Southern Space Limited.

| Investment loan to wholly owned subsidiary | Association £000s |
|---|---|
| At 1 April 2014 | **12,241** |
| Net advances | **12,410** |
| **At 31 March 2015** | **24,651** |

| Investment in joint ventures | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Share of gross assets | **92,098** | 94,998 | **25** | 25 |
| Share of gross liabilities | **(82,279)** | (91,666) | **-** | - |
| **Net investment in joint ventures** | **9,819** | 3,332 | **25** | 25 |

**Southern Housing Group Limited holds:**

- 100% of the ordinary share capital of Southern Development Services Limited.
- 100% of the ordinary share capital of Southern Space Limited.
- 50% partnership capital in Affinity Housing Services (Reading), a joint venture with Windsor & District Housing Association. The joint venture has a 33% holding in Affinity (Reading) Holdings Limited, which holds 100% of the share capital of Affinity (Reading) Limited, the operator of a PFI Contract to supply refurbishment, management and maintenance services to part of Reading Borough Council's Stock.
- Southern Housing Group also has a 33.33% direct holding in Affinity (Reading) Holdings Limited, which with the 16.67% indirect holding described above, gives a total interest of 50%. This is accounted for as as an investment at cost and not as an associate or subsidiary as Southern Housing Group does not have significant influence over the activities of the entity as this is governed by the PFI contract.

Southern Space Limited holds a one-third interest in Triathlon Homes LLP, a joint venture with First Base 4 Stratford LLP and East Place Limited. The principal activity of Triathlon Homes LLP is the construction, supply and management of the social housing within the East Village, Stratford (formerly the Athlete's Village for the London Olympics 2012). Following the final handover of all units by the developer to Triathlon Homes LLP, all 1,379 units are used for social housing in a variety of tenures.

## 13. Investments (continued)

| The amounts included in respect of joint ventures comprise the following: | 2015 £000s | 2014 £000s |
|---|---|---|
| Share of turnover of joint venture | **20,482** | 10,786 |
| **Share of operating surplus in joint ventures** | **9,431** | 6,032 |
| **Share of assets** | | |
| Share of fixed assets | **79,517** | 82,900 |
| Share of current assets | **12,581** | 12,098 |
| | **92,098** | 94,998 |
| **Share of liabilities** | | |
| Due within one year | **(5,733)** | (2,522) |
| Due after one year | **(76,546)** | (89,144) |
| | **(82,279)** | (91,666) |
| **Investment summary** | | |
| Investment at cost | **525** | 525 |
| Share of accumulated surplus | **9,294** | 2,807 |
| | **9,819** | 3,332 |

Included above is the following individually significant joint venture.

| | Triathlon Homes LLP 2015 £000s | Triathlon Homes LLP 2014 £000s |
|---|---|---|
| Turnover | **20,156** | 10,477 |
| Profit before taxation | **6,365** | 2,322 |
| Taxation | - | - |
| Profit after taxation | **6,365** | 2,322 |

### 13c Investments in properties and social homebuy

| Investments in properties and social homebuy | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| **Investment properties** | | | | |
| Cost/valuation at 1 April | **926** | 926 | **926** | 926 |
| Additions | **3,566** | - | **3,566** | - |
| Valuation adjustment | **978** | - | **978** | - |
| **At 31 March** | **5,470** | 926 | **5,470** | 926 |
| **Homebuy and starter home initiatives** | | | | |
| Homebuy and starter home initiatives | **8,758** | 9,180 | **300** | 300 |
| Less: Social Housing Grant | **(8,377)** | (8,732) | **(300)** | (300) |
| | **381** | 448 | - | - |

## 14. Properties for sale

### Policies:

### Properties held for sale

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

### Shared ownership first tranche sales

Shared ownership properties held for sale and under construction are split proportionally between current assets and fixed assets, based on the expected first tranche proportion. First tranche proportions are accounted for as current assets and the related sales proceeds shown in turnover. The remaining elements of the shared ownership properties are accounted for as fixed assets. Subsequent sales are treated as part disposals of fixed assets.

### Stock and work in progress

Stock and work in progress represents properties held for transfer to other Registered Providers or for outright sale, and is stated at the lower of cost (including attributable overheads and interest) and net realisable value.

| Note: | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Properties under construction | **34,612** | 25,656 | **7,871** | 14,392 |
| Completed properties | **72** | 1,222 | **72** | 1,222 |
| Land | **7,759** | 2,486 | **607** | 604 |
| | **42,443** | 29,364 | **8,550** | 16,218 |

## 15. Debtors

| Due within one year: | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Arrears of rent and service charges | **8,200** | 7,508 | **7,941** | 7,207 |
| Less: Provision for bad and doubtful debts | **(6,388)** | (5,711) | **(6,204)** | (5,505) |
| | **1,812** | 1,797 | **1,737** | 1,702 |
| Social Housing Grant receivable | **-** | 170 | **-** | 170 |
| Amounts due from connected entities | **-** | - | **5,190** | 9,368 |
| Other debtors | **14,566** | 13,827 | **7,471** | 7,198 |
| Prepayments and accrued income | **4,883** | 5,926 | **2,949** | 2,600 |
| | **21,261** | 21,720 | **17,347** | 21,038 |

At 31 March 2015, balances on bank accounts held on trust for shared owners totalled £7,652,000 (2014: £6,908,000) and are included in other debtors.

## 16. Creditors: amounts falling due within one year

| Creditors: Amounts falling due within one year | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Social Housing Grant received in advance | **139** | 139 | **-** | - |
| Recycled capital grant fund | **2,647** | 1,494 | **1,016** | - |
| Disposal proceeds fund | **17** | 133 | **17** | 133 |
| Accruals and deferred income | **25,347** | 27,988 | **21,048** | 23,616 |
| Corporation tax | **2,349** | 1,892 | **-** | - |
| Other taxation and social security | **746** | 693 | **745** | 692 |
| Other creditors | **18,020** | 14,749 | **11,645** | 8,831 |
| Capital grant on properties for sale | **6,006** | 6,271 | **6,006** | 6,271 |
| Housing loans | **5,729** | 17,509 | **5,529** | 17,509 |
| | **61,000** | 70,868 | **46,006** | 57,052 |

Amounts collected from shared ownership leaseholders in respect of service charges, not yet expended, of £8,298,000 (2014: £7,391,000) are reflected above in other creditors.

## 17. Housing loans

### Policies:

#### Premium on debentures

Premiums on issue are treated as deferred income and written back to the Income and Expenditure Account over the period of the loan. Adjustments to debenture deferred income are reflected in Note 7. The net of costs premiums arose through participation in the following borrowing clubs' capital market bond issues with the issue price premium reflecting the then market rate compared with the bond coupon rate:

- Funding for Homes Limited 10 1/8% March 2018 – October 1993 £5m – net premium £0.81m
- THFC (Social Housing Finance) Limited 8 3/4% December 2021 – December 1997 £10m – net premium £1.25m
- Housing Securities Limited 8 3/8% January 2019 – January 2000 £4.1m – net premium £0.91m

#### Derivative financial instruments

Stand-alone and embedded interest rate hedging is undertaken for interest rate risk management purposes with the intention that any such hedging runs until its maturity with only the resulting net interest arising being charged against the income and expenditure.

No mark to market valuation is reflected in the financial results.

## 17. Housing loans (continued)

| Note: | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Housing loans falling due after one year | **659,467** | 709,944 | **635,167** | 685,444 |
| Loan set up cost | **(3,318)** | (3,381) | **(3,253)** | (3,310) |
| | **656,149** | 706,563 | **631,914** | 682,134 |

Housing loans are all secured by specific charges on 15,974 (2014: 14,881) of the Group's housing units and are repayable in instalments due as follows:

| | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| In one year or less | **5,729** | 17,509 | **5,529** | 17,509 |
| Between one and two years | **7,175** | 5,718 | **6,855** | 5,518 |
| Between two and five years | **50,761** | 48,604 | **49,461** | 47,474 |
| In five years or more | **601,531** | 655,622 | **578,851** | 632,452 |
| | **665,196** | 727,453 | **640,696** | 702,953 |

Housing loans bear hedged fixed rates of interest ranging from 3.3% to 11.5% or variable rates based on a margin above the London Interbank Offer Rate. The final instalments fall to be repaid in the period 2017 to 2045. Southern Housing Group Limited has the following stand alone derivative transactions as at 31 March 2015:

| | Market value (£ million) 2015 | Market value (£ million) 2014 |
|---|---|---|
| £20m 3 yearly cancellable swap at a fixed rate of 4.77%, next option date July 2016 | **(11.26)** | (6.43) |
| £25m 30 year cancellable swap at a fixed rate of 4.57%, option date November 2023 | **(13.40)** | (7.06) |
| £30m 27 year swap at a fixed rate of 4.9875% discounted by compound RPI above 3.20% | **(16.47)** | (9.56) |
| £25m 5 year swap at a fixed rate of 2.75% | **(1.08)** | (1.05) |
| £25m 5 year swap at a fixed rate of 3.055% | **(1.47)** | (1.34) |
| £25m 5 year swap at a fixed rate of 3.3% | **(1.88)** | (1.65) |

Market value represents (liability)/asset.

All stand-alone derivative transactions are supported by charged property security to cover any adverse mark-to-market valuations.

On 4 February 2014 the Group raised £125m via the issue of a bond due 2039 at a coupon of 4.50% of which £50m was retained. The initial drawdown was issued at a re-offer price of 99.35% giving an effective interest of 4.551%. Under the terms of a bond due 2044, the Group is committed to a further drawdown of £49m in 2019 at a coupon of 5.364%.

# 18. Recycled capital grant fund

| | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Balance at 1 April | **9,896** | 6,002 | **3,920** | 2,686 |
| Grant released on sales | **5,615** | 5,432 | **2,711** | 2,697 |
| Interest added to fund | **59** | 39 | **23** | 19 |
| Intra-group transfer | **-** | - | **1,455** | 95 |
| Grant recycled into new schemes | **(1,776)** | (1,577) | **(1,641)** | (1,577) |
| Balance as at 31 March | **13,794** | 9,896 | **6,468** | 3,920 |
| Due within one year | **(2,647)** | (1,494) | **(1,016** | - |
| Due in more than one year | **11,147** | 8,402 | **5,452** | 3,920 |
| Balance relating to the HCA | **5,817** | 3,855 | **4,056** | 2846 |
| Balance relating to the GLA | **7,977** | 6,041 | **2,412** | 1074 |

The balance on this fund represents grant from the Government that has been released on sales of property. Since 1 April 1997 such grants are available for recycling into new housing provision, over a three-year period. No funds are due for repayment.

# 19. Disposal proceeds fund

| | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Balance at 1 April | **138** | 219 | **138** | 219 |
| Released on sales | **88** | 11 | **88** | 11 |
| Interest added to fund | **1** | 1 | **1** | 1 |
| Recycled into new schemes | **(119)** | (93) | **(119)** | (93) |
| Balance as at 31 March | **108** | 138 | **108** | 138 |
| Due within one year | **(17)** | (133) | **(17)** | (133) |
| Due in more than one year | **91** | 5 | **91** | 5 |
| Balance relating to the HCA | **52** | 100 | **52** | 100 |
| Balance relating to the GLA | **56** | 38 | **56** | 38 |

The balance on this fund represents excess of sales on disposals of property where grant from the Government existed, which has been released on sales of property. The fund is available for recycling into new housing provision. No funds are due for repayment.

# 20. Deferred income

| | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Balance at 1 April | **985** | 1,181 | **985** | 1,181 |
| Transferred to Income and Expenditure Account | **(201)** | (196) | **(201)** | (196) |
| Balance as at 31 March | **784** | 985 | **784** | 985 |
| **Deferred income comprises:** | | | | |
| Premium on debentures | **713** | 849 | **713** | 849 |
| Property leasing income | **71** | 136 | **71** | 136 |
| | **784** | 985 | **784** | 985 |

## 21. Provisions for liabilities and charges

| | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Balance at 1 April | **80** | 52 | **25** | 25 |
| Transferred from income and expenditure | **62** | 28 | **-** | - |
| Balance as at 31 March | **142** | 80 | **25** | 25 |

The closing balance reflects a Housing Association as management agents provision of £25,000 (2014:£25,000) carried forward, and a defects provision in respect of new sales properties in SSL of£117,000 (2014:£55,000). The movement in the year represents unused defects provision in respect of new sales properties in SSL.

## 22. Called-up share capital

| Shares of £1 each issued and fully paid: | 2015 £000s | 2014 £000s |
|---|---|---|
| Balance at 1 April | **8** | 8 |
| Shares issued during year | **1** | 3 |
| Shares surrendered during year | **-** | (3) |
| As at 31 March | **9** | 8 |

The share capital of the Association consists of shares of £1 each which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. When a shareholder ceases to be a member, that person's share is cancelled.

## 23. Revenue reserve

| | Group 2015 £000s | Association 2015 £000s |
|---|---|---|
| Balance at 1 April 2014 | **352,145** | **325,834** |
| Surplus for year | **51,909** | **45,292** |
| Actuarial loss relating to pension scheme | **(2,480)** | **(2,480)** |
| **As at 31 March 2015** | **401,574** | **368,646** |
| Revenue reserve excluding pension liability | **410,759** | **377,831** |
| Pension liability | **(9,185)** | **(9,185)** |
| **Revenue reserve including pension liability** | **401,574** | **368,646** |

## 24. Revaluation reserve

| Group and Association | 2015 £000s | 2014 £000s |
|---|---|---|
| Balance at 1 April | **2,445** | 2,250 |
| Surplus on revaluation of investments | **202** | 195 |
| Surplus on revaluation of investment properties | **978** | - |
| As at 31 March | **3,625** | 2,445 |

The reserve relates to the SHGL unlisted investments and investment property portfolios shown at market value. The credit to the reserve represents the movement in market value during the course of the year.

## 25. Designated and restricted reserves

### Policies:

### Designated reserves

These reserves are designated for specific purposes. The reserves are administered and managed in accordance with the purpose for which the reserve was intended.

### Restricted reserves

These reserves relate to grants from third parties which are only expendable in respect of the projects for which they are received.

| Group and Association | Designated reserves | Restricted reserves | **Total 2015 £000s** | Total 2014 £000s |
|---|---|---|---|---|
| Balance at 1 April | 430 | - | **430** | 430 |
| Expenditure in year | - | - | **-** | - |
| As at 31 March | 430 | - | **430** | 430 |

| Designated reserves comprise: | **Group 2015 £000s** | Group 2014 £000s | **Association 2015 £000s** | Association 2014 £000s |
|---|---|---|---|---|
| Legacy grants | **133** | 133 | **133** | 133 |
| Tenant amenities | **50** | 50 | **50** | 50 |
| IOW health authority housing improvements | **38** | 38 | **38** | 38 |
| Sheltered housing improvements | **209** | 209 | **209** | 209 |
| | **430** | 430 | **430** | 430 |

## 26. Capital commitments

| | **Group 2015 £000s** | Group 2014 £000s | **Association 2015 £000s** | Association 2014 £000s |
|---|---|---|---|---|
| Capital expenditure contracted but not provided for in the financial statements | **43,201** | 15,204 | **38,385** | 10,052 |
| Capital expenditure authorised but not contracted | **75,712** | 77,795 | **71,775** | 33,694 |

The Group capital expenditure authorised but not contracted includes £26,414,051 (2014: £16,894,327) in respect of units developed in SSL for sale within the Group.

# 27. Pension schemes

## Policies:

### Retirement benefits

The Group operates a number of pension schemes:

- Defined benefit schemes – Southern Housing Group Pension scheme and Isle of Wight Pension scheme
- Multi-employer scheme – The Social Housing Pension Scheme (SHPS)
- Money Purchase scheme – The Zurich Assurance Limited Pension Scheme.

### Defined benefit schemes

The Group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group. The Group also participates in a defined benefit pension scheme which is administered by the Isle of Wight Council and has minor participation with Islington local government pension scheme.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

### The Social Housing Pensions Scheme (SHPS)

The Group also participates in a pension scheme providing benefits based on final pensionable pay. The Group is unable to identify its share of the underlying assets of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Income and Expenditure Account represents the contributions payable to the scheme in respect of the accounting period.

### Money purchase scheme

The Group also participates in a defined contribution scheme where the amount charged to the Income and Expenditure Account represents the contributions payable to the scheme by the Group in respect of the accounting period.

## Note:

The Group participates in a number of pension schemes:

### a) Defined benefit schemes

SHGL contributes to the Southern Housing Group scheme which was closed to new members from 31 March 2003.

SHGL also contributes to:

- The Social Housing Pension Scheme which was closed to new members from 1 January 2007.
- The Isle of Wight Council Pension Fund for employees who transferred from the Isle of Wight Council.
- The Islington local government Pension Scheme of which there is only one member, the share of scheme assets and liabilities of which are not material to the SHGL financial statements.

## 27. Pension schemes (continued)

The amounts recognised in the Balance Sheet are as follows:

| | Group 2015 £000s | Group 2014 £000s | Association 2015 £000s | Association 2014 £000s |
|---|---|---|---|---|
| Southern Housing Group Pension scheme | **(6,532)** | (4,882) | **(6,532)** | (4,882) |
| Isle of Wight Pension scheme | **(2,653)** | (2,658) | **(2,653)** | (2,658) |
| Total net deficit | **(9,185)** | (7,540) | **(9,185)** | (7,540) |

### b) Defined contribution schemes

- A defined contribution scheme run by Zurich Assurance Limited based on an incentive matched scale, where the employer contribution increases the more the employee contributes.
- A Social Housing Pension Scheme defined contribution scheme where the employer and employee rate are currently matched.

### Southern Housing Group Pension scheme

The defined benefit plan provides benefits based on final pensionable salary. The latest full actuarial valuation was carried out at 31 March 2013 and was updated for FRS 17 purposes to 31 March 2015 by a professionally qualified independent actuary, the rates of contribution being determined by the actuary. The next full actuarial valuation will be carried out as at March 2016 with the draft result of this expected to be available in September 2016.

During 2014/15 the Group paid contributions at a rate of 24% plus an additional annual payment of £720,840 (2014: £564,840) towards an identified deficit.

The employer contribution rate to be applied from 1 April 2015 is 24%.

The major assumptions used in this valuation were:

| Actuarial assumptions | 2015 % pa | 2014 % pa | 2013 % pa |
|---|---|---|---|
| Rate of increase in salaries | **2.60** | 3.30 | 4.40 |
| Rate of increase in pensions in payments and deferred pensions | **2.95** | 3.30 | 3.20 |
| Discount rate | **3.20** | 4.50 | 4.10 |
| Inflation assumption – RPI | **3.10** | 3.60 | 3.40 |
| Inflation assumption – CPI | **2.10** | 2.80 | 2.60 |

| Mortality assumption | Male | Female |
|---|---|---|
| Current pensioner aged 65 | 22.3 | 24.3 |
| Future retiree upon reaching 65 | 23.9 | 26.2 |

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

# 27. Pension schemes (continued)

## Southern Housing Group Pension Scheme (continued)

### Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain were:

| Scheme values | **2015 £000s** | 2014 £000s | 2013 £000s |
|---|---|---|---|
| Equities | **16,996** | 15,607 | 14,133 |
| Bonds | **-** | 6,630 | 6,061 |
| Property | **1,571** | 1,353 | 1,204 |
| Diversified growth and other funds | **13,101** | 5,318 | 5,261 |
| Liquidity fund and cash | **2,892** | 254 | 286 |
| Total market value of assets | **34,560** | 29,162 | 26,945 |
| Present value of scheme liabilities | **(41,092)** | (34,044) | (39,465) |
| Deficit in the scheme | **(6,532)** | (4,882) | (12,520) |

| Long term rate of return | **2015 %** | 2014 % | 2013 % |
|---|---|---|---|
| Equities | * | 6.70 | 5.60 |
| Bonds | * | 4.30 | 4.00 |
| Diversified growth fund | * | 6.40 | 4.50 |
| Property | * | 4.90 | 4.80 |
| Cash | * | 3.10 | 1.20 |
| Consolidated | **3.20** | 6.00 | n/a |

* During early 2015 the SHG Pension Scheme Trustees undertook a strategic review and agreed to rebalance and refocus the Scheme's investment portfolio to achieve a combination of liability driven and wider and broader level of investment. In structuring the investment portfolio the overall strategic aim was to seek a long-term average return of 3.20% above gilts.

| Movements in present value of defined benefit obligation | **2015 £000s** | 2014 £000s |
|---|---|---|
| At 1 April | **34,044** | 39,465 |
| Current service cost | **704** | 1,122 |
| Interest on obligation | **1,535** | 1,627 |
| Contribution by members | **106** | 91 |
| Actuarial losses/(gains) | **5,392** | (7,506) |
| Administration expenses | **(170)** | (150) |
| Benefits paid | **(519)** | (605) |
| At 31 March | **41,092** | 34,044 |

| Movement in fair value of fund assets | **2015 £000s** | 2014 £000s |
|---|---|---|
| At 1 April | **29,162** | 26,945 |
| Expected returns on fund assets | **1,769** | 1,336 |
| Contribution by members | **106** | 91 |
| Actuarial gains/(losses) | **2,993** | 369 |
| Contributions by employer | **1,219** | 1,176 |
| Administration expenses | **(170)** | (150) |
| Benefits paid | **(519)** | (605) |
| At 31 March | **34,560** | 29,162 |

# 27. Pension schemes (continued)

## Southern Housing Group Pension Scheme (continued)

| Movement in deficit during year | 2015 £000s | 2014 £000s | 2013 £000s |
|---|---|---|---|
| Deficit in scheme at beginning of year | **(4,882)** | (12,520) | (8,557) |
| Current service cost | **(704)** | (1,122) | (894) |
| Contributions paid | **1,219** | 1,176 | 1,138 |
| Other finance (costs)/income | **234** | (291) | (198) |
| Actuarial (loss)/gain | **(2,399)** | 7,875 | (4,009) |
| Deficit in scheme at end of year | **(6,532)** | (4,882) | (12,520) |

| Analysis of other pension costs charged in arriving at operating surplus | 2015 £000s | 2014 £000s | 2013 £000s |
|---|---|---|---|
| Current service cost | **(704)** | (1,122) | (894) |

| Analysis of amounts included in other finance income/expense | 2015 £000s | 2014 £000s | 2013 £000s |
|---|---|---|---|
| Expected return on pension scheme assets | **1,769** | 1,336 | 1,265 |
| Interest on plan liabilities | **(1,535)** | (1,627) | (1,463) |
| | **234** | (291) | (198) |

| Analysis of amount recognised in statement of total recognised surpluses and deficits | 2015 £000s | 2014 £000s | 2013 £000s |
|---|---|---|---|
| Actual return less expected return on assets | **2,993** | 369 | 2,027 |
| Experience gains/(losses) arising on scheme liabilities | **-** | 1,454 | (1,439) |
| Changes in assumptions underlying the present value of scheme liabilities | **(5,392)** | 6,052 | (4,597) |
| Actuarial gain/(loss) recognised in statement of total recognised surpluses and deficits | **(2,399)** | 7,875 | (4,009) |

## History of scheme

| The history of the scheme for the current and prior years is as follows: | 2015 £000s | 2014 £000s | 2013 £000s |
|---|---|---|---|
| Fair value of scheme assets | **34,560** | 29,162 | 26,945 |
| Present value of scheme liabilities | **(41,092)** | (34,044) | (39,465) |
| Deficit | **(6,532)** | (4,882) | (12,520) |

## History of experience gains and losses

| | 2015 % | 2014 % | 2013 % |
|---|---|---|---|
| Experience adjustments on scheme liabilities as a percentage of scheme liabilities | **0.00%** | 4.27% | (3.65%) |
| Experience adjustments on scheme assets as a percentage of scheme assets | **8.66%** | 1.27% | 7.52% |

## 27. Pension schemes (continued)

### The Social Housing Pension scheme

The Group also participates in the Social Housing Pension Scheme (SHPS). The scheme is funded and is contracted out of the State Pension Scheme.

SHPS is a multi-employer defined benefit scheme. Employer participation in the Scheme is subject to adherence with the employer responsibilities and obligations as set out in the 'SHPS House Policies and Rules Employer Guide'. The Scheme operated a single benefit structure, final salary with a 1/60th accrual rate to March 2007, which, as both schemes are now closed to new entrants, continues to apply to current members.

The Trustee commissions an actuarial valuation of the Scheme every three years. The main purpose of the valuation is to determine the financial position of the Scheme in order to determine the level of future contributions required, in respect of each benefit structure, so that the Scheme can meet its pension obligations as they fall due. From April 2007 the split of the total contribution rate between member and employer is set at individual employer level, subject to the employer paying no less than 50% of the total contribution rate. From 1 April 2010 the requirement for employers to pay at least 50% of the total contribution rate no longer applies.

The actuarial valuation assesses whether the Scheme's assets at the valuation date are likely to be sufficient to pay the pension benefits accrued by members as at the valuation date. Asset values are calculated by reference to market levels. Accrued pension benefits are valued by discounting expected future benefit payments using a discount rate calculated by reference to the expected future investment returns.

During the accounting year the Group paid contributions at the rate of 9.8% (2014: 9.8%). Member contributions varied between 12.5% and 13.5%.

At the Balance Sheet date, there were 32 (2014: 37) active members employed in the Group. The annual pensionable payroll in respect of these members was £760,197 (2014: £868,334). Additional contributions of £381,434 were paid to fund the deficit.

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

The last formal valuation of the Scheme was performed as at 30 September 2011 by a professionally qualified actuary using the Projected Unit Method. The market value of the Scheme's assets at the valuation date was £2,062m. The valuation revealed a shortfall of assets compared with the value of liabilities of £1,035m, equivalent to a past service funding level of 67.0%.

The Scheme Actuary is currently finalising the 2014 valuation but key provisional results have been confirmed. As at 30 September 2014, the market value of the Scheme's assets was £3,123m. There was a shortfall of assets compared with the value of liabilities of £1,323m, equivalent to a past service funding level of 70%.

The financial assumptions underlying the valuation as at 30 September 2011 were as follows:

| Valuation discount rates | |
|---|---|
| Pre-retirement | 7.0% pa |
| Non-pensioner post retirement | 4.2% pa |
| Pensioner post retirement | 4.2% pa |
| Pensionable earnings growth | 2.5% pa for 3 years then 4.4% |
| Price inflation | 2.9% pa |

| Pension increases | |
|---|---|
| Pre-88 GMP | 0.0% pa |
| Post-88 GMP | 2.0% pa |
| Excess over GMP | 2.4% pa |

Expenses for death in service insurance, administration and Pension Protection Fund (PPF) levy are included in the contribution rate.

## 27. Pension schemes (continued)

### The Social Housing Pension scheme (continued)

The valuation was carried out using the following demographic assumptions:

Mortality pre-retirement – 41% SAPS S1 male/female all pensioners (amounts), year of birth, CMI_2009 projections with long term improvement rates of 1.5% p.a. for males and 1.25% p.a. for females.

Mortality post-retirement – 97% SAPS S1 male/female all pensioners (amounts), year of birth, CMI_2009 projections with long term improvement rates of 1.5% p.a. for males and 1.25% p.a. for females.

The long-term joint contribution rates required from April 2013 from employers and members to meet the cost of future benefit accrual were assessed at:

| Benefit structure | Long-term joint contribution rate (% of pensionable salaries) |
|---|---|
| Final salary with a 1/60th accrual rate | 19.4 |
| Final salary with a 1/70th accrual rate | 16.9 |
| Career average revalued earnings with a 1/60th accrual rate | 18.1 |
| Final salary with a 1/80th accrual rate | 14.8 |
| Career average revalued earnings with a 1/80th accrual rate | 14.0 |
| Career average revalued earnings with a 1/120th accrual rate | 9.7 |

If an actuarial valuation reveals a shortfall of assets compared to liabilities the Trustee must prepare a Recovery Plan setting out the steps to be taken to make up the shortfall.

Following consideration of the results of the actuarial valuation it was agreed that the shortfall of £1,035m would be dealt with by the payment of deficit contributions as shown in the table below:

| | |
|---|---|
| From 1 April 2013 to 30 September 2020 | A cash amount(*) equivalent to 7.5% of Members' Earnings per annum (payable monthly and increasing by 4.7% per annum each April) |
| From 1 October 2020 to 30 September 2023 | A cash amount(*) equivalent to 3.1% of Members' Earnings per annum (payable monthly and increasing by 4.7% per annum each April) |
| From 1 April 2013 to 30 September 2026 | £30,640,000 per annum (payable monthly and increasing by 3% per annum each April; first increase April 2014) |

(*) The contributions of 7.5% will be expressed in nominal pound terms (for each employer), increasing each year in line with the earnings growth assumption used in the 30 September 2008 valuation (i.e. 4.7% per annum). The contributions of 3.1% will be calculated by proportioning the nominal pound payment at the time of the change. Earnings at 30 September 2008 (for each employer) will be used as the reference point for calculating these contributions.

These deficit contributions are in addition to the long-term joint contribution rates as set out in the first table above.

## 27. Pension schemes (continued)

### The Social Housing Pensions scheme (continued)

Employers that participate in the Scheme on a non-contributory basis pay a joint contribution rate (i.e. a combined employer and employee rate).

Employers that have closed the defined benefit section of the Scheme to new entrants are required to pay an additional employer contribution loading of 2.5% to reflect the higher costs of a closed arrangement.

A small number of employers are required to contribute at a different rate to reflect the amortisation of a surplus or deficit on the transfer of assets and past service liabilities from another pension scheme into the SHPS Scheme.

New employers that do not transfer any past service liabilities to the Scheme pay contributions at the ongoing future service contribution rate. This rate is reviewed at each valuation and new employers joining the Scheme between valuations up until 1 April 2010 do not contribute towards the deficit until two valuations have been completed after their date of joining. New employers joining the Scheme after 1 April 2010 will be liable for past service deficit contributions from the valuation following joining. Contribution rates are changed on the 1 April that falls 18 months after the valuation date.

A copy of the Recovery Plan, setting out the level of deficit contributions payable and the period for which they will be payable, must be sent to the Pensions Regulator. The Regulator has the power under part 3 of the Pensions Act 2004 to issue scheme funding directions where it believes that the actuarial valuation assumptions and/or Recovery Plan are inappropriate. For example the Regulator could require that the trustee strengthens the actuarial assumptions (which would increase the scheme liabilities and hence impact on the Recovery Plan) or impose a schedule of contributions on the Scheme (which would effectively amend the terms of the Recovery Plan).

As a result of pension scheme legislation there is a potential debt on the employer that could be levied by the Trustee of the Scheme. The debt is due in the event of the employer ceasing to participate in the Scheme or the Scheme winding up.

The debt for the Scheme as a whole is calculated by comparing the liabilities for the Scheme (calculated on a buyout basis i.e. the cost of securing benefits by purchasing annuity policies from an insurer, plus an allowance for expenses) with the assets of the Scheme. If the liabilities exceed assets there is a buy-out debt.

The leaving employer's share of the buy-out debt is the proportion of the Scheme's liability attributable to employment with the leaving employer compared to the total amount of the Scheme's liabilities (relating to employment with all the currently participating employers). The leaving employer's debt therefore includes a share of any 'orphan' liabilities in respect of previously participating employers. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time.

The Scheme Actuary has estimated the employer debt that would have been payable if the Group had withdrawn from the Scheme as at 30 September 2014 to be £25,865,582.

### The Isle of Wight Council Pension Scheme

The Group participates in a pension scheme providing benefits based on final pensionable pay: The Isle of Wight Pension scheme. The Scheme is funded by the payment of contributions to a pension fund, which is administered by the Isle of Wight Council. The latest full actuarial valuation was carried out at 31 March 2013 by a qualified independent actuary.

It has been agreed that an employer contribution rate of 25.7% of pensionable pay plus an additional amount of £122,000 will apply for 2015/16 (2014/15: 25.7% plus £122,000).

## 27. Pension schemes (continued)

### The Isle of Wight Council Pension scheme (continued)

The major assumptions used in this valuation were:

| Actuarial assumptions | 2015 % pa | 2014 % pa | 2013 % pa |
|---|---|---|---|
| Rate of increase in salaries | **4.00** | 4.40 | 5.10 |
| Rate of increase in pensions in payments and deferred pensions | **2.10** | 2.60 | 2.80 |
| Discount rate | **3.10** | 4.10 | 4.50 |
| Inflation assumption – RPI | **3.00** | 3.60 | 3.20 |
| Inflation assumption – CPI | **2.10** | 2.80 | 2.40 |

The assumptions relating to longevity underlying the pension liabilities at the Balance Sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 22.4 years (male), 24.5 years (female).
- Future retiree upon reaching 65: 23.8 years (male), 26.7 years (female).

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

### Scheme assets

The fair value of  our share of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from the cash flow projections over long periods and thus inherently uncertain, were:

| | 2015 £000s | 2014 £000s | 2013 £000s |
|---|---|---|---|
| Equities | **3,306** | 2,916 | 3,235 |
| Bonds | **1,382** | 1,237 | 931 |
| Property | **247** | 221 | 222 |
| Other | **-** | 44 | 44 |
| Total market value of our share of assets | **4,935** | 4,418 | 4,432 |
| Present value of our share of scheme liabilities | **(7,588)** | (7,076) | (7,405) |
| Deficit in the scheme | **(2,653)** | (2,658) | (2,973) |

| Long term rate of return | 2015 % | 2014 % | 2013 % |
|---|---|---|---|
| Equities | **3.10** | 6.60 | 5.80 |
| Bonds | **3.10** | 4.30 | 4.10 |
| Property | **3.10** | 4.80 | 3.90 |
| Cash | **3.10** | 3.70 | 3.00 |

The estimated market value of the Scheme's assets (whole Fund) at 31 March 2015 was £482.5 million.

## 27. Pension schemes (continued)

### The Isle of Wight Council Pension scheme (continued)

| Reconciliation of defined benefit obligation | 2015 £000s | 2014 £000s |
|---|---|---|
| Opening defined benefit obligation | **7,076** | 7,405 |
| Current service cost | **43** | 41 |
| Interest cost | **285** | 328 |
| Contribution by members | **9** | 9 |
| Actuarial losses/(gains) | **451** | (428) |
| Estimated benefits paid | **(276)** | (279) |
| Deficit in scheme at end of year | **7,588** | 7,076 |

| Reconciliation of fair value of employer assets | 2015 £000s | 2014 £000s |
|---|---|---|
| Opening fair value of employer assets | **4,418** | 4,432 |
| Expected return on assets | **255** | 232 |
| Contributions by members | **9** | 9 |
| Contributions by employer | **159** | 161 |
| Actuarial gains/(losses) | **370** | (137) |
| Benefits paid | **(276)** | (279) |
| Total charged to operating cost | **4,935** | 4,418 |

| Expense recognised in Income and Expenditure Account | 2015 £000s | 2014 £000s |
|---|---|---|
| Current service cost | **43** | 41 |
| Interest cost | **285** | 328 |
| Expected return on employer assets | **(255)** | (232) |
| Total | **73** | 137 |

The expense is recognised in the following line items in the income and expenditure account:

| | 2015 £000s | 2014 £000s |
|---|---|---|
| Operating costs | **43** | 41 |
| Other finance costs | **30** | 96 |
| Total | **73** | 137 |

The total amount recognised in the Statement of Total Recognised Gains and Losses in respect of actuarial gains and losses is £81,000 loss (2014: £291,000 gain).

## 27. Pension schemes (continued)

### The Isle of Wight Council Pension scheme (continued)

### History of scheme

| The history of the scheme for the current and prior years is as follows: | 2015 £000s | 2014 £000s | 2013 £000s | 2012 £000s | 2011 £000s |
|---|---|---|---|---|---|
| Fair value of scheme assets | **4,935** | 4,418 | 4,432 | 3,894 | 3,877 |
| Present value of funded liabilities | **(7,588)** | (7,076) | (7,405) | (6,697) | (6,179) |
| Deficit | **(2,653)** | (2,658) | (2,973) | (2,803) | (2,302) |

| Experience adjustments | 2015 % | 2014 % | 2013 % | 2012 % | 2011 % |
|---|---|---|---|---|---|
| Experience adjustments on scheme liabilities as a percentage of scheme liabilities | **1.04** | 8.48 | (1.82) | (1.82) | 2.09 |
| Experience adjustments on scheme assets as a percentage of scheme assets | **7.50** | (3.10) | 10.09 | (4.44) | 3.10 |

The Association expects to contribute approximately £122,000 to its defined benefit scheme in the next financial year.

### The Zurich Assurance Limited Pension scheme

The Group also participates in a defined contribution scheme run by Zurich Assurance Limited based on an incentive matched scale, where the employer contribution increases the more the employee contributes.

## 28. Operating leases

### Policy:

### Leased assets

Payments under cancellable operating leases are charged to the Income and Expenditure Account on a straight line basis over the life of the lease.

### Note:

Leasing rentals in respect of property amounting to £229,000 (2014: £256,000) and equipment £229,000 (2014: £184,000) were charged during the year.

At 31 March 2015 the Group had the following annual commitments in respect of operating leases:

| Operating leases which expire: | Property 2015 £000s | Equipment 2015 £000s | Total 2015 £000s | Total 2014 £000s |
|---|---|---|---|---|
| Within one year | **29** | **2** | **31** | 137 |
| Within one to two years | **-** | **5** | **5** | 6 |
| Within two to five years | **144** | **222** | **366** | 297 |
| Within five to ten years | **56** | **-** | **56** | - |
| | **229** | **229** | **458** | 440 |

## 29. Legislative provisions

Southern Housing Group Limited is incorporated under the Industrial and Provident Societies Act 1965 (Registered Number 31055R) and registered with the Homes and Communities Agency and previously with the Housing Corporation under the Housing Act 1974 (Registered Number L4628).

## 30. Group organisations

Southern Housing Group Limited is the ultimate parent undertaking and controlling party and is required by statute to prepare group financial statements for the following organisations included in these financial statements, all the undertakings are incorporated in England and Wales:

| | |
|---|---|
| Southern Housing Group Limited | Registered Provider Number: L4628 |
| Southern Home Ownership Limited | Registered Provider Number: LH1662 |
| Southern Space Limited | Incorporated under CA06 Companies Act number 5437850 |
| Southern Development Services Limited | Incorporated under CA06 Companies Act number 5400187 |
| Affinity Housing Services (Reading) | Joint venture partnership with Windsor & District HA |
| Triathlon Homes LLP | Joint venture partnership with First Base 4 Stratford LLP and East Place Limited |

Under Financial Reporting Standard 9 Southern Space Limited is exempt from the requirement to use gross equity accounting for the joint venture investment.

## 31. Related parties

Intra-Group transactions for Southern Housing Group with non-regulated Group members are as follows:

| Payments received | 2015 £000s | 2014 £000s |
|---|---|---|
| Sale of land to SSL | **16,659** | - |
| Capitalised development costs and loan interest from SSL | **1,354** | 357 |
| Administrative support costs from SSL and SDSL | **518** | 906 |
| Director's services,and profit distribution from Affinity Housing Services (Reading) and gift aid from SDSL | **55** | 686 |
| Total | **18,586** | 1,949 |

| Payments made | 2015 £000s | 2014 £000s |
|---|---|---|
| Development costs paid to SSL | **5,814** | - |
| Design and build fees paid to SDSL | **433** | 1,150 |
| Total | **6,247** | 1,150 |

## 31. Related parties (continued)

| Assets | 2015 £000s | 2014 £000s |
|---|---|---|
| Intercompany creditor due from SSL | **24,651** | 12,241 |

| Intra-Group transactions for Southern Home Ownership with non-regulated Group members are as follows: | 2015 £000s | 2014 £000s |
|---|---|---|
| Design and build fees paid to SDSL | **12** | - |
| Commission on housing sales paid to SSL | **-** | 142 |
| Intercompany creditor due from SSL | **77** | 5 |

One Board member was a leaseholder during the year.

## 32. Samuel Lewis Foundation

The Samuel Lewis Foundation is a separate charity with SHGL as its trustee. Permanent endowment funds comprise the following resources which have been made available and which the trustees are legally required to retain or invest for specific charitable purposes. As these are permanent funds the trustees have no power to convert them into income and apply them as such. The fund balances include funds transferred from The Women's Housing Trust. These balances are included in the parent association, SHGL.

| | Date of acquisition | Original cost £000s | Number of units |
|---|---|---|---|
| Liverpool Road | 1910 | 324 | 247 |
| Jubilee Cottages | 1935 | 707 | 28 |
| Palliser Road | 1927 | 973 | 57 |
| Dalmeny Avenue | 1935 | 493 | - |
| Beech House | 1936 | 701 | 16 |

| Fund balances are represented by | 2015 £000s | 2014 £000s |
|---|---|---|
| Tangible fixed assets at cost less accumulated depreciation. | **14,415** | 12,497 |
| Less Social Housing and other grants | **(7,426)** | (7,772) |
| | **6,989** | 4,725 |
| Investments at valuation | **966** | 857 |
| | **7,955** | 5,582 |

## 32. Samuel Lewis Foundation (continued)

| Net income from permanent endowed assets | 2015 £000s | 2014 £000s |
|---|---|---|
| Income from lettings | **1,701** | 1,600 |
| Less expenditure on letting activities | **(875)** | (855) |
| Surplus on letting activities | **826** | 745 |
| Income from Investments | **10** | 10 |
| | **836** | 755 |

Expenditure on letting activities comprises certain specific identifiable costs and overheads which have been apportioned on a consistent basis to the endowed properties.

## 33. Contingencies

No contingent assets or contingent liabilities are recognised in these financial statements.

## 34. Post Balance Sheet events

No material post Balance Sheet events have taken place.

## Contact us

Southern Housing Group
Fleet House, 59-61 Clerkenwell Road
London, EC1M 5LA

T: 020 7017 8521
F: 020 7553 6400
E: communications@shgroup.org.uk
@ southernhousing

**www.shgroup.org.uk**



SHG0090-T-0815